



2014 Annual Report



Our Business

As one of the world's largest restaurant companies, Darden is focused on performance – from the dining room to the boardroom. Our goal is to nourish and delight every guest we serve, make Darden a special place for every employee, supplier partner and community partner, and reward every shareholder with meaningful value creation.



2014 Financial Highlights

Fiscal Year Ended
(In Millions, Except Per Share Amounts)

	May 25, 2014	May 26, 2013	May 27, 2012
Sales from Continuing Operations	\$ 6,285.6	\$ 5,921.0	\$ 5,327.1
Earnings from Continuing Operations	\$ 183.2	\$ 237.3	\$ 279.2
Earnings from Discontinued Operations, net of tax	\$ 103.0	\$ 174.6	\$ 196.3
Net Earnings	\$ 286.2	\$ 411.9	\$ 475.5
Basic Net Earnings Per Share:	\$ 2.18	\$ 3.19	\$ 3.65
Earnings from Continuing Operations	\$ 1.40	\$ 1.84	\$ 2.15
Earnings from Discontinued Operations	\$ 0.78	\$ 1.35	\$ 1.50
Diluted Net Earnings Per Share:	\$ 2.15	\$ 3.13	\$ 3.57
Earnings from Continuing Operations	\$ 1.38	\$ 1.80	\$ 2.10
Earnings from Discontinued Operations	\$ 0.77	\$ 1.33	\$ 1.47
Dividends Paid Per Share	\$ 2.20	\$ 2.00	\$ 1.72
Average Shares Outstanding:			
Basic	131.0	129.0	130.1
Diluted	133.2	131.6	133.2

To Our Shareholders, Employees and Guests:

It is an exciting time to be a Darden shareholder, as we have undertaken a number of initiatives to drive shareholder value in the upcoming year and beyond. This past fiscal year, we took important actions to improve our operations, reduce costs and focus on opportunities with the highest potential. We are pleased with the progress we are making to enhance performance and are well positioned to build on this momentum.

Generating Long-Term Growth and Value Creation in a Difficult Environment

Darden has long been the market leader in full-service dining because of the passionate commitment, collective capabilities and hard work of generations of employees. We benefit from a portfolio of distinguished brands and a cost-effective operating support platform, which have supported superior long-term value creation and financial performance.

- With total sales from both continuing and discontinued operations of \$8.76 billion in fiscal 2014, the Company achieved a compounded annual growth rate of 4.3 percent over the past five years.
- Darden also has competitive restaurant-level margins of 20.7 percent (excluding rent expense), which compares to a peer median of 16.7 percent.
- Darden's consolidated cash flows from operations, including both continuing and discontinued operations, have totaled \$4.3 billion over the past five years, enabling us to return nearly \$1.8 billion to shareholders through dividends and share repurchases during that period – a level of capital return that has far outpaced the industry – even as we continued to invest in key growth initiatives.

Still, Darden's recent results reflect challenges we are facing. Fiscal 2014 diluted net earnings per share were \$2.15 (or \$2.47 excluding certain one-time expenses) compared to \$3.13 in the previous year. And while we achieved same-restaurant sales growth at LongHorn Steakhouse and at our Specialty Restaurant Group (SRG) brands (except Seasons 52), same-restaurant sales at Red Lobster and Olive Garden declined by -6.0 percent and -3.4 percent, respectively.

Indeed, for the past decade there have been significant changes within the restaurant industry, changes that include slowing sales growth as the industry continues to mature, as well as important shifts in consumer demographics and expectations. And these changes have intensified during the past two years, resulting in especially low levels of consumer demand for restaurants generally

and full-service dining in particular, despite some improvement in the overall economy.

Addressing Changed Industry Dynamics

To respond to long-term industry trends, for the past decade we have been pursuing a strategy of complementing Olive Garden, our premier and most broadly appealing brand, with brands that are strongly positioned within the most attractive consumer segments. In fiscal 2013, Darden's Board of Directors undertook an extensive strategic review.

The review underscored the need to move with even greater urgency and led to the comprehensive plan we launched in December 2013. This included:

- Separating Darden's Red Lobster business through either a sale or spin-off;
- Reducing unit growth, primarily from suspending new unit growth at Olive Garden and more limited new unit growth at LongHorn Steakhouse; lowering capital expenditures; and forgoing acquisitions given the strength of the Company's brand portfolio excluding Red Lobster;
- Taking steps to increase operating support cost savings, which – together with the sale of Red Lobster – means we expect our selling, general and administrative (SG&A) expense as a percent of sales in fiscal 2015 to be the lowest since Darden became a public company;
- Increasing return of capital to shareholders through an expanded share repurchase program and maintaining Darden's quarterly dividend of \$0.55 per share; and
- Refining compensation and incentive programs to more directly emphasize same-restaurant sales growth and free cash flow to ensure even stronger alignment with the Company's strategic direction.

Yardhouse offers up to 140 taps of imported, craft and specialty lagers and ales.



Eddie V's offers prime seafood in an upscale environment.

Seasons 52 provides guests with seasonally inspired cooking in a casually sophisticated atmosphere.



We benefit from a portfolio of distinguished brands and a cost-effective operating support platform.



As detailed below, we have advanced each of these initiatives and, looking forward, we have laid the foundation for a stronger future and improved financial performance.

Red Lobster

Red Lobster, an iconic American casual dining brand, has an important place in our Company's history, and the decision to pursue a separation of the business was not an easy one. We believe, however, that it was the right decision. As consumer demand dynamics have changed, Red Lobster's appeal to the most attractive consumer segments had declined. In addition, its prospects for the future have become much more uncertain compared to our other brands. As a result, the business was creating significant volatility and drag on Darden's sales and earnings results as a whole.

We were pleased to reach an agreement to sell the Red Lobster business and related assets to Golden Gate Capital for \$2.11 billion in cash. On average, comparable restaurant deals have been completed at 7.9x LTM EBITDA. The Red Lobster transaction was at 9x LTM EBITDA at the time we reached the agreement to sell it. That multiple only increased by the time we closed the transaction in July 2014, as the EBITDA of the business continued to decline, underscoring the value we achieved with the transaction.

The Red Lobster transaction was the culmination of a robust process that enabled us to maximize the value of the business, eliminate the risks and volatility associated with continuing to own it, and provide a realistic market-validated valuation of Darden's real estate assets. In addition to strengthening the Company's credit profile, with the lower debt levels and reduced outstanding share count achieved as a result of the transaction, we expect to maintain Darden's current quarterly dividend of \$0.55 per share, or \$2.20 annually.

Following the completion of the Red Lobster sale, Darden is significantly better positioned for success. In particular, the new Darden will benefit from:

- Higher and more consistent sales and earnings growth driven by a stronger overall positioning with the most attractive consumer segments and by an expanding restaurant footprint;

- A more balanced commodity purchasing profile that reflects much lower exposure to the historically volatile seafood category;
- Stable and growing cash flow with reduced quarterly sales and earnings volatility;
- A \$1 billion debt reduction, which has improved our credit metrics;
- Continued leading capital return; and
- A sharper focus on growing our highly attractive brands without the distraction of continuing to operate a business that is not as well positioned for the future.

Reducing Unit Expansion, Lowering Capital Expenditures and Forgoing Acquisitions

As we intended when we announced our initiatives in December 2013, the reduction in new unit expansion has come primarily from suspending new unit growth at Olive Garden and more limited new unit growth at LongHorn Steakhouse and our specialty restaurant brands. The reduced unit growth has enabled us to reach our target and lower capital spending by at least \$100 million annually, which is consistent with our commitment to focus capital on two critical value creation levers: dividends and share repurchases.

Increasing Cost Savings

Darden has long had a rigorous focus on costs, and our actions in fiscal 2014 to increase efficiency across the organization have resulted in significant savings. Transformative changes over the past five years in selected high-spend operating support areas, including supply chain, labor optimization and water and energy usage, have reduced costs by \$150 million annually. During the past two years, these efforts have been supplemented with broader-based cost-reduction initiatives. As detailed later in this letter, we will continue to rightsize our cost structure to match the business, consumer and competitive realities within our industry.



Core menu innovation at Olive Garden is aimed at reinforcing value leadership, choice, variety and convenience.



The Capital Grille's fine dining experience drove a solid increase in same-restaurant sales for 2014.

LongHorn's performance continues to affirm its potential as a national restaurant brand.



Bahama Breeze delights guests with an island escape and a Caribbean-inspired menu.



Increasing Return of Capital to Shareholders

Darden's strong cash flows have supported a level of return of capital to shareholders that has outpaced the industry. With these cash flows and the proceeds from the Red Lobster sale, our shareholders will continue to benefit from an active share repurchase program, including up to \$700 million in fiscal 2015, and a strong quarterly dividend, which equates to \$2.20 per share annually.

Fortifying the Leadership Team

In September of last year, we appointed Gene Lee, who previously served as the President of SRG, President and Chief Operating Officer. As COO, Gene has been instrumental in leading operations and marketing across our portfolio of brands, and has demonstrated his extraordinary knowledge of our full range of guests, as well as consumers' changing needs and desires. His expertise continues to be crucial to Darden as we continue our work to drive sustainable growth across the Company.

Refining Compensation and Incentive Programs

To reinforce the Company's new strategic direction, beginning in fiscal 2015, Darden's Board of Directors refined compensation and incentive programs for senior management to more directly emphasize same-restaurant sales growth and free cash flow. This change is consistent with our long-standing "pay for performance" philosophy and our commitment to programs that ensure the interests of Darden's senior management are aligned with those of our shareholders.

Looking Ahead: Priorities for Driving Sustainable Growth and Value Creation

Notwithstanding the progress that has been made, we realize that more must be done to return Darden to the record of growth and value creation that both our leadership and our stakeholders expect. We are executing a number of initiatives across the Company that we believe will enable us to do just that.

Executing the Olive Garden Brand Renaissance

Over the past year, we have been implementing far-reaching improvements for all elements of the Olive Garden business to reignite traffic growth and support margin expansion. The sale of Red Lobster enables us to increase our focus on the Olive Garden brand renaissance, including:

- *Enhancing culinary operations and service* by simplifying operations, improving quality and intensifying focus on our guests. The introduction of tabletop tablets is one example of the initiatives underway that we expect will improve service and sales with minimal capital investment;
- *Introducing a core menu innovation* aimed at reinforcing value leadership, expanding choice and variety, and capitalizing on the current convenience trend by rolling out online To-Go sales;
- *Pursuing a new approach to advertising and promotions* that includes a more targeted, integrated communication platform that emphasizes brand-building rather than price points; and
- *Launching a reimagining program* that includes a new logo and a plan to remodel 75 restaurants in fiscal 2015.

The Olive Garden brand renaissance is beginning to deliver positive results.

- Guest experience and satisfaction scores are improving across the system, and we expect these to translate into higher traffic trends over time.
- Online ordering, including a redesigned Web experience and the national launch of an online To-Go platform, is underway and strengthening the take-out business. Currently, To-Go sales are 8 percent of total revenue, but are growing at a rate of 10 percent annually. Notably, check averages from online orders are significantly higher than those placed on the phone, which represents a margin growth driver should these trends continue.

- We completed the reimagining of both the interior and exterior of two of our Revitalia restaurants. The new design is natural, up-to-date, comfortable and engaging. Initial sales results of the remodeled restaurants are encouraging – the sales trends have improved by mid-single digits since the completion of the remodels and the installation of new signage.

Olive Garden's turnaround is not a quick fix. This is a large and complex project, and given already high volumes and returns, achieving sustained improvement across the system will take time. That said, the progress we are making reinforces our confidence in the Olive Garden brand renaissance, and we are optimistic about its ongoing development.

Developing LongHorn into America's Favorite Steakhouse

Since acquiring LongHorn in 2007, our belief in its potential as another national-leading brand has been affirmed. LongHorn's cumulative same-restaurant sales results for the last five years have exceeded the casual dining competitive benchmark by over 16 percentage points. In fiscal 2014, LongHorn's same-restaurant sales grew 2.7 percent year-over-year and exceeded the industry by 3.8 percentage points.

These results reflect successful actions we have taken to support targeted unit growth, elevate brand awareness and develop new lunch and dinner menus. Our vision for LongHorn builds on this success with initiatives underway to further differentiate the brand and guest experience, and elevate quality and culinary creativity.

Today, there are 464 LongHorn Steakhouse restaurants that generated \$1.38 billion of sales in fiscal 2014. We see the brand ultimately reaching 700 restaurants, \$2.4 billion in sales and at least \$150 million in incremental operating profit.

Building on Solid Performance at the Brands in our Specialty Restaurant Group

With a focus on operational execution and developing on-trend food and beverages, the specialty restaurant brands, which include The Capital Grille, Bahama Breeze, Seasons 52, Eddie V's and Yard House, continue to deliver solid performance. In fiscal 2014, total sales exceeded \$1.2 billion, a 25.2 percent increase from the prior year, and blended same-restaurant sales grew 1.6 percent.

As we look ahead, the fundamentals of the specialty restaurant brands remain strong. As a group, they have the potential to deliver 11 percent to 13 percent total sales growth each year, driven by same-restaurant sales growth of 2 percent to 3 percent, and new restaurant growth of 9 percent to 10 percent. We are confident that we will reach our goal of \$1 billion in incremental sales from these brands over the next five years.

Further Optimizing Our Cost Structure

We have significantly reduced Darden's costs. In addition to the \$150 million of savings previously discussed, we are on track to meaningfully reduce operating support costs in fiscal 2015. One indication of our progress is that general and administrative (G&A)

expenses as a percentage of sales is expected to remain at approximately 5.0 percent following the Red Lobster sale (excluding the lobster aquaculture research and development costs), despite the smaller revenue base. In addition, as noted, in fiscal 2015, SG&A expense as a percentage of sales is expected to be the lowest since Darden became a public company. These savings will provide additional financial flexibility to invest in operating and guest experience initiatives across our brands.

Importantly, we expect more to come. In fiscal 2014, we retained Alvarez & Marsal North America to help us identify additional cost reduction and revenue enhancement opportunities. Based on actions taken to date and expected improvement in business performance, we expect SG&A as a percentage of sales to decline within 12 to 18 months of the closing of the Red Lobster sale.

Optimizing Darden's Real Estate Assets

Optimizing the value of Darden's assets, including its real estate, is an ongoing priority for the Company, and the Board regularly reviews the opportunities available. We are open-minded in this regard. The Red Lobster sale enabled us to establish a market-validated valuation of Darden's real estate assets. We recognize that the real estate market is robust, and the valuation established with the Red Lobster agreement will guide us as we continue to focus on optimizing all of our assets.

Confidence in the Future

Despite the challenges of fiscal 2014 and the difficult macro-economic environment that remains, your company is stronger today because of the steps we have taken. As a result of these actions and the progress we are making, we are confident that Darden can return to industry-leading financial performance, including mid-to-high single-digit annual sales growth, low-to-mid-teen annual operating profit, and at least \$350 million in annual return of capital to shareholders.

Darden benefits from a clear strategy and a culture that is strongly embraced by our more than 150,000 people. It is a culture that we certainly do not take for granted, and it is a big reason why we are confident that we will continue our long-term record of delivering compelling value for years to come for the benefit of our shareholders, employees and guests.

We thank you for your support and look forward to serving all of our stakeholders in fiscal 2015 and beyond.



Charles A. Ledsinger, Jr.
Chairman of the Board of Directors



2014 Financial Review

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IMPORTANT ADDITIONAL INFORMATION

The Company, its directors and certain of its executive officers are participants in the solicitation of proxies from stockholders in connection with the Company's 2014 annual meeting of stockholders (the "Annual Meeting"). Information regarding the names and interests of such participants in the Company's proxy solicitation is set forth in the Company's preliminary proxy statement, filed with the SEC on July 31, 2014, as amended, and the Company revocation solicitation statement, filed with the SEC on April 1, 2014. Additional information can be found in the Company's Annual Report on Form 10-K for the year ended May 25, 2014, filed with the SEC on July 18, 2014. These documents are available free of charge at the SEC's website at www.sec.gov.

The Company will be mailing a definitive proxy statement and proxy card to the stockholders entitled to vote at the Annual Meeting. WE URGE INVESTORS TO READ ANY PROXY STATEMENT (INCLUDING ANY SUPPLEMENTS THERETO) AND ANY OTHER RELEVANT DOCUMENTS THAT THE COMPANY MAY FILE WITH THE SEC CAREFULLY AND IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. Stockholders will be able to obtain, free of charge, copies of any proxy statement and any other documents filed by the Company with the SEC in connection with the proxy solicitation at the SEC's website at www.sec.gov. In addition, copies will also be available at no charge at the Investors section of the Company's website at <http://investor.darden.com/investors/investor-relations/default.aspx>.

INFORMATION ABOUT FORWARD-LOOKING STATEMENTS

Forward-looking statements in this communication regarding our expected ability to retire outstanding debt, improve our credit metrics, improve sales and earnings growth, reduce earnings volatility, maintain our dividend policy and buy back stock and execute on our brand renaissance program and all other statements that are not historical facts, including without limitation statements concerning our future economic performance, plans or objectives and expectations regarding the sale of Red Lobster, benefits to Darden and its shareholders from such sale and related matters, are made under the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. 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 to reflect events or circumstances arising after such date except as required by law. We wish to caution investors not to place undue reliance on any such forward-looking statements. By their nature, forward-looking statements involve risks and uncertainties that could cause actual results to materially differ from those anticipated in the statements. The most significant of these uncertainties are described in Darden's Form 10-K, Form 10-Q and Form 8-K reports (including all amendments to those reports). These risks and uncertainties include the ability to achieve Darden's strategic plan to enhance shareholder value, including realizing the expected benefits from the sale of Red Lobster, actions of activist investors and the cost and disruption of responding to those actions, including any proxy contest for the election of directors at our annual meeting, food safety and foodborne illness concerns, litigation, unfavorable publicity, risks relating to public policy changes and federal, state and local regulation of our business including healthcare reform, labor and insurance costs, technology failures, failure to execute a business continuity plan following a disaster, health concerns including virus outbreaks, intense competition, failure to drive sales growth, our plans to expand our smaller brands Bahama Breeze, Seasons 52 and Eddie V's, a lack of suitable new restaurant locations, higher-than-anticipated costs to open, close, relocate or remodel restaurants, a failure to execute innovative marketing tactics and increased advertising and marketing costs, a failure to develop and recruit effective leaders, a failure to address cost pressures, shortages or interruptions in the delivery of food and other products, adverse weather conditions and natural disasters, volatility in the market value of derivatives, economic factors specific to the restaurant industry and general macroeconomic factors including unemployment and interest rates, disruptions in the financial markets, risks of doing business with franchisees and vendors in foreign markets, failure to protect our service marks or other intellectual property, impairment in the carrying value of our goodwill or other intangible assets, a failure of our internal controls over financial reporting, or changes in accounting standards, an inability or failure to manage the accelerated impact of social media and other factors and uncertainties discussed from time to time in reports filed by Darden with the Securities and Exchange Commission.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Darden

This discussion and analysis below for Darden Restaurants, Inc. (Darden, the Company, we, us or our) should be read in conjunction with our consolidated financial statements and related financial statement notes found elsewhere in this report. We operate on a 52/53 week fiscal year, which ends on the last Sunday in May. Fiscal 2014, 2013 and 2012 each consisted of 52 weeks of operation.

OVERVIEW OF OPERATIONS

Our business operates in the full-service dining segment of the restaurant industry, primarily in the United States. At May 25, 2014, we operated 2,207 Olive Garden®, Red Lobster®, LongHorn Steakhouse®, The Capital Grille®, Yard House®, Bahama Breeze®, Seasons 52®, Eddie V's Prime Seafood® and Wildfish Seafood Grille® restaurants in the United States and Canada. Through subsidiaries, we own and operate all of our restaurants in the United States and Canada, except for three restaurants located in Central Florida and three restaurants in California that are owned jointly by us and third parties, and managed by us, one franchised restaurant in Atlanta and seven franchised restaurants in Puerto Rico. We also have area development and franchise agreements with unaffiliated operators to develop and operate our brands in Asia, the Middle East and Latin America. Pursuant to these agreements, as of May 25, 2014, 45 franchised restaurants were in operation in Japan, the Middle East, Mexico, Brazil and Peru. All significant inter-company balances and transactions have been eliminated in consolidation.

On May 15, 2014, we entered into an agreement to sell Red Lobster and certain related assets and associated liabilities for \$2.11 billion in cash and we expect the transaction to close during the first quarter of fiscal 2015. These assets and liabilities are classified as held for sale on our consolidated balance sheet as of May 25, 2014. Additionally, in the fourth quarter of fiscal 2014, in connection with the sale of Red Lobster, we closed two restaurants that housed both a Red Lobster and an Olive Garden in the same building (synergy restaurants). We have classified the results of operations and impairment charges of the Red Lobster business and the two closed synergy restaurants as discontinued operations in our consolidated statements of earnings and cash flows for all periods presented. No amounts for shared general and administrative operating support expense or interest expense were allocated to discontinued operations.

Our mission is to be the best in full-service dining, now and for generations. We believe we can achieve this goal by continuing to build on our strategy to be a multi-brand restaurant growth company, which is grounded in:

- Brand relevance;
- Brand support;
- A vibrant business model;
- Competitively superior leadership; and
- A unifying, motivating culture.

Further, we believe the sale of Red Lobster will allow us to enhance our focus on our mission with respect to our remaining brands.

We seek to increase profits by leveraging our fixed and semi-fixed costs with sales from new restaurants and increased guest traffic and sales at existing restaurants. To evaluate our operations and assess our financial performance, we monitor a number of operating measures, with a special focus on two key factors:

- Same-restaurant sales – which is a year-over-year comparison of each period's sales volumes for restaurants open at least 16 months, including recently acquired restaurants, regardless of when the restaurants were acquired; and

- Restaurant earnings – which is restaurant-level profitability (restaurant sales, less restaurant-level cost of sales, marketing and depreciation).

Increasing same-restaurant sales can improve restaurant earnings because these incremental sales provide better leverage of our fixed and semi-fixed restaurant-level costs. A restaurant brand can generate same-restaurant sales increases through increases in guest traffic, increases in the average guest check, or a combination of the two. The average guest check can be impacted by menu price changes and by the mix of menu items sold. For each restaurant brand, we gather daily sales data and regularly analyze the guest traffic counts and the mix of menu items sold to aid in developing menu pricing, product offerings and promotional strategies. We focus on balancing our pricing and product offerings with other initiatives to produce sustainable same-restaurant sales growth.

We compute same-restaurant sales using restaurants open at least 16 months because this period is generally required for new restaurant sales levels to normalize. Sales at newly opened restaurants generally do not make a significant contribution to profitability in their initial months of operation due to operating inefficiencies. Our sales and expenses can be impacted significantly by the number and timing of new restaurant openings and closings, relocations and remodeling of existing restaurants. Pre-opening expenses each period reflect the costs associated with opening new restaurants in current and future periods.

Fiscal 2014 Financial Highlights

Our sales from continuing operations were \$6.29 billion in fiscal 2014 compared to \$5.92 billion in fiscal 2013. The 6.2 percent increase in sales from continuing operations was primarily driven by the addition of 70 net new company-owned restaurants, a 1.6 percent blended same-restaurant sales increase for The Capital Grille, Bahama Breeze, Seasons 52, Eddie V's and Yard House, and a 2.7 percent same-restaurant sales increase for LongHorn Steakhouse, partially offset by a 3.4 percent same-restaurant sales decrease for Olive Garden.

Net earnings from continuing operations for fiscal 2014 were \$183.2 million (\$1.38 per diluted share) compared with net earnings from continuing operations for fiscal 2013 of \$237.3 million (\$1.80 per diluted share). Net earnings from continuing operations for fiscal 2014 decreased 22.8 percent and diluted net earnings per share from continuing operations decreased 23.3 percent compared with fiscal 2013.

Our net earnings from discontinued operations were \$103.0 million (\$0.77 per diluted share) for fiscal 2014, compared with net earnings from discontinued operations of \$174.6 million (\$1.33 per diluted share) for fiscal 2013. When combined with results from continuing operations, our diluted net earnings per share were \$2.15 and \$3.13 for fiscal 2014 and 2013, respectively.

During the second quarter of fiscal 2014, a comprehensive review of operations resulted in a strategic action plan with three primary components. The first was a decision to reduce operating support costs through a combination of workforce reductions and program spending cuts which primarily impacted our selling, general and administrative expenses. The second was the announcement in December 2013, to separate the Red Lobster business. The third was a commitment to slow down new unit growth.

Outlook and Strategy

We expect same-restaurant sales in fiscal 2015 to range from flat to an increase of 1.0 percent for Olive Garden and an increase of 1.0 percent to 2.0 percent for LongHorn Steakhouse. We expect a blended same-restaurant sales increase for The Capital Grille, Bahama Breeze, Seasons 52, Eddie V's and Yard House of approximately 2.0 percent. Total sales from continuing operations in fiscal 2015 are expected to increase between 5.0 percent and 7.0 percent, including the impact of the 53rd week in fiscal 2015. We expect food and beverage expenses to be higher as a percent of sales based on our expectations of food cost inflation. We also expect restaurant labor expenses to be higher as a percent of sales based on our expectations that manager incentive compensation will return to normal levels. Excluding the impact of costs we expect to incur in connection with the Red Lobster separation in fiscal 2015, as well as costs related to our lobster aquaculture research and development project, we expect general and administrative expenses as a percent of sales to remain consistent with fiscal 2014. This is primarily due to cost savings generated from actions taken as a result of our restaurant support platform review. We expect our remaining expense line items, restaurant expenses and depreciation expense, to be relatively flat as a percent of sales. We expect diluted net earnings per share from continuing operations for fiscal 2015 to be above fiscal 2014 by between 30.0 percent and 35.0 percent, including the impact of the 53rd week. In fiscal 2015, we expect to add approximately 35-40 net new restaurants, and we expect capital expenditures incurred to build new restaurants and remodel existing restaurants to be between \$325.0 million and \$350.0 million.

In June 2014, we announced a quarterly dividend of \$0.55 per share, payable on August 1, 2014. Based on the \$0.55 quarterly dividend declaration, our expected annual dividend is \$2.20 per share, which is consistent with our fiscal 2014 annual dividend. Dividends are subject to the approval of our Board of Directors and, accordingly, the timing and amount of our dividends are subject to change.

During fiscal 2015, we are focused on progressing with our value creation priorities, which include: completion of the Red Lobster sale; continuation of the Olive Garden "brand renaissance"; continuation of new restaurant growth at our other brands, primarily driven by LongHorn; implementation of a new management incentive plan that more directly emphasizes same-restaurant sales, free cash flow and relative total shareholder return; continuation of the focus on our restaurant support platform costs; and improvement on capital allocation discipline.

The total sales growth we envision should increase the cost-effectiveness of our restaurant support platform. However, we also plan to supplement our conventional incremental year-to-year cost management efforts with an ongoing focus on identifying and pursuing transformational multi-year cost reduction opportunities.

There are significant risks and challenges that could impact our operations and ability to increase sales and earnings. The full-service restaurant industry is intensely competitive and sensitive to economic cycles and other business factors, including changes in consumer tastes and dietary habits. Other risks and uncertainties are discussed and referenced in the subsection below entitled "Forward-Looking Statements."

RESULTS OF OPERATIONS FOR FISCAL 2014, 2013 AND 2012

The following table sets forth selected operating data as a percent of sales from continuing operations for the fiscal years ended May 25, 2014, May 26, 2013 and May 27, 2012. This information is derived from the consolidated statements of earnings found elsewhere in this report. Additionally, this information and the following analysis have been presented with the results of operations, costs incurred in connection with the planned separation and

impairment charges for Red Lobster and the two closed synergy restaurants classified as discontinued operations for all periods presented.

	Fiscal Years		
	2014	2013	2012
Sales	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of sales:			
Food and beverage	30.1	29.4	29.2
Restaurant labor	32.1	32.0	31.6
Restaurant expenses	17.2	16.6	15.9
Total cost of sales, excluding restaurant depreciation and amortization of 4.5%, 4.3% and 4.1%, respectively	79.4%	78.0%	76.7%
Selling, general and administrative	10.6	10.6	10.2
Depreciation and amortization	4.8	4.7	4.5
Interest, net	2.1	2.1	1.9
Asset impairment, net	0.3	—	—
Total costs and expenses	97.2%	95.4%	93.3%
Earnings before income taxes	2.8	4.6	6.7
Income taxes	(0.1)	0.6	1.5
Earnings from continuing operations	2.9	4.0	5.2
Earnings from discontinued operations, net of taxes	1.7	3.0	3.7
Net earnings	4.6%	7.0%	8.9%

The following table details the number of company-owned restaurants currently reported in continuing operations and the Red Lobster restaurants currently reported in discontinued operations that were open at the end of fiscal 2014, compared with the number open at the end of fiscal 2013 and the end of fiscal 2012.

	May 25, 2014	May 26, 2013	May 27, 2012
Olive Garden – USA	831	822	786
Olive Garden – Canada	6	6	6
Total	837	828	792
LongHorn Steakhouse	464	430	386
The Capital Grille	54	49	46
Bahama Breeze	37	33	30
Seasons 52	38	31	23
Eddie V's ⁽¹⁾	15	12	11
Yard House ⁽¹⁾	52	44	—
Other ⁽²⁾	4	4	1
Total – continuing operations	1,501	1,431	1,289
Red Lobster – USA	679	678	677
Red Lobster – Canada	27	27	27
Other ⁽³⁾	—	2	1
Total – discontinued operations	706	707	705
Total Darden	2,207	2,138	1,994

(1) Includes the 11 Eddie V's and Wildfish restaurants acquired on November 14, 2011 and the 40 Yard House restaurants acquired on August 29, 2012.

(2) Represents synergy restaurants in operation. We expect to convert all remaining synergy restaurants into stand-alone Olive Garden restaurants by the end of the first quarter of fiscal 2015.

(3) Represents synergy restaurants closed as of May 25, 2014 and classified as discontinued operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Darden

SALES

Sales from continuing operations were \$6.29 billion in fiscal 2014, \$5.92 billion in fiscal 2013 and \$5.33 billion in fiscal 2012. The 6.2 percent increase in sales from continuing operations for fiscal 2014 was driven by the addition of 70 net new company-owned restaurants, a 1.6 percent blended same-restaurant sales increase for The Capital Grille, Bahama Breeze, Seasons 52, Eddie V's and Yard House, and a 2.7 percent same-restaurant sales increase for LongHorn Steakhouse, partially offset by a 3.4 percent same-restaurant sales decrease for Olive Garden.

Olive Garden's sales of \$3.64 billion in fiscal 2014 were 1.1 percent below fiscal 2013, driven primarily by a U.S. same-restaurant sales decrease of 3.4 percent partially offset by revenue from nine net new restaurants. The decrease in U.S. same-restaurant sales resulted from a 4.2 percent decrease in same-restaurant guest counts partially offset by a 0.8 percent increase in average check. Average annual sales per restaurant for Olive Garden were \$4.4 million in fiscal 2014 compared to \$4.6 million in fiscal 2013.

LongHorn Steakhouse's sales of \$1.38 billion in fiscal 2014 were 12.4 percent above fiscal 2013, driven primarily by revenue from 34 net new restaurants combined with a same-restaurant sales increase of 2.7 percent. The increase in same-restaurant sales resulted from a 0.3 percent increase in same-restaurant guest counts combined with a 2.4 percent increase in average guest check. Average annual sales per restaurant for LongHorn Steakhouse were \$3.1 million in fiscal 2014 compared to \$3.0 million in fiscal 2013.

In total, The Capital Grille, Bahama Breeze, Seasons 52, Eddie V's and Yard House generated sales of \$1.23 billion in fiscal 2014, which were 25.2 percent above fiscal 2013, primarily driven by the incremental sales from 27 net new restaurants since the end of fiscal 2013 in addition to the 40 Yard House restaurants acquired in the second quarter of fiscal 2013. Sales growth also reflected same-restaurant sales increases of 3.4 percent at The Capital Grille, 4.1 percent at Bahama Breeze, 1.1 percent at Eddie V's and 0.3 percent at Yard House, and a same-restaurant sales decrease of 2.2 percent at Seasons 52. Average annual sales per restaurant for The Capital Grille were \$7.1 million in fiscal 2014 compared to \$7.0 million in fiscal 2013. Average annual sales per restaurant for Bahama Breeze were \$5.6 million in fiscal 2014 compared to \$5.5 million in fiscal 2013. Average annual sales per restaurant for Seasons 52 were \$5.7 million in fiscal 2014 compared to \$6.2 million in fiscal 2013. Average annual sales per restaurant for Eddie V's were \$6.0 million in fiscal 2014 compared to \$5.8 million in fiscal 2013. Average annual sales per restaurant for Yard House were \$8.2 million in fiscal 2014 and fiscal 2013.

The 11.1 percent increase in sales from continuing operations for fiscal 2013 was driven by the addition of 102 net new company-owned restaurants plus the addition of 40 Yard House purchased restaurants, a 2.1 percent blended same-restaurant sales increase for The Capital Grille, Bahama Breeze and Seasons 52, and a 1.2 percent same-restaurant sales increase for LongHorn Steakhouse partially offset by a 1.5 percent same-restaurant sales decrease for Olive Garden.

Olive Garden's sales of \$3.68 billion in fiscal 2013 were 2.9 percent above fiscal 2012, driven primarily by revenue from 36 net new restaurants partially offset by a U.S. same-restaurant sales decrease of 1.5 percent. The decrease in U.S. same-restaurant sales resulted from a 2.8 percent decrease in same-restaurant guest counts partially offset by a 1.3 percent increase in average check. Average annual sales per restaurant for Olive Garden were \$4.6 million in fiscal 2013 compared to \$4.7 million in fiscal 2012.

LongHorn Steakhouse's sales of \$1.23 billion in fiscal 2013 were 10.3 percent above fiscal 2012, driven primarily by revenue from 44 net new restaurants combined with a same-restaurant sales increase of 1.2 percent.

The increase in same-restaurant sales resulted from a 1.1 percent increase in same-restaurant guest counts combined with a 0.1 percent increase in average guest check. Average annual sales per restaurant for LongHorn Steakhouse were \$3.0 million in fiscal 2013 and fiscal 2012.

In total, The Capital Grille, Bahama Breeze, Seasons 52, Eddie V's and Yard House generated sales of \$986.4 million in fiscal 2013, which were 58.3 percent above fiscal 2012, primarily driven by the Yard House acquisition. Additionally, Seasons 52 added eight new restaurants, Yard House added four new restaurants, The Capital Grille added three new restaurants, Bahama Breeze added three new restaurants, and Eddie V's added one new restaurant. Sales growth also reflected same-restaurant sales increases of 3.3 percent at The Capital Grille, 1.2 percent at Seasons 52 and 0.2 percent at Bahama Breeze. Average annual sales per restaurant for The Capital Grille were \$7.0 million in fiscal 2013 compared to \$6.8 million in fiscal 2012. Average annual sales per restaurant for Bahama Breeze were \$5.5 million in fiscal 2013 compared to \$5.6 million in fiscal 2012. Average annual sales per restaurant for Seasons 52 were \$6.2 million in fiscal 2013 compared to \$6.4 million in fiscal 2012. Average annual sales per restaurant for Eddie V's were \$5.8 million in fiscal 2013 compared to \$5.9 million in fiscal 2012.

COSTS AND EXPENSES

Total costs and expenses from continuing operations were \$6.11 billion in fiscal 2014, \$5.65 billion in fiscal 2013 and \$4.97 billion in fiscal 2012. As a percent of sales, total costs and expenses from continuing operations were 97.2 percent in fiscal 2014, 95.4 percent in fiscal 2013 and 93.3 percent in fiscal 2012.

Food and beverage costs increased \$148.6 million, or 8.5 percent, from \$1.74 billion in fiscal 2013 to \$1.89 billion in fiscal 2014. Food and beverage costs increased \$189.9 million, or 12.2 percent, from \$1.55 billion in fiscal 2012 to \$1.74 billion in fiscal 2013. As a percent of sales, food and beverage costs increased from fiscal 2013 to fiscal 2014 primarily as a result of food cost inflation partially offset by pricing. As a percent of sales, food and beverage costs increased from fiscal 2012 to fiscal 2013 primarily as a result of food cost inflation and unfavorable menu-mix, partially offset by pricing.

Restaurant labor costs increased \$125.0 million, or 6.6 percent, from \$1.89 billion in fiscal 2013 to \$2.02 billion in fiscal 2014. Restaurant labor costs increased \$209.0 million, or 12.4 percent, from \$1.68 billion in fiscal 2012 to \$1.89 billion in fiscal 2013. As a percent of sales, restaurant labor costs increased in fiscal 2014 primarily as a result of wage-rate inflation and decreased labor efficiency, partially offset by sales leverage. As a percent of sales, restaurant labor costs increased in fiscal 2013 primarily as a result of decreased labor efficiency and wage-rate inflation.

Restaurant expenses (which include utilities, repairs and maintenance, credit card, lease, property tax, workers' compensation, new restaurant pre-opening and other restaurant-level operating expenses) increased \$100.3 million, or 10.2 percent, from \$980.4 million in fiscal 2013 to \$1.08 billion in fiscal 2014. Restaurant expenses increased \$129.4 million, or 15.2 percent, from \$851.0 million in fiscal 2012 to \$980.4 million in fiscal 2013. As a percent of sales, restaurant expenses increased in fiscal 2014 as compared to fiscal 2013 due to an increase in rent expense and higher repairs and maintenance expenses. As a percent of sales, restaurant expenses increased in fiscal 2013 as compared to fiscal 2012 primarily as a result of Yard House's higher restaurant expenses as a percentage of sales compared to our consolidated average prior to the acquisition. Additionally, restaurant expenses as a percentage of sales increased due to lost sales leverage, partially offset by lower utilities expenses.

Selling, general and administrative expenses increased \$38.1 million, or 6.1 percent, from \$625.4 million in fiscal 2013 to \$663.5 million in fiscal 2014. Selling, general and administrative expenses increased \$85.3 million, or 15.8 percent, from \$540.1 million in fiscal 2012 to \$625.4 million in fiscal 2013. As a percent of sales, selling, general and administrative expenses increased from fiscal 2013 to fiscal 2014 primarily as a result of the costs related to implementation of the strategic action plan and workforce reductions mentioned above, partially offset by sales leverage. As a percent of sales, selling, general and administrative expenses increased from fiscal 2012 to fiscal 2013 primarily due to higher media costs and acquisition and integration costs associated with the Yard House acquisition, partially offset by sales leverage.

Depreciation and amortization expense increased \$26.1 million, or 9.4 percent, from \$278.3 million in fiscal 2013 to \$304.4 million in fiscal 2014. Depreciation and amortization expense increased \$37.0 million, or 15.3 percent, from \$241.3 million in fiscal 2012 to \$278.3 million in fiscal 2013. As a percent of sales, depreciation and amortization expense increased in fiscal 2014 and fiscal 2013 primarily due to an increase in depreciable assets related to new restaurants and remodel activities.

Net interest expense increased \$8.3 million, or 6.6 percent, from \$126.0 million in fiscal 2013 to \$134.3 million in fiscal 2014. Net interest expense increased \$23.9 million, or 23.4 percent, from \$102.1 million in fiscal 2012 to \$126.0 million in fiscal 2013. As a percent of sales, net interest expense was flat in fiscal 2014 compared to fiscal 2013. As a percent of sales, net interest expense increased in fiscal 2013 compared to fiscal 2012 due to higher average debt balances in fiscal 2013, principally driven by the acquisition of Yard House.

INCOME TAXES

The effective income tax rates for fiscal 2014, 2013 and 2012 for continuing operations were (4.9) percent, 13.4 percent and 21.4 percent, respectively. The decrease in our effective rate for fiscal 2014 compared to fiscal 2013 is primarily due to an increase in the impact of certain tax credits on lower earnings before income taxes and a favorable adjustment related to the deduction of ESOP dividends for the current and prior years, partially offset by the impact of market-driven changes in the value of our trust-owned life insurance that are excluded for tax purposes. The decrease in our effective rate for fiscal 2013 compared to fiscal 2012 is primarily attributable to an increase in the impact of FICA tax credits for employee reported tips on lower earnings before income taxes and the tax impact of market-driven changes in the value of our trust-owned life insurance that are excluded for tax purposes, partially offset by a decrease in federal income tax credits related to the HIRE Act.

The effective income tax rates for fiscal 2014, 2013 and 2012 for discontinued operations were 23.9 percent, 29.4 percent and 30.2 percent, respectively. The decrease in the effective rate for fiscal 2014 compared to fiscal 2013 and for fiscal 2013 compared to fiscal 2012 is primarily due to an increase in the impact of certain tax credits on lower earnings before income taxes.

NET EARNINGS AND NET EARNINGS PER SHARE FROM CONTINUING OPERATIONS

Net earnings from continuing operations for fiscal 2014 were \$183.2 million (\$1.38 per diluted share) compared with net earnings from continuing operations for fiscal 2013 of \$237.3 million (\$1.80 per diluted share) and net earnings from continuing operations for fiscal 2012 of \$279.2 million (\$2.10 per diluted share).

Net earnings from continuing operations for fiscal 2014 decreased 22.8 percent and diluted net earnings per share from continuing operations decreased 23.3 percent compared with fiscal 2013, primarily due to higher food and beverage costs and restaurant expenses as a percent of sales, partially offset by increased sales and a lower effective income tax rate. Our diluted net earnings per share from continuing operations for fiscal 2014 were adversely impacted by approximately \$0.23, comprised of approximately \$0.10 due to legal, financial advisory and other costs related to implementation of the strategic action plan announced in December 2013, approximately \$0.08 due to asset impairment charges and approximately \$0.05 due to costs associated with our September 2013 workforce reduction.

Net earnings from continuing operations for fiscal 2013 decreased 15.0 percent and diluted net earnings per share from continuing operations decreased 14.3 percent compared with fiscal 2012 primarily due to higher selling, general and administrative expenses, restaurant expenses, depreciation and amortization expenses and net interest expense as a percent of sales, partially offset by increased sales and a lower effective income tax rate. Costs associated with the Yard House acquisition adversely affected diluted net earnings per share from continuing operations by approximately \$0.09.

EARNINGS FROM DISCONTINUED OPERATIONS

Red Lobster's sales of \$2.46 billion in fiscal 2014 were 6.2 percent below fiscal 2013, driven primarily by a U.S. same-restaurant sales decrease of 6.0 percent, partially offset by revenue from one net new restaurant. The decrease in U.S. same-restaurant sales resulted from a 9.3 percent decrease in same-restaurant guest counts, partially offset by a 3.3 percent increase in average guest check. Average annual sales per restaurant for Red Lobster were \$3.5 million in fiscal 2014 compared to \$3.7 million in fiscal 2013.

Red Lobster's sales of \$2.62 billion in fiscal 2013 were 1.7 percent below fiscal 2012, driven primarily by a U.S. same-restaurant sales decrease of 2.2 percent partially offset by revenue from one net new restaurant. The decrease in U.S. same-restaurant sales resulted from a 1.8 percent decrease in same-restaurant guest counts combined with a 0.4 percent decrease in average guest check. Average annual sales per restaurant for Red Lobster were \$3.7 million in fiscal 2013 compared to \$3.8 million in fiscal 2012.

On an after-tax basis, earnings from discontinued operations for fiscal 2014 were \$103.0 million (\$0.77 per diluted share) compared with earnings from discontinued operations for fiscal 2013 of \$174.6 million (\$1.33 per diluted share) and fiscal 2012 of \$196.3 million (\$1.47 per diluted share). The decrease in earnings from discontinued operations in fiscal 2014 and fiscal 2013 was primarily driven by a decrease in sales and overall performance at Red Lobster in addition to separation-related costs (approximately \$0.10 per diluted share) and impairments recorded for the two closed synergy locations (approximately \$0.04 per diluted share).

SEASONALITY

Our sales volumes fluctuate seasonally. Typically, our average sales per restaurant are highest in the spring and winter, 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.

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IMPACT OF INFLATION

We attempt to minimize the annual effects of inflation through appropriate planning, operating practices and menu price increases. We experienced higher than normal inflationary costs during fiscal 2014 and fiscal 2012 and were able to partially reduce the annual impact utilizing these strategies. We do not believe inflation had a significant overall effect on our annual results of operations during fiscal 2013.

CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates.

Our significant accounting policies are more fully described in Note 1 to the consolidated financial statements. However, certain of our accounting policies that are considered critical are those we believe are both most important to the portrayal of our financial condition and operating results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Judgments and uncertainties affecting the application of those policies may result in materially different amounts being reported under different conditions or using different assumptions. We consider the following policies to be most critical in understanding the judgments that are involved in preparing our consolidated financial statements.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost less accumulated depreciation. Building components are depreciated over estimated useful lives ranging from 7 to 40 years using the straight-line method. Leasehold improvements, which are reflected on our consolidated balance sheets as a component of buildings in land, buildings and equipment, net, are amortized over the lesser of the expected lease term, including cancelable option periods, or the estimated useful lives of the related assets using the straight-line method. Equipment is depreciated over estimated useful lives ranging from 2 to 10 years, also using the straight-line method.

Our accounting policies regarding land, buildings and equipment, including leasehold improvements, include our judgments regarding the estimated useful lives of these assets, the residual values to which the assets are depreciated or amortized, the determination of what constitutes expected lease term and the determination as to what constitutes enhancing the value of or increasing the life of existing assets. These judgments and estimates may produce materially different amounts of reported depreciation and amortization expense if different assumptions were used. As discussed further below, these judgments may also impact our need to recognize an impairment charge on the carrying amount of these assets as the cash flows associated with the assets are realized, or as our expectations of estimated future cash flows change.

Leases

We are obligated under various lease agreements for certain restaurants. For operating leases, we recognize rent expense on a straight-line basis over the expected lease term, including option periods as described below. Capital leases are recorded as an asset and an obligation at an amount equal to the present value of the minimum lease payments during the lease term.

Within the provisions of certain of our leases, there are rent holidays and escalations in payments over the base lease term, as well as renewal periods. The effects of the holidays and escalations have been reflected in rent expense on a straight-line basis over the expected lease term, which includes cancelable option periods we are reasonably assured to exercise because failure to exercise such options would result in an economic penalty to the Company. The lease term commences on the date when we have the right to control the use of the leased property, which is typically before rent payments are due under the terms of the lease. The leasehold improvements and property held under capital leases for each restaurant facility are amortized on the straight-line method over the shorter of the estimated life of the asset or the same expected lease term used for lease accounting purposes. Many of our leases have renewal periods totaling 5 to 20 years, exercisable at our option, and require payment of property taxes, insurance and maintenance costs in addition to the rent payments. The consolidated financial statements reflect the same lease term for amortizing leasehold improvements as we use to determine capital versus operating lease classifications and in calculating straight-line rent expense for each restaurant. Percentage rent expense is generally based upon sales levels and is accrued when we determine that it is probable that such sales levels will be achieved. Landlord allowances are recorded based on contractual terms and are included in accounts receivable, net and as a deferred rent liability and amortized as a reduction of rent expense on a straight-line basis over the expected lease term.

Our judgments related to the probable term for each restaurant affect the classification and accounting for leases as capital versus operating, the rent holidays and escalation in payments that are included in the calculation of straight-line rent and the term over which leasehold improvements for each restaurant facility are amortized. These judgments may produce materially different amounts of depreciation, amortization and rent expense than would be reported if different assumed lease terms were used.

Impairment of Long-Lived Assets

Land, buildings and equipment and certain other assets, including definite-lived intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the assets. Identifiable cash flows are measured at the lowest level for which they are largely independent of the cash flows of other groups of assets and liabilities, generally at the restaurant level. If these assets are determined to be impaired, the amount of impairment recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Fair value is generally determined by appraisals or sales prices of comparable assets. Restaurant sites and certain other assets to be disposed of are reported at the lower of their carrying amount or fair value, less estimated costs to sell. Restaurant sites and certain other assets to be disposed of are included in assets held for sale within prepaid expenses and other current assets in our consolidated balance sheets when certain criteria are met. These criteria include the requirement that the likelihood of disposing of these assets within one year is probable. For assets that meet the held-for-sale criteria, we separately evaluate whether those assets also meet the requirements to be reported as discontinued operations. Principally, if we discontinue cash flows and no longer have any significant continuing involvement with respect to the operations of the assets, we classify the assets and related results of operations as discontinued. We consider guest transfer (an increase in guests at another location as a result of the closure

of a location) as continuing cash flows and evaluate the significance of expected guest transfer when evaluating a restaurant for discontinued operations reporting. To the extent we dispose of enough assets where classification between continuing operations and discontinued operations would be material to our consolidated financial statements, we utilize the reporting provisions for discontinued operations. Assets whose disposal is not probable within one year remain in land, buildings and equipment until their disposal within one year is probable.

We account for exit or disposal activities, including restaurant closures, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 420, Exit or Disposal Cost Obligations. Such costs include the cost of disposing of the assets as well as other facility-related expenses from previously closed restaurants. These costs are generally expensed as incurred. Additionally, at the date we cease using a property under an operating lease, we record a liability for the net present value of any remaining lease obligations, net of estimated sublease income. Any subsequent adjustments to that liability as a result of lease termination or changes in estimates of sublease income are recorded in the period incurred. Upon disposal of the assets, primarily land, associated with a closed restaurant, any gain or loss is recorded in the same caption within our consolidated statements of earnings as the original impairment.

The judgments we make related to the expected useful lives of long-lived assets and our ability to realize undiscounted cash flows in excess of the carrying amounts of these assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in economic conditions, changes in usage or operating performance, desirability of the restaurant sites and other factors, such as our ability to sell our assets held for sale. As we assess the ongoing expected cash flows and carrying amounts of our long-lived assets, significant adverse changes in these factors could cause us to realize a material impairment loss. During fiscal 2014, 2013 and 2012 we recognized long-lived asset impairment charges of \$18.3 million (\$11.3 million net of tax), \$0.7 million (\$0.4 million net of tax) and \$0.2 million (\$0.1 million net of tax), respectively. Impairment charges resulted primarily from the carrying value of restaurant assets exceeding the estimated fair market value, which is based on projected cash flows. These costs are included in asset impairments, net as a component of earnings from continuing operations in the accompanying consolidated statements of earnings for fiscal 2014, 2013 and 2012. Impairment charges were measured based on the amount by which the carrying amount of these assets exceeded their fair value. Fair value is generally determined based on appraisals or sales prices of comparable assets and estimates of future cash flows.

Valuation and Recoverability of Goodwill and Trademarks

We review our goodwill and trademarks for impairment annually, as of the first day of our fiscal fourth quarter, or more frequently if indicators of impairment exist. Goodwill and trademarks are not subject to amortization and have been assigned to reporting units for purposes of impairment testing. The reporting units are our restaurant brands. At May 25, 2014 and May 26, 2013, we had goodwill of \$872.5 million and \$908.3 million, respectively. At May 25, 2014 and May 26, 2013, we had trademarks of \$574.6 million and \$573.8 million, respectively.

A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others: a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; the testing for recoverability of a significant asset group within a reporting unit; and slower growth rates. Any adverse change in these factors

could have a significant impact on the recoverability of these assets and could have a material impact on our consolidated financial statements.

The goodwill impairment test involves a two-step process. The first step is a comparison of each reporting unit's fair value to its carrying value. We estimate fair value using the best information available, including market information and discounted cash flow projections (also referred to as the income approach). The income approach uses a reporting unit's projection of estimated operating results and cash flows that is discounted using a weighted-average cost of capital that reflects current market conditions. The projection uses management's best estimates of economic and market conditions over the projected period including growth rates in sales, costs and number of units, estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements. We validate our estimates of fair value under the income approach by comparing the values to fair value estimates using a market approach. A market approach estimates fair value by applying cash flow and sales multiples to the reporting unit's operating performance. The multiples are derived from comparable publicly traded companies with similar operating and investment characteristics of the reporting units.

If the fair value of the reporting unit is higher than its carrying value, goodwill is deemed not to be impaired, and no further testing is required. If the carrying value of the reporting unit is higher than its fair value, there is an indication that impairment may exist and the second step must be performed to measure the amount of impairment loss. The amount of impairment is determined by comparing the implied fair value of reporting unit goodwill to the carrying value of the goodwill in the same manner as if the reporting unit was being acquired in a business combination. Specifically, fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, we would record an impairment loss for the difference.

Consistent with our accounting policy for goodwill and trademarks, we performed our annual impairment test of our goodwill and trademarks as of the first day of our fiscal fourth quarter. As of the beginning of our fiscal fourth quarter, we had eight reporting units, six of which had goodwill: Red Lobster, Olive Garden, LongHorn Steakhouse, The Capital Grille, Eddie V's, and Yard House. As part of our process for performing the step one impairment test of goodwill, we estimated the fair value of our reporting units utilizing the income and market approaches described above to derive an enterprise value of the Company. We reconciled the enterprise value to our overall estimated market capitalization. The estimated market capitalization considers recent trends in our market capitalization and an expected control premium, based on comparable recent and historical transactions. Based on the results of the step one impairment test, no impairment of goodwill was indicated.

Given the significance of goodwill relative to the size of the LongHorn Steakhouse (\$49.4 million), The Capital Grille (\$401.7 million), Eddie V's (\$22.0 million) and Yard House (\$369.2 million) reporting units, we also performed sensitivity analyses on our estimated fair value of these reporting units using the income approach. A key assumption in our fair value estimate is the weighted-average cost of capital utilized for discounting our cash flow estimates in our income approach. We selected a weighted-average cost of capital of 10.0 percent for LongHorn Steakhouse and The Capital Grille, 15.0 percent for Eddie V's and 13.0 percent for Yard House. An increase in the weighted-average cost of capital of approximately 518 basis points,

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254 basis points, 249 basis points and 187 basis points would result in an impairment of a portion of the goodwill of LongHorn Steakhouse, The Capital Grille, Eddie V's and Yard House, respectively. The estimated fair values of LongHorn Steakhouse, The Capital Grille, Eddie V's and Yard House exceeded their carrying values by approximately 103 percent, 35 percent, 51 percent and 25 percent, respectively.

The fair value of trademarks are estimated and compared to the carrying value. We estimate the fair value of trademarks using the relief-from-royalty method, which requires assumptions related to projected sales from our annual long-range plan; assumed royalty rates that could be payable if we did not own the trademarks; and a discount rate. We recognize an impairment loss when the estimated fair value of the trademarks is less than the carrying value. We completed our impairment test and concluded as of the date of the test, there was no impairment of the trademarks for LongHorn Steakhouse, The Capital Grille, Eddie V's and Yard House. The estimated fair value of LongHorn Steakhouse's trademark exceeded its carrying value of \$307.8 million by approximately 91 percent. The estimated fair value of The Capital Grille's trademark exceeded its carrying value of \$147.0 million by approximately 34 percent. The estimated fair value of Eddie V's trademark exceeded its carrying value of \$10.5 million by approximately 100 percent. The estimated fair value of Yard House trademark exceeded its carrying value of \$109.3 million by approximately 21 percent. A key assumption in our fair value estimate is the discount rate utilized in the relief-from-royalty method. We selected a discount rate of 11.0 percent for LongHorn Steakhouse and The Capital Grille, 16.0 percent for Eddie V's and 14.0 percent for Yard House. An increase in the discount rate of approximately 630 basis points, 240 basis points, 800 basis points and 187 basis points would result in impairment of a portion of the trademarks of LongHorn Steakhouse, The Capital Grille, Eddie V's and Yard House, respectively.

We determined that there was no goodwill or trademark impairment as of the first day of our fiscal 2014 fourth quarter and no additional indicators of impairment were identified through the end of our fiscal fourth quarter that would require us to test further for impairment. However, declines in our market capitalization (reflected in our stock price) as well as in the market capitalization of other companies in the restaurant industry, declines in sales at our restaurants, and significant adverse changes in the operating environment for the restaurant industry may result in a future impairment loss.

Changes in circumstances, existing at the measurement date or at other times in the future, or in the numerous estimates associated with management's judgments and assumptions made in assessing the fair value of our goodwill, could result in an impairment loss of a portion or all of our goodwill or trademarks. If we recorded an impairment loss, our financial position and results of operations would be adversely affected and our leverage ratio for purposes of our credit agreement would increase. A leverage ratio exceeding the maximum permitted under our credit agreement would be a default under our credit agreement. At May 25, 2014, a write-down of goodwill, other indefinite-lived intangible assets, or any other assets in excess of approximately \$850.0 million 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.

We evaluate the useful lives of our other intangible assets, primarily intangible assets associated with our acquisitions, to determine if they are definite or indefinite-lived. Reaching a determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, demand, competition, other economic factors (such as the

stability of the industry, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures, and the expected lives of other related groups of assets.

Insurance Accruals

Through the use of insurance program deductibles and self-insurance, we retain a significant portion of expected losses under our workers' compensation, certain employee medical and general liability programs. However, we carry insurance for individual workers' compensation and general liability claims that exceed \$0.5 million. Accrued liabilities have been recorded based on our estimates of the anticipated ultimate costs to settle all claims, both reported and not yet reported.

Our accounting policies regarding these insurance programs include our judgments and independent actuarial assumptions about economic conditions, the frequency or severity of claims and claim development patterns and claim reserve, management and settlement practices. Unanticipated changes in these factors may produce materially different amounts of reported expense under these programs.

Unearned Revenues

Unearned revenues represent our liability for gift cards that have been sold but not yet redeemed. We recognize sales from our gift cards when the gift card is redeemed by the customer. Although there are no expiration dates or dormancy fees for our gift cards, based on our analysis of our historical gift card redemption patterns, we can reasonably estimate the amount of gift cards for which redemption is remote, which is referred to as "breakage." We recognize breakage within sales for unused gift card amounts in proportion to actual gift card redemptions, which is also referred to as the "redemption recognition" method. The estimated value of gift cards expected to remain unused is recognized over the expected period of redemption as the remaining gift card values are redeemed, generally over a period of 10 years. Utilizing this method, we estimate both the amount of breakage and the time period of redemption. If actual redemption patterns vary from our estimates, actual gift card breakage income may differ from the amounts recorded. We update our estimates of our redemption period and our breakage rate periodically and apply that rate to gift card redemptions. Changing our breakage-rate assumption on unredeemed gift cards by 25 basis points would result in an adjustment in our unearned revenues of approximately \$15.0 million.

Income Taxes

We estimate certain components of our provision for income taxes. These estimates include, among other items, depreciation and amortization expense allowable for tax purposes, allowable tax credits for items such as taxes paid on reported employee tip income, effective rates for state and local income taxes and the tax deductibility of certain other items. We adjust our annual effective income tax rate as additional information on outcomes or events becomes available.

FASB ASC Topic 740, Income Taxes, requires that a position taken or expected to be taken in a tax return be recognized (or derecognized) in the financial statements when it is more likely than not (i.e., a likelihood of more than 50 percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

We provide for federal and state income taxes currently payable as well as for those deferred because of temporary differences between reporting income and expenses for financial statement purposes versus tax purposes. Federal income tax credits are recorded as a reduction of income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Interest recognized on reserves for uncertain tax positions is included in interest, net in our consolidated statements of earnings. A corresponding liability for accrued interest is included as a component of other current liabilities on our consolidated balance sheets. Penalties, when incurred, are recognized in selling, general and administrative expenses.

We base our estimates on the best available information at the time that we prepare the provision. We generally file our annual income tax returns several months after our fiscal year end. For U.S. federal income tax purposes, we participate in the Internal Revenue Service's (IRS) Compliance Assurance Process (CAP) whereby our U.S. federal income tax returns are reviewed by the IRS both prior to and after their filing. Income tax returns are subject to audit by state and local governments, generally years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws. The major jurisdictions in which the Company files income tax returns include the U.S. federal jurisdiction, Canada, and all states in the U.S. that have an income tax. With a few exceptions, the Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before fiscal 2013, and state and local, or non-U.S. income tax examinations by tax authorities for years before fiscal 2010.

Included in the balance of unrecognized tax benefits at May 25, 2014 is \$27.4 million related to tax positions for which it is reasonably possible that the total amounts could change during the next 12 months based on the outcome of examinations. The \$27.4 million relates to items that would impact our effective income tax rate.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows generated from operating activities provide us with a significant source of liquidity, which we use to finance the purchases of land, buildings and equipment for new restaurants, remodel existing restaurants, pay dividends to our shareholders and repurchase shares of our common stock. Since substantially all of our sales are for cash and cash equivalents, and accounts payable are generally due in 5 to 30 days, we are able to carry current liabilities in excess of current assets. In addition to cash flows from operations, we use a combination of long-term and short-term borrowings to fund our capital needs.

We currently manage our business and financial ratios to maintain an investment grade bond rating, which has historically allowed flexible access to financing at reasonable costs. Currently, our publicly issued long-term debt carries "Baa3" (Moody's Investors Service), "BBB-" (Standard & Poor's) and "BBB-" (Fitch) ratings. Our commercial paper has ratings of "P-3" (Moody's Investors Service), "A-3" (Standard & Poor's) and "F-3" (Fitch). These ratings are as of the date of the filing of this annual report 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.

On May 15, 2014, we entered into an agreement to sell Red Lobster. We expect to receive net cash proceeds from the sale, after tax and transaction costs, of approximately \$1.60 billion, of which approximately \$1.00 billion will be used to retire outstanding long-term debt. We expect to use the remaining net proceeds of approximately \$500.0 million to \$600.0 million in fiscal 2015 for our share repurchase program which is currently up to \$700.0 million. In addition to strengthening our credit metrics, with the lower debt levels and reduced outstanding share count, we expect to maintain our current quarterly dividend of \$0.55 cents per share, or \$2.20 annually. The transaction is expected to close in the first quarter of fiscal 2015.

We maintain a \$750.0 million revolving Credit Agreement (Revolving Credit Agreement), with Bank of America, N.A. (BOA) as administrative agent, and the lenders and other agents party thereto. The Revolving Credit Agreement is a senior unsecured credit commitment to the Company and contains customary representations and affirmative and negative covenants (including limitations on liens and subsidiary debt and a maximum consolidated lease adjusted total debt to total capitalization ratio of 0.75 to 1.00) and events of default customary for credit facilities of this type. As of May 25, 2014, we were in compliance with the covenants under the Revolving Credit Agreement.

On October 24, 2013, we entered into an amendment (First Amendment) to the Revolving Credit Agreement, which extended the maturity date from October 3, 2016 to October 24, 2018, and gives us the option to request a further extension of the maturity date for up to two additional one-year periods. Additionally, interest rates on borrowings and fees under the Revolving Credit Agreement are determined by reference to a ratings-based pricing grid, which was amended by the First Amendment.

The Revolving Credit Agreement proceeds may be used for commercial paper back-up, working capital and capital expenditures, the refinancing of certain indebtedness, certain acquisitions and general corporate purposes. Loans under the Revolving Credit Agreement bear interest at a rate of LIBOR plus a margin determined by reference to a ratings-based pricing grid (Applicable Margin), or the base rate (which is defined as the highest of the BOA prime rate, the Federal Funds rate plus 0.500 percent, and the Eurocurrency Rate plus 1.00 percent) plus the Applicable Margin. Assuming a "BBB-" equivalent credit rating level, the Applicable Margin under the Revolving Credit Agreement will be 1.300 percent for LIBOR loans and 0.300 percent for base rate loans.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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As of May 25, 2014, we had no outstanding balances under the Revolving Credit Agreement. As of May 25, 2014, \$207.6 million of commercial paper was outstanding, which was backed by this facility. After consideration of commercial paper backed by the Revolving Credit Agreement, as of May 25, 2014, we had \$542.4 million of credit available under the Revolving Credit Agreement.

At May 25, 2014, our long-term debt consisted principally of:

- \$100.0 million of unsecured 7.125 percent debentures due in February 2016;
- \$285.0 million unsecured, variable-rate amortizing term loan maturing in August 2017;
- \$500.0 million of unsecured 6.200 percent senior notes due in October 2017;
- \$80.0 million of unsecured 3.790 percent senior notes due in August 2019;
- \$400.0 million of unsecured 4.500 percent senior notes due in October 2021;
- \$450.0 million of unsecured 3.350 percent senior notes due in November 2022;
- \$220.0 million of unsecured 4.520 percent senior notes due in August 2024;
- \$150.0 million of unsecured 6.000 percent senior notes due in August 2035; and
- \$300.0 million of unsecured 6.800 percent senior notes due in October 2037.

We also have \$15.0 million included in current liabilities as current portion of long-term debt associated with the term loan, which reflects the annual principal amortization payment due in August 2014.

The interest rates on our \$500.0 million 6.200 percent senior notes due October 2017 and \$300.0 million 6.800 percent senior notes due October 2037 are subject to adjustment from time to time if the debt rating assigned to such series of notes is downgraded below a certain rating level (or subsequently upgraded). The maximum adjustment is 2.000 percent above the initial interest rate and the interest rate cannot be reduced below the initial interest rate. As of May 25, 2014, no adjustments to these interest rates had been made.

The aggregate contractual maturities of long-term debt for each of the five fiscal years subsequent to May 25, 2014 and thereafter are \$15.0 million in fiscal 2015, \$115.0 million in fiscal 2016, \$15.0 million in fiscal 2017, \$755.0 million in fiscal 2018, \$0.0 million in fiscal 2019 and \$1.60 billion thereafter. However, as mentioned above, we expect to use approximately \$1.00 billion of the cash proceeds from the anticipated sale of Red Lobster to retire outstanding long-term debt. On June 30, 2014, we commenced cash tender offers for up to \$600.0 million (which subsequently increased to \$610.0 million) aggregate principal amount of our outstanding 4.500 percent senior notes due 2021, 3.350 percent senior notes due 2022, 6.000 percent senior notes due 2035 and 6.200 percent senior notes due 2017. Additionally, we have agreed to repurchase \$80.0 million and \$210.0 million aggregate principal amount of our 3.790 percent senior notes due 2019 and our 4.520 percent senior notes due 2024, respectively. We also intend to call for redemption approximately \$100.0 million aggregate principal amount of our outstanding 7.125 percent debentures due 2016. Our ability to retire the long-term debt is dependent upon the acceptance of our tender offer, in addition to the closing of the Red Lobster sale.

From time to time, we enter into interest rate derivative instruments to manage interest rate risk inherent in our operations. See Note 10 to our consolidated financial statements in Part II, Item 8 of this report, incorporated herein by reference.

Through our shelf registration statement on file with the SEC, depending on conditions prevailing in the public capital markets, we may issue unsecured debt securities from time to time in one or more series, which may consist of notes, debentures or other evidences of indebtedness in one or more offerings.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

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A summary of our contractual obligations and commercial commitments at May 25, 2014, is as follows:

<i>(in millions)</i> Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Short-term debt	\$ 207.6	\$ 207.6	\$ —	\$ —	\$ —
Long-term debt ⁽¹⁾	3,697.0	133.8	361.2	922.1	2,279.9
Operating leases	1,233.8	204.7	368.0	285.9	375.2
Purchase obligations ⁽²⁾	526.1	501.6	24.5	—	—
Capital lease obligations ⁽³⁾	85.7	5.6	11.5	12.0	56.6
Benefit obligations ⁽⁴⁾	429.4	34.4	70.7	78.8	245.5
Unrecognized income tax benefits ⁽⁵⁾	20.3	9.0	5.8	5.5	—
Total contractual obligations	\$6,199.9	\$1,096.7	\$841.7	\$1,304.3	\$2,957.2

<i>(in millions)</i> Other Commercial Commitments	Amount of Commitment Expiration per Period				
	Total Amounts Committed	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Standby letters of credit ⁽⁶⁾	\$131.3	\$131.3	\$ —	\$ —	\$ —
Guarantees ⁽⁷⁾	3.4	1.2	1.5	0.5	0.2
Total commercial commitments	\$134.7	\$132.5	\$1.5	\$0.5	\$0.2

(1) Includes interest payments associated with existing long-term debt, including the current portion. Variable-rate interest payments associated with the term loan were estimated based on an average interest rate of 2.0 percent. Excludes issuance discount of \$5.2 million.

(2) Includes commitments for food and beverage items and supplies, capital projects, information technology and other miscellaneous commitments.

(3) Includes total imputed interest of \$31.4 million over the life of the capital lease obligations.

(4) Includes expected contributions associated with our defined benefit plans and payments associated with our postretirement benefit plan and our non-qualified deferred compensation plan through fiscal 2024.

(5) Includes interest on unrecognized income tax benefits of \$3.2 million, \$2.7 million of which relates to contingencies expected to be resolved within one year.

(6) Includes letters of credit for \$113.5 million of workers' compensation and general liabilities accrued in our consolidated financial statements, letters of credit for \$0.5 million of lease payments included in the contractual operating lease obligation payments noted above and other letters of credit totaling \$17.3 million.

(7) Consists solely of guarantees associated with leased properties that have been assigned to third parties. We are not aware of any non-performance under these arrangements that would result in our having to perform in accordance with the terms of the guarantees.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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Our fixed-charge coverage ratio, which measures the number of times each year that we earn enough to cover our fixed charges, amounted to 1.9 times and 2.5 times, on a continuing operations basis, for the fiscal years ended May 25, 2014 and May 26, 2013, respectively. Our adjusted debt to adjusted total capital ratio (which includes 6.25 times the total annual minimum rent on a consolidated basis of \$186.4 million and \$164.3 million for the fiscal years ended May 25, 2014 and May 26, 2013, respectively, as components of adjusted debt and adjusted total capital) was 65 percent as of May 25, 2014 and May 26, 2013. We include the lease-debt equivalent and contractual lease guarantees in our adjusted debt to adjusted total capital ratio reported to shareholders, as we believe its inclusion better represents the optimal capital structure that we target from period to period and because it is consistent with the calculation of the covenant under our Revolving Credit Agreement.

Based on these ratios, we believe our financial condition is strong. The composition of our capital structure is shown in the following table.

<i>(in millions, except ratios)</i>	May 25, 2014	May 26, 2013
CAPITAL STRUCTURE		
Short-term debt	\$ 207.6	\$ 164.5
Current portion long-term debt	15.0	—
Long-term debt, excluding unamortized discounts	2,486.6	2,501.9
Capital lease obligations	54.3	54.4
Total debt	\$2,763.5	\$2,720.8
Stockholders' equity	2,156.9	2,059.5
Total capital	\$4,920.4	\$4,780.3
CALCULATION OF ADJUSTED CAPITAL		
Total debt	\$2,763.5	\$2,720.8
Lease-debt equivalent	1,165.0	1,026.9
Guarantees	3.4	4.2
Adjusted debt	\$3,931.9	\$3,751.9
Stockholders' equity	2,156.9	2,059.5
Adjusted total capital	\$6,088.8	\$5,811.4
CAPITAL STRUCTURE RATIOS		
Debt to total capital ratio	56%	57%
Adjusted debt to adjusted total capital ratio	65%	65%

Net cash flows provided by operating activities from continuing operations were \$55.4 million, \$594.4 million and \$513.5 million in fiscal 2014, 2013 and 2012, respectively. Net cash flows provided by operating activities include net earnings from continuing operations of \$183.2 million, \$237.3 million and \$279.2 million in fiscal 2014, 2013 and 2012, respectively. Net cash flows provided by operating activities from continuing operations decreased in fiscal 2014 primarily due to lower net earnings, current period activity of taxable timing differences and the timing of inventory purchases. Net cash flows provided by operating activities reflect income tax payments of \$90.0 million, \$98.5 million and \$123.5 million in fiscal 2014, 2013 and 2012, respectively. The lower tax payments in fiscal 2014, as compared with tax payments in fiscal 2013 and 2012, primarily relates to the recognition of tax benefits related to the timing of deductions for fixed-asset related expenditures and the application of the overpayment of income taxes in prior years to fiscal 2014 tax liabilities.

Net cash flows used in investing activities from continuing operations were \$436.3 million, \$1.11 billion and \$539.1 million in fiscal 2014, 2013 and 2012, respectively. Net cash flows used in investing activities from continuing operations included capital expenditures incurred principally for building new restaurants, remodeling existing restaurants, replacing equipment, and technology initiatives. Capital expenditures related to continuing operations were \$414.8 million in fiscal 2014, compared to \$510.1 million in fiscal 2013 and \$457.6 million in fiscal 2012. The decreasing trend of expenditures from fiscal 2013 to fiscal 2014 results primarily from decreases in remodel and new restaurant activity. Additionally, net cash used in the acquisitions of Yard House in fiscal 2013 and Eddie V's in fiscal 2012 was \$577.4 million and \$58.5 million, respectively.

Net cash flows used in financing activities from continuing operations were \$179.2 million in fiscal 2014, compared to net cash flows provided by financing activities from continuing operations of \$355.4 million in fiscal 2013 and net cash flows used in financing activities from continuing operations of \$40.4 million in fiscal 2012. During fiscal 2013, we closed on the issuance of \$300.0 million of senior notes, received funding from a \$300.0 million term loan and completed the offering of \$450.0 million of senior notes, resulting in net proceeds of \$445.3 million, which were used to effectively refinance the \$350.0 million of long-term notes that we repaid at maturity during fiscal 2013. Repayments of long-term debt were \$0.0 million, \$355.9 million and \$2.1 million in fiscal 2014, 2013 and 2012, respectively. Net proceeds from the issuance of short-term debt were \$43.1 million in fiscal 2014 and \$77.2 million in fiscal 2012 while net repayments of short-term debt were \$98.1 million in fiscal 2013. For fiscal 2014, net cash flows used in financing activities included our repurchase of 9.9 thousand shares of our common stock for \$0.5 million, compared to 1.0 million shares of our common stock for \$52.4 million in fiscal 2013 and 8.2 million shares of our common stock for \$375.1 million in fiscal 2012. As of May 25, 2014, our Board of Directors had authorized us to repurchase up to 187.4 million shares of our common stock and a total of 171.9 million shares had been repurchased under the authorization. The repurchased common stock reduces stockholders' equity. As of May 25, 2014, our unused authorization was 15.5 million shares. We received proceeds primarily from the issuance of common stock upon the exercise of stock options of \$58.1 million, \$64.4 million and \$70.2 million in fiscal 2014, 2013 and 2012, respectively. Net cash flows used in financing activities also included dividends paid to stockholders of \$288.3 million, \$258.2 million and \$223.9 million in fiscal 2014, 2013 and 2012, respectively. The increase in dividend payments reflects the increase in our annual dividend rate from \$1.72 per share in fiscal 2012, to \$2.00 per share in fiscal 2013 and to \$2.20 per share in fiscal 2014. In June 2014, our Board of Directors approved a quarterly dividend of \$0.55 per share payable on August 1, 2014, which indicates an annual dividend of \$2.20 per share in fiscal 2015.

Our defined benefit and other postretirement benefit costs and liabilities are determined using various actuarial assumptions and methodologies prescribed under FASB ASC Topic 715, Compensation – Retirement Benefits and Topic 712, Compensation – Nonretirement Postemployment Benefits. We use certain assumptions including, but not limited to, the selection of a discount rate, expected long-term rate of return on plan assets and expected health care cost trend rates. We set the discount rate assumption annually for each plan at its valuation date to reflect the yield of high-quality fixed-income debt instruments, with lives that approximate the maturity of the plan benefits. At May 25, 2014, our discount rate was 4.4 percent and 4.5 percent, respectively, for our defined benefit and postretirement benefit plans. The expected long-term rate of return on plan assets and health care cost trend rates are based upon several factors, including our historical assumptions compared with actual results, an analysis of current market conditions, asset allocations and the views of leading financial advisers and economists. Our expected long-term rate of return on plan assets for our defined benefit plan was 8.0 percent for fiscal year 2014 and 9.0 percent for fiscal years 2013 and 2012. At May 25, 2014, the expected health care cost trend rate assumed for our postretirement benefit plan for fiscal 2015 was 6.8 percent. The rate gradually decreases to 5.0 percent through fiscal 2021 and remains at that level thereafter. We made plan contributions of approximately \$0.4 million, \$2.4 million and \$22.2 million in fiscal years 2014, 2013 and 2012, respectively.

In the current year, we reduced our expected rate of return for investment of pension plan assets from 9.0 percent to 8.0 percent in connection with our current expectations for long-term returns and target asset fund allocation. The expected long-term rate of return on plan assets component of our net periodic benefit cost is calculated based on the market-related value of plan assets. Currently, our target asset fund allocation is 37.0 percent U.S. equities, 40.0 percent high-quality, long-duration fixed-income securities, 18.5 percent international equities and 4.5 percent real estate securities. Prior to fiscal 2014, our target asset fund allocation was 40.0 percent U.S. equities, 35.0 percent high-quality, long-duration fixed-income securities, 20.0 percent international equities and 5.0 percent real estate securities. We monitor our actual asset fund allocation to ensure that it approximates our target allocation and believe that our long-term asset fund allocation will continue to approximate our target allocation. In developing our expected rate of return assumption, we have evaluated the actual historical performance and long-term return projections of the plan assets, which give consideration to the asset mix and the anticipated timing of the pension plan outflows. We employ a total return investment approach whereby a mix of equity and fixed income investments are used to maximize the long-term return of plan assets for what we consider a prudent level of risk. Our historical 10-year, 15-year and 20-year rates of return on plan assets, calculated using the geometric method average of returns, are approximately 9.3 percent, 8.4 percent and 9.9 percent, respectively, as of May 25, 2014.

We have recognized net actuarial losses, net of tax, as a component of accumulated other comprehensive income (loss) for the defined benefit plans and postretirement benefit plan as of May 25, 2014 of \$64.0 million and \$5.8 million, respectively. These net actuarial losses represent changes in the amount of the projected benefit obligation and plan assets resulting from differences in the assumptions used and actual experience. The amortization of the net actuarial loss component of our fiscal 2015 net periodic benefit cost for the defined benefit plans and postretirement benefit plan is expected to be approximately \$2.6 million and \$0.5 million, respectively.

We believe our defined benefit and postretirement benefit plan assumptions are appropriate based upon the factors discussed above. However, other assumptions could also be reasonably applied that could differ from the assumptions used. A quarter-percentage point change in the defined benefit plans' discount rate and the expected long-term rate of return on plan assets would increase or decrease earnings before income taxes by \$0.6 million and \$0.5 million, respectively. A quarter-percentage point change in our postretirement benefit plan discount rate would increase or decrease earnings before income taxes by \$0.1 million. A one-percentage point increase in the health care cost trend rates would increase the accumulated postretirement benefit obligation (APBO) by \$7.4 million at May 25, 2014 and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost by \$0.5 million for fiscal 2014. A one-percentage point decrease in the health care cost trend rates would decrease the APBO by \$5.9 million at May 25, 2014 and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost by \$0.4 million for fiscal 2014. These changes in assumptions would not significantly impact our funding requirements. We expect to contribute approximately \$0.4 million to our defined benefit pension plans and approximately \$1.1 million to our postretirement benefit plan during fiscal 2015.

Other than the pending sale of Red Lobster and related retirement of debt, which we expect will enhance our capital structure, we are not aware of any trends or events that would materially affect our capital requirements or liquidity. We believe that our internal cash-generating capabilities, the potential issuance of unsecured debt securities under our shelf registration statement and short-term commercial paper should be sufficient to finance our capital expenditures, debt maturities, stock repurchase program and other operating activities through fiscal 2015.

OFF-BALANCE SHEET ARRANGEMENTS

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 or expenses, results of operations, liquidity, capital expenditures or capital resources.

FINANCIAL CONDITION

Our total current assets were \$1.98 billion at May 25, 2014, compared with \$764.9 million at May 26, 2013. The increase was primarily due to the increase in assets held for sale as a result of the pending sale of Red Lobster.

Our total current liabilities were \$1.62 billion at May 25, 2014, compared with \$1.42 billion at May 26, 2013. The increase was primarily due to the increase in liabilities associated with assets held for sale as a result of the pending sale of Red Lobster, an increase in short-term debt and an increase in unearned revenues associated with gift card sales in excess of current-period redemptions.

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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 and foreign currency exchange instruments, equity forwards and commodity instruments for other than trading purposes (see Notes 1 and 10 to our consolidated financial statements, in Part II, Item 8 of this report, incorporated herein by reference).

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. At May 25, 2014, our potential losses in future net earnings resulting from changes in foreign currency exchange rate instruments, commodity instruments, equity forwards and floating rate debt interest rate exposures were approximately \$41.3 million over a period of one year (including the impact of the interest rate swap agreements discussed in Note 10 to our consolidated financial statements in Part II, Item 8 of this report, incorporated herein by reference). 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 \$151.3 million. The fair value of our long-term debt during fiscal 2014 averaged \$2.54 billion, with a high of \$2.66 billion and a low of \$2.46 billion. 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.

APPLICATION OF NEW ACCOUNTING STANDARDS

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This update is effective for annual and interim periods beginning after December 15, 2016, which will require us to adopt these provisions in the first quarter of fiscal 2018. Early application is not permitted. This update permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect this guidance will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360), *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This update modifies the requirements for reporting discontinued operations. Under the amendments in ASU 2014-08, the definition of discontinued operation has been modified to only include those disposals of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. This update also expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. This update is effective for annual and interim periods beginning after December 15, 2014, which will require us to adopt these provisions in the first quarter of fiscal 2016. We are evaluating the effect this guidance will have on our consolidated financial statements and related disclosures.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740), *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The objective of this update is to eliminate the diversity in practice in the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Under this guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain circumstances. This update does not require any new recurring disclosures and is effective for annual and interim periods beginning after December 15, 2013, which will require us to adopt these provisions in the first quarter of fiscal 2015. We do not believe adoption of this new guidance will have a significant impact on our consolidated financial statements.

FORWARD-LOOKING STATEMENTS

Statements set forth in or incorporated into this report regarding the expected net increase in the number of our restaurants, U.S. same-restaurant sales, total sales growth, diluted net earnings per share growth, and capital expenditures in fiscal 2015, and all other statements that are not historical facts, including without limitation statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of Darden Restaurants, Inc. and its subsidiaries that are preceded by, followed by or that include words such as "may," "will," "expect," "intend," "anticipate," "continue," "estimate," "project," "believe," "plan" or similar expressions, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 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 25, 2014, which are summarized as follows:

- Our ability to achieve the strategic plan to enhance shareholder value, including the sale of Red Lobster;
- Our ability to respond to actions by activist shareholders, which can be costly and time-consuming, disrupt our operations and divert the attention of our management;
- Any potential proxy contest for the election of directors at our annual meeting, which could distract our management, divert our resources and, absent Board action, trigger a change of control under our indebtedness;
- Food safety and food-borne illness concerns throughout the supply chain;
- Litigation, including allegations of illegal, unfair or inconsistent employment practices;
- Unfavorable publicity, or a failure to respond effectively to adverse publicity;
- Risks relating to public policy changes and federal, state and local regulation of our business, including in the areas of health care reform, environmental matters, minimum wage, unionization, data privacy, menu labeling, immigration requirements and taxes;
- Labor and insurance costs;
- 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;
- 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;
- Health concerns arising from food-related pandemics, outbreaks of flu viruses or other diseases;
- Intense competition, or an insufficient focus on competition and the consumer landscape;
- 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;
- Our plans to expand our smaller brands Bahama Breeze, Seasons 52 and Eddie V's, and the testing of other new business ventures, that have not yet proven their long-term viability;
- 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 customer relationship tactics, ineffective or improper use of social media or other marketing initiatives, and increased advertising and marketing costs;
- A failure to recruit, develop and retain effective leaders or the loss or shortage of key personnel, or an inability to adequately monitor and respond to employee dissatisfaction;
- A failure to address cost pressures, including rising costs for commodities, 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 use to hedge commodity prices;
- Economic and business factors specific to the restaurant industry and other general macroeconomic factors including unemployment, 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 and increase pension plan expenses;
- Risks associated with doing business with franchisees, 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;
- A failure of our internal controls over financial reporting and future changes in accounting standards; and
- An inability or failure to recognize, respond to and effectively manage the accelerated impact of social media.

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.

Report of Management's Responsibilities and Management's Report on Internal Control Over Financial Reporting

Darden

REPORT OF MANAGEMENT'S RESPONSIBILITIES

The management of Darden Restaurants, Inc. is responsible for the fairness and accuracy of the consolidated financial statements. The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, using management's best estimates and judgments where appropriate. The financial information throughout this report is consistent with our consolidated financial statements.

Management has established a system of internal controls over financial reporting that provides reasonable assurance that assets are adequately safeguarded and transactions are recorded accurately, in all material respects, in accordance with management's authorization. Our internal controls provide for appropriate segregation of duties and responsibilities and there are documented policies regarding utilization of our assets and proper financial reporting. These formally stated and regularly communicated policies set high standards of ethical conduct for all employees. We also maintain a strong audit program that independently evaluates the adequacy of the design and effectiveness of these internal controls.

The Audit Committee of the Board of Directors meets at least quarterly to determine that management, internal auditors and the independent registered public accounting firm are properly discharging their duties regarding internal control and financial reporting. The independent registered public accounting firm, internal auditors and employees have full and free access to the Audit Committee at any time.

KPMG LLP, an independent registered public accounting firm, is retained to audit our consolidated financial statements and the effectiveness of our internal control over financial reporting. Their reports follow.



Clarence Otis, Jr.
Chairman of the Board and Chief Executive Officer

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of May 25, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework (1992)*. Management has concluded that, as of May 25, 2014, the Company's internal control over financial reporting was effective based on these criteria.

The Company's independent registered public accounting firm KPMG LLP, has issued an audit report on the effectiveness of our internal control over financial reporting, which follows.

**The Board of Directors and Stockholders
Darden Restaurants, Inc.:**

We have audited Darden Restaurants, Inc.'s internal control over financial reporting as of May 25, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Darden Restaurants, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Darden Restaurants, Inc. maintained, in all material respects, effective internal control over financial reporting as of May 25, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Darden Restaurants, Inc. and subsidiaries as of May 25, 2014 and May 26, 2013, and the related consolidated statements of earnings, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended May 25, 2014, and our report dated July 18, 2014 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Orlando, Florida
July 18, 2014
Certified Public Accountants

Darden

**The Board of Directors and Stockholders
Darden Restaurants, Inc.:**

We have audited the accompanying consolidated balance sheets of Darden Restaurants, Inc. and subsidiaries as of May 25, 2014 and May 26, 2013, and the related consolidated statements of earnings, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended May 25, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Darden Restaurants, Inc. and subsidiaries as of May 25, 2014 and May 26, 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended May 25, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Darden Restaurants, Inc.'s internal control over financial reporting as of May 25, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated July 18, 2014 expressed an unqualified opinion on the effectiveness of Darden Restaurants, Inc.'s internal control over financial reporting.

KPMG LLP

Orlando, Florida
July 18, 2014
Certified Public Accountants

Consolidated Statements of Earnings

Darden

<i>(in millions, except per share data)</i>	Fiscal Year Ended		
	May 25, 2014	May 26, 2013	May 27, 2012
Sales	\$6,285.6	\$5,921.0	\$5,327.1
Costs and expenses:			
Cost of sales:			
Food and beverage	1,892.2	1,743.6	1,553.7
Restaurant labor	2,017.6	1,892.6	1,683.6
Restaurant expenses	1,080.7	980.4	851.0
Total cost of sales, excluding restaurant depreciation and amortization of \$282.3, \$257.5 and \$219.3, respectively	\$4,990.5	\$4,616.6	\$4,088.3
Selling, general and administrative	663.5	625.4	540.1
Depreciation and amortization	304.4	278.3	241.3
Interest, net	134.3	126.0	102.1
Asset impairment, net	18.3	0.7	0.2
Total costs and expenses	\$6,111.0	\$5,647.0	\$4,972.0
Earnings before income taxes	174.6	274.0	355.1
Income taxes	(8.6)	36.7	75.9
Earnings from continuing operations	\$ 183.2	\$ 237.3	\$ 279.2
Earnings from discontinued operations, net of tax expense of \$32.3, \$72.7 and \$84.9, respectively	103.0	174.6	196.3
Net earnings	\$ 286.2	\$ 411.9	\$ 475.5
Basic net earnings per share:			
Earnings from continuing operations	\$ 1.40	\$ 1.84	\$ 2.15
Earnings from discontinued operations	0.78	1.35	1.50
Net earnings	\$ 2.18	\$ 3.19	\$ 3.65
Diluted net earnings per share:			
Earnings from continuing operations	\$ 1.38	\$ 1.80	\$ 2.10
Earnings from discontinued operations	0.77	1.33	1.47
Net earnings	\$ 2.15	\$ 3.13	\$ 3.57
Average number of common shares outstanding:			
Basic	131.0	129.0	130.1
Diluted	133.2	131.6	133.2
Dividends declared per common share	\$ 2.20	\$ 2.00	\$ 1.72

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

<i>(in millions)</i>	Fiscal Year Ended		
	May 25, 2014	May 26, 2013	May 27, 2012
Net earnings	\$286.2	\$411.9	\$475.5
Other comprehensive income (loss):			
Foreign currency adjustment	(2.9)	(0.2)	(1.2)
Change in fair value of marketable securities, net of taxes of \$0.0, \$(0.1) and \$(0.1), respectively	(0.1)	(0.2)	(0.1)
Change in fair value of derivatives and amortization of unrecognized gains and losses on derivatives, net of taxes of \$3.9, \$(0.6) and \$(27.8), respectively	3.4	(4.1)	(45.6)
Net unamortized gain (loss) arising during period, including amortization of unrecognized net actuarial loss, net of taxes of \$2.9, \$11.3 and \$(24.8), respectively	4.3	18.3	(39.9)
Other comprehensive income (loss)	\$ 4.7	\$ 13.8	\$ (86.8)
Total comprehensive income	\$290.9	\$425.7	\$388.7

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Darden

<i>(in millions)</i>	May 25, 2014	May 26, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 98.3	\$ 88.2
Receivables, net	83.8	85.4
Inventories	196.8	356.9
Prepaid income taxes	10.9	6.4
Prepaid expenses and other current assets	72.3	83.4
Deferred income taxes	124.0	144.6
Assets held for sale	1,390.3	—
Total current assets	\$1,976.4	\$ 764.9
Land, buildings and equipment, net	3,381.0	4,391.1
Goodwill	872.5	908.3
Trademarks	574.6	573.8
Other assets	296.2	298.8
Total assets	\$7,100.7	\$6,936.9
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 233.1	\$ 296.5
Short-term debt	207.6	164.5
Accrued payroll	125.7	150.5
Accrued income taxes	—	16.5
Other accrued taxes	64.5	67.6
Unearned revenues	299.7	270.5
Current portion of long-term debt	15.0	—
Other current liabilities	457.4	450.3
Liabilities associated with assets held for sale	215.5	—
Total current liabilities	\$1,618.5	\$1,416.4
Long-term debt, less current portion	2,481.4	2,496.2
Deferred income taxes	286.1	356.4
Deferred rent	206.2	230.5
Obligations under capital leases, net of current installments	52.0	52.5
Other liabilities	299.6	325.4
Total liabilities	\$4,943.8	\$4,877.4
Stockholders' equity:		
Common stock and surplus, no par value. Authorized 500.0 shares; issued 133.6 and 131.6 shares, respectively; outstanding 132.3 and 130.3 shares, respectively	1,302.2	1,207.6
Preferred stock, no par value. Authorized 25.0 shares; none issued and outstanding	—	—
Retained earnings	995.8	998.9
Treasury stock, 1.3 and 1.3 shares, at cost, respectively	(7.8)	(8.1)
Accumulated other comprehensive income (loss)	(128.1)	(132.8)
Unearned compensation	(5.2)	(6.1)
Total stockholders' equity	\$2,156.9	\$2,059.5
Total liabilities and stockholders' equity	\$7,100.7	\$6,936.9

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

Darden

<i>(in millions, except per share data)</i>	Common Stock and Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total Stockholders' Equity
Balances at May 29, 2011	\$ 2,408.8	\$ 2,921.9	\$(3,325.3)	\$ (59.8)	\$(9.4)	\$1,936.2
Net earnings	–	475.5	–	–	–	475.5
Other comprehensive income	–	–	–	(86.8)	–	(86.8)
Dividends declared (\$1.72 per share)	–	(224.6)	–	–	–	(224.6)
Stock option exercises (2.2 shares)	59.4	–	3.5	–	–	62.9
Stock-based compensation	26.5	–	–	–	–	26.5
ESOP note receivable repayments	–	–	–	–	2.1	2.1
Income tax benefits credited to equity	17.9	–	–	–	–	17.9
Repurchases of common stock (8.2 shares)	–	–	(375.1)	–	–	(375.1)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (0.2 shares)	6.2	–	1.1	–	0.1	7.4
Balances at May 27, 2012	\$ 2,518.8	\$ 3,172.8	\$(3,695.8)	\$(146.6)	\$(7.2)	\$1,842.0
Net earnings	–	411.9	–	–	–	411.9
Other comprehensive income	–	–	–	13.8	–	13.8
Dividends declared (\$2.00 per share)	0.4	(259.6)	–	–	–	(259.2)
Stock option exercises (2.0 shares)	55.2	–	1.8	–	–	57.0
Stock-based compensation	24.3	–	–	–	–	24.3
ESOP note receivable repayments	–	–	–	–	1.1	1.1
Income tax benefits credited to equity	13.6	–	–	–	–	13.6
Repurchases of common stock (1.0 shares)	–	(0.1)	(52.3)	–	–	(52.4)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (0.2 shares)	6.7	–	0.7	–	–	7.4
Treasury shares retirement (159.3 shares)	(1,411.4)	(2,326.1)	3,737.5	–	–	–
Balances at May 26, 2013	\$ 1,207.6	\$ 998.9	\$ (8.1)	\$(132.8)	\$(6.1)	\$2,059.5
Net earnings	–	286.2	–	–	–	286.2
Other comprehensive income	–	–	–	4.7	–	4.7
Dividends declared (\$2.20 per share)	–	(288.9)	–	–	–	(288.9)
Stock option exercises (1.8 shares)	50.6	–	0.3	–	–	50.9
Stock-based compensation	26.0	–	–	–	–	26.0
ESOP note receivable repayments	–	–	–	–	0.9	0.9
Income tax benefits credited to equity	10.9	–	–	–	–	10.9
Repurchases of common stock (0.0 shares)	(0.1)	(0.4)	–	–	–	(0.5)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (0.2 shares)	7.2	–	–	–	–	7.2
Balances at May 25, 2014	\$ 1,302.2	\$ 995.8	\$ (7.8)	\$(128.1)	\$(5.2)	\$2,156.9

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Darden

(in millions)	Fiscal Year Ended		
	May 25, 2014	May 26, 2013	May 27, 2012
Cash flows – operating activities			
Net earnings	\$ 286.2	\$ 411.9	\$ 475.5
Earnings from discontinued operations, net of tax	(103.0)	(174.6)	(196.3)
Adjustments to reconcile net earnings from continuing operations to cash flows:			
Depreciation and amortization	304.4	278.3	241.3
Asset impairment charges, net	18.3	0.7	0.2
Amortization of loan costs	13.8	13.0	6.7
Stock-based compensation expense	38.7	40.0	46.7
Change in current assets and liabilities	0.6	(18.0)	(122.4)
Contributions to pension and postretirement plan	(1.4)	(3.2)	(22.7)
Loss on disposal of land, buildings and equipment	2.8	5.0	3.5
Change in cash surrender value of trust-owned life insurance	(12.2)	(16.8)	4.1
Deferred income taxes	(44.9)	(0.4)	38.1
Change in deferred rent	29.5	25.6	17.2
Change in other assets and liabilities	18.9	24.0	15.8
Income tax benefits from exercise of stock-based compensation credited to goodwill	0.2	0.1	0.6
Other, net	3.5	8.8	5.2
Net cash provided by operating activities of continuing operations	\$ 555.4	\$ 594.4	\$ 513.5
Cash flows – investing activities			
Purchases of land, buildings and equipment	(414.8)	(510.1)	(457.6)
Proceeds from disposal of land, buildings and equipment	4.4	0.3	3.1
Purchases of marketable securities	(3.0)	(12.9)	(32.1)
Proceeds from sale of marketable securities	8.7	26.0	21.3
Cash used in business acquisitions, net of cash acquired	–	(577.4)	(58.5)
Increase in other assets	(31.6)	(40.5)	(15.3)
Net cash used in investing activities of continuing operations	\$ (436.3)	\$(1,114.6)	\$ (539.1)
Cash flows – financing activities			
Proceeds from issuance of common stock	58.1	64.4	70.2
Income tax benefits credited to equity	10.9	13.6	17.9
Dividends paid	(288.3)	(258.2)	(223.9)
Purchases of common stock	(0.5)	(52.4)	(375.1)
ESOP note receivable repayments	0.9	1.1	2.1
Proceeds from issuance of short-term debt	2,616.3	2,670.3	2,321.0
Repayments of short-term debt	(2,573.2)	(2,768.4)	(2,243.8)
Repayments of long-term debt	–	(355.9)	(2.1)
Proceeds from issuance of long-term debt	–	1,050.0	400.0
Payment of debt issuance costs	(1.4)	(7.4)	(5.1)
Principal payments on capital leases	(2.0)	(1.7)	(1.6)
Net cash (used in) provided by financing activities of continuing operations	\$ (179.2)	\$ 355.4	\$ (40.4)
Cash flows – discontinued operations			
Net cash provided by operating activities of discontinued operations	214.7	354.9	248.2
Net cash used in investing activities of discontinued operations	(144.5)	(172.4)	(182.2)
Net cash provided by discontinued operations	\$ 70.2	\$ 182.5	\$ 66.0
Increase in cash and cash equivalents	10.1	17.7	–
Cash and cash equivalents – beginning of year	88.2	70.5	70.5
Cash and cash equivalents – end of year	\$ 98.3	\$ 88.2	\$ 70.5
Cash flows from changes in current assets and liabilities			
Receivables, net	\$ (1.5)	\$ (11.1)	\$ (10.7)
Inventories	(25.6)	(1.8)	(53.4)
Prepaid expenses and other current assets	0.5	(11.1)	(2.6)
Accounts payable	27.2	4.4	10.0
Accrued payroll	7.5	(5.9)	(8.3)
Prepaid/accrued income taxes	(21.0)	22.5	(16.3)
Other accrued taxes	–	7.7	(3.3)
Unearned revenues	28.8	33.9	25.7
Other current liabilities	(15.3)	(56.6)	(63.5)
Change in current assets and liabilities	\$ 0.6	\$ (18.0)	\$ (122.4)
Supplemental schedule of noncash investing activities:			
Increase in land, buildings and equipment through accrued purchases	\$ 24.4	\$ 42.2	\$ 34.7

See accompanying notes to consolidated financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the operations of Darden Restaurants, Inc. and its wholly owned subsidiaries (Darden, the Company, we, us or our). We own and operate the Olive Garden®, Red Lobster®, LongHorn Steakhouse®, The Capital Grille®, Yard House®, Bahama Breeze®, Seasons 52®, Eddie V's Prime Seafood® and Wildfish Seafood Grille® restaurant brands located in the United States and Canada. Through subsidiaries, we own and operate all of our restaurants in the United States and Canada, except for three restaurants located in Central Florida and three restaurants in California that are owned jointly by us and third parties, and managed by us, one franchised restaurant in Atlanta and seven franchised restaurants in Puerto Rico. We also have area development and franchise agreements with unaffiliated operators to develop and operate our brands in Asia, the Middle East and Latin America. Pursuant to these agreements, as of May 25, 2014, 45 franchised restaurants were in operation in Japan, the Middle East, Mexico, Brazil and Peru. All significant inter-company balances and transactions have been eliminated in consolidation.

BASIS OF PRESENTATION

On May 15, 2014, we entered into an agreement to sell Red Lobster and certain related assets and associated liabilities for \$2.11 billion in cash and we expect the transaction to close in the first quarter of fiscal 2015. These assets and liabilities are classified as held for sale on our consolidated balance sheet as of May 25, 2014. Additionally, in the fourth quarter of fiscal 2014, in connection with the sale of Red Lobster, we closed two restaurants that housed both a Red Lobster and an Olive Garden in the same building (synergy restaurants). We have classified the results of operations and impairment charges of the Red Lobster business and the two closed synergy restaurants as discontinued operations in our consolidated statements of earnings and cash flows for all periods presented. No amounts for shared general and administrative operating support expense or interest expense were allocated to discontinued operations.

During fiscal 2007 and 2008, we closed or sold all of our Smokey Bones Barbeque & Grill (Smokey Bones) and Rocky River Grillhouse restaurants and we closed nine Bahama Breeze restaurants. These restaurants and their related activities have been classified as discontinued operations. Therefore, for fiscal 2014, 2013 and 2012, all impairment losses and disposal costs, gains and losses on disposition attributable to these restaurants have been aggregated in a single caption entitled "Earnings from discontinued operations, net of tax benefit" in the accompanying consolidated statements of earnings.

Unless otherwise noted, amounts and disclosures throughout these notes to consolidated financial statements relate to our continuing operations.

FISCAL YEAR

We operate on a 52/53 week fiscal year, which ends on the last Sunday in May. Fiscal 2014, 2013 and 2012 consisted of 52 weeks of operation.

USE OF 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 and expenses during the reporting period. Actual results could differ from those estimates.

CASH EQUIVALENTS

Cash equivalents include highly liquid investments such as U.S. Treasury bills, taxable municipal bonds and money market funds that have an original maturity of three months or less. Amounts receivable from credit card companies are also considered cash equivalents because they are both short term and highly liquid in nature and are typically converted to cash within three days of the sales transaction.

RECEIVABLES, NET

Receivables, net of the allowance for doubtful accounts, represent their estimated net realizable value. Provisions for doubtful accounts are recorded based on historical collection experience and the age of the receivables. Receivables are written off when they are deemed uncollectible. See Note 3 – Receivables, Net for additional information.

INVENTORIES

Inventories consist of food and beverages and are valued at the lower of weighted-average cost or market.

MARKETABLE SECURITIES

Available-for-sale securities are carried at fair value. Classification of marketable securities as current or noncurrent is dependent upon management's intended holding period, the security's maturity date, or both. Unrealized gains and losses, net of tax, on available-for-sale securities are carried in accumulated other comprehensive income (loss) within the consolidated financial statements and are reclassified into earnings when the securities mature or are sold.

Notes to Consolidated Financial Statements

Darden

LAND, BUILDINGS AND EQUIPMENT, NET

Land, buildings and equipment are recorded at cost less accumulated depreciation. Building components are depreciated over estimated useful lives ranging from 7 to 40 years using the straight-line method. Leasehold improvements, which are reflected on our consolidated balance sheets as a component of buildings in land, buildings and equipment, net, are amortized over the lesser of the expected lease term, including cancelable option periods, or the estimated useful lives of the related assets using the straight-line method. Equipment is depreciated over estimated useful lives ranging from 2 to 10 years also using the straight-line method. See Note 5 – Land, Buildings and Equipment, Net for additional information. Gains and losses on the disposal of land, buildings and equipment are included in selling, general and administrative expenses in our accompanying consolidated statements of earnings. Depreciation and amortization expense from continuing operations associated with buildings and equipment and losses on disposal of land, buildings and equipment were as follows:

<i>(in millions)</i>	Fiscal Year		
	2014	2013	2012
Depreciation and amortization on buildings and equipment	\$296.3	\$271.0	\$233.1
Losses on disposal of land, buildings and equipment	2.8	5.0	3.5

CAPITALIZED SOFTWARE COSTS AND OTHER DEFINITE-LIVED INTANGIBLES

Capitalized software, which is a component of other assets, is recorded at cost less accumulated amortization. Capitalized software is amortized using the straight-line method over estimated useful lives ranging from 3 to 10 years. The cost of capitalized software and related accumulated amortization was as follows:

<i>(in millions)</i>	May 25, 2014	May 26, 2013
Capitalized software	\$132.6	\$107.9
Accumulated amortization	(70.9)	(67.5)
Capitalized software, net of accumulated amortization	\$ 61.7	\$ 40.4

We have other definite-lived intangible assets, including assets related to the value of below-market leases resulting from our acquisitions, that are included as a component of other assets on our consolidated balance sheets. We also have definite-lived intangible liabilities related to the value of above-market leases resulting from our acquisitions, that are included in other liabilities on our consolidated balance sheets. Definite-lived intangibles are amortized on a straight-line basis over estimated useful lives of 1 to 20 years. The cost and related accumulated amortization was as follows:

<i>(in millions)</i>	May 25, 2014	May 26, 2013
Other definite-lived intangibles	\$15.5	\$19.1
Accumulated amortization	(6.3)	(7.6)
Other definite-lived intangible assets, net of accumulated amortization	\$ 9.2	\$11.5

<i>(in millions)</i>	May 25, 2014	May 26, 2013
Below-market leases	\$29.2	\$29.2
Accumulated amortization	(9.6)	(7.8)
Below-market leases, net of accumulated amortization	\$19.6	\$21.4

<i>(in millions)</i>	May 25, 2014	May 26, 2013
Above-market leases	\$(21.4)	\$(21.4)
Accumulated amortization	4.9	3.5
Above-market leases, net of accumulated amortization	\$(16.5)	\$(17.9)

Amortization expense from continuing operations associated with capitalized software and other definite-lived intangibles included in depreciation and amortization in our accompanying consolidated statements of earnings was as follows:

<i>(in millions)</i>	Fiscal Year		
	2014	2013	2012
Amortization expense – capitalized software	\$7.0	\$6.3	\$7.7
Amortization expense – other definite-lived intangibles	1.1	1.0	0.5

Amortization expense from continuing operations associated with above- and below-market leases included in restaurant expenses as a component of rent expense in our consolidated statements of earnings was as follows:

<i>(in millions)</i>	Fiscal Year		
	2014	2013	2012
Restaurant expense – below-market leases	\$ 1.8	\$ 1.8	\$ 1.8
Restaurant expense – above-market leases	(1.4)	(1.2)	(0.5)

Amortization of capitalized software and other definite-lived intangible assets will be approximately \$9.9 million annually for fiscal 2015 through 2019.

TRUST-OWNED LIFE INSURANCE

We have a trust that purchased life insurance policies covering certain of our officers and other key employees (trust-owned life insurance or TOLI). The trust is the owner and sole beneficiary of the TOLI policies. The policies were purchased to offset a portion of our obligations under our non-qualified deferred compensation plan. The cash surrender value for each policy is included in other assets while changes in cash surrender values are included in selling, general and administrative expenses.

LIQUOR LICENSES

The costs of obtaining non-transferable liquor licenses that are directly issued by local government agencies for nominal fees are expensed as incurred. The costs of purchasing transferable liquor licenses through open markets in jurisdictions with a limited number of authorized liquor licenses are capitalized as indefinite-lived intangible assets and included in other assets. Liquor licenses are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Annual liquor license renewal fees are expensed over the renewal term.

GOODWILL AND TRADEMARKS

We review our goodwill and trademarks for impairment annually, as of the first day of our fourth fiscal quarter or more frequently if indicators of impairment exist. Goodwill and trademarks are not subject to amortization and have been assigned to reporting units for purposes of impairment testing. The reporting units are our restaurant brands. Our goodwill and trademark balances are allocated as follows:

<i>(in millions)</i>	May 25, 2014	May 26, 2013
Goodwill:		
The Capital Grille	\$401.7	\$401.7
LongHorn Steakhouse	49.4	49.5
Olive Garden ⁽¹⁾	30.2	30.2
Red Lobster ^{(1) (2)}	—	35.0
Eddie V's	22.0	22.1
Yard House	369.2	369.8
Total Goodwill	\$872.5	\$908.3
Trademarks:		
The Capital Grille	\$147.0	\$147.0
LongHorn Steakhouse	307.8	307.0
Eddie V's	10.5	10.5
Yard House	109.3	109.3
Total Trademarks	\$574.6	\$573.8

(1) Goodwill related to Olive Garden and Red Lobster is associated with the RARE Hospitality International, Inc. (RARE) acquisition and the direct benefits derived by Olive Garden and Red Lobster as a result of the RARE acquisition.

(2) Goodwill related to Red Lobster was reclassified as assets held for sale on our consolidated balance sheet as of May 25, 2014. Based on a comparison of the expected sale proceeds of \$2.11 billion and the net book value of the related assets and liabilities held for sale of \$1.17 billion, there was no indication of impairment of goodwill related to Red Lobster. See Note 2 – Discontinued Operations for additional information.

A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others: a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; the testing for recoverability of a significant asset group within a reporting unit; and slower growth rates. Any adverse change in these factors could have a significant impact on the recoverability of these assets and could have a material impact on our consolidated financial statements.

The goodwill impairment test involves a two-step process. The first step is a comparison of each reporting unit's fair value to its carrying value. We estimate fair value using the best information available, including market information and discounted cash flow projections (also referred to as the income approach). The income approach uses a reporting unit's projection of estimated operating results and cash flows that is discounted using a weighted-average cost of capital that reflects current market conditions. The projection uses management's best estimates of economic and market conditions over the projected period including growth rates in sales, costs and number of units, estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements. We validate our estimates of fair value under the income approach by comparing the values to fair value estimates using a market approach. A market approach estimates fair value by applying cash flow and sales multiples to the reporting unit's operating performance. The multiples are derived from comparable publicly traded companies with similar operating and investment characteristics of the reporting units. If the fair value of the reporting unit is higher than its carrying value, goodwill is deemed not to be impaired, and no further testing is required. If the carrying value of the reporting unit is higher than its fair value, there is an indication that impairment may exist and the second step must be performed to measure the amount of impairment loss. The amount of impairment is determined by comparing the implied fair value of reporting unit goodwill to the carrying value of the goodwill in the same manner as if the reporting unit was being acquired in a business combination. Specifically, fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, we would record an impairment loss for the difference.

Consistent with our accounting policy for goodwill and trademarks we performed our annual impairment test of our goodwill and trademarks as of the first day of our fiscal 2014 fourth quarter. As of the beginning of our fiscal fourth quarter, we had eight reporting units, six of which had goodwill: Red Lobster, Olive Garden, LongHorn Steakhouse, The Capital Grille, Eddie V's and Yard House. As part of our process for performing the step one impairment test of goodwill, we estimated the fair value of our reporting units utilizing the income and market approaches described above to derive an enterprise value of the Company. We reconciled the enterprise value to our overall estimated market capitalization. The estimated market capitalization considers recent trends in our market capitalization and an expected control premium, based on comparable recent and historical transactions. Based on the results of the step one impairment test, no impairment of goodwill was indicated for any of our brands.

The fair value of trademarks are estimated and compared to the carrying value. We estimate the fair value of trademarks using the relief-from-royalty method, which requires assumptions related to projected sales from our annual long-range plan; assumed royalty rates that could be payable if we did not own the trademarks; and a discount rate. We recognize an impairment loss when the estimated fair value of the trademarks is less than carrying value. We completed our impairment test and concluded as of the date of the test, there was no impairment of the trademarks for LongHorn Steakhouse, The Capital Grille, Eddie V's and Yard House.

We determined that there was no goodwill or trademark impairment as of the first day of our fourth fiscal quarter and no additional indicators of impairment were identified through the end of our fourth fiscal quarter that would require us to test further for impairment. However, declines in our market capitalization (reflected in our stock price) as well as in the market capitalization of other companies in the restaurant industry, declines in sales at our restaurants, and significant adverse changes in the operating environment for the restaurant industry may result in future impairment.

Changes in circumstances, existing at the measurement date or at other times in the future, or in the numerous estimates associated with management's judgments and assumptions made in assessing the fair value of our goodwill, could result in an impairment loss of a portion or all of our goodwill or trademarks. If we recorded an impairment loss, our financial position and results of operations would be adversely affected and our leverage ratio for purposes of our credit agreement would increase. A leverage ratio exceeding the maximum permitted under our credit agreement would be a default under our credit agreement. At May 25, 2014, a write down of goodwill, other indefinite-lived intangible assets, or any other assets in excess of approximately \$850.0 million 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.

We evaluate the useful lives of our other intangible assets, to determine if they are definite or indefinite-lived. A determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, demand, competition, other economic factors (such as the stability of the industry, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures, and the expected lives of other related groups of assets.

IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS

Land, buildings and equipment and certain other assets, including definite-lived intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the assets. Identifiable cash flows are measured at the lowest level for which they are largely independent of the cash flows of other groups of assets and liabilities,

generally at the restaurant level. If such assets are determined to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Fair value is generally determined based on appraisals or sales prices of comparable assets. Restaurant sites and certain other assets to be disposed of are reported at the lower of their carrying amount or fair value, less estimated costs to sell. Restaurant sites and certain other assets to be disposed of are included in assets held for disposal within prepaid expenses and other current assets in our consolidated balance sheets when certain criteria are met. These criteria include the requirement that the likelihood of disposing of these assets within one year is probable. Assets not meeting the "held for sale" criteria remain in land, buildings and equipment until their disposal is probable within one year.

We account for exit or disposal activities, including restaurant closures, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 420, Exit or Disposal Cost Obligations. Such costs include the cost of disposing of the assets as well as other facility-related expenses from previously closed restaurants. These costs are generally expensed as incurred. Additionally, at the date we cease using a property under an operating lease, we record a liability for the net present value of any remaining lease obligations, net of estimated sublease income. Any subsequent adjustments to that liability as a result of lease termination or changes in estimates of sublease income are recorded in the period incurred. Upon disposal of the assets, primarily land, associated with a closed restaurant, any gain or loss is recorded in the same caption within our consolidated statements of earnings as the original impairment.

INSURANCE ACCRUALS

Through the use of insurance program deductibles and self-insurance, we retain a significant portion of expected losses under our workers' compensation, certain employee medical and general liability programs. However, we carry insurance for individual workers' compensation and general liability claims that exceed \$0.5 million. Accrued liabilities have been recorded based on our estimates of the anticipated ultimate costs to settle all claims, both reported and not yet reported.

REVENUE RECOGNITION

Sales, as presented in our consolidated statements of earnings, represents food and beverage product sold and is presented net of discounts, coupons, employee meals, and complimentary meals. Revenue from restaurant sales is recognized when food and beverage products are sold. Sales taxes collected from customers and remitted to governmental authorities are presented on a net basis within sales in our consolidated statements of earnings.

Revenue from the sale of franchises is recognized as income when substantially all of our material obligations under the franchise agreement have been performed. Continuing royalties, which are a percentage of net sales of franchised restaurants, are accrued as income when earned. Revenue from the sale of consumer packaged goods includes ongoing royalty fees based on a percentage of licensed retail product sales and is recognized upon the sale of product by our licensed manufacturers to retail outlets.

UNEARNED REVENUES

Unearned revenues represent our liability for gift cards that have been sold but not yet redeemed. We recognize sales from our gift cards when the gift card is redeemed by the customer. Although there are no expiration dates or dormancy fees for our gift cards, based on our analysis of our historical gift card redemption patterns, we can reasonably estimate the amount of gift cards for which redemption is remote, which is referred to as "breakage." We recognize breakage within sales for unused gift card amounts in proportion to actual gift card redemptions, which is also referred to as the "redemption recognition" method. The estimated value of gift cards expected to remain unused is recognized over the expected period of redemption as the remaining gift card values are redeemed, generally over a period of 10 years. Utilizing this method, we estimate both the amount of breakage and the time period of redemption. If actual redemption patterns vary from our estimates, actual gift card breakage income may differ from the amounts recorded. We update our estimates of our redemption period and our breakage rate periodically and apply that rate to gift card redemptions.

FOOD AND BEVERAGE COSTS

Food and beverage costs include inventory, warehousing, related purchasing and distribution costs and gains and losses on certain commodity derivative contracts. Vendor allowances received in connection with the purchase of a vendor's products are recognized as a reduction of the related food and beverage costs as earned. Advance payments are made by the vendors based on estimates of volume to be purchased from the vendors and the terms of the agreement. As we make purchases from the vendors each period, we recognize the pro rata portion of allowances earned as a reduction of food and beverage costs for that period. Differences between estimated and actual purchases are settled in accordance with the terms of the agreements. Vendor agreements are generally for a period of one year or more and payments received are initially recorded as long-term liabilities. Amounts expected to be earned within one year are recorded as current liabilities.

INCOME TAXES

We provide for federal and state income taxes currently payable as well as for those deferred because of temporary differences between reporting income and expenses for financial statement purposes versus tax purposes. Federal income tax credits are recorded as a reduction of income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Interest recognized on reserves for uncertain tax positions is included in interest, net in our consolidated statements of earnings. A corresponding liability for accrued interest is included as a component of other current liabilities on our consolidated balance sheets. Penalties, when incurred, are recognized in selling, general and administrative expenses.

ASC Topic 740, Income Taxes, requires that a position taken or expected to be taken in a tax return be recognized (or derecognized) in the financial statements when it is more likely than not (i.e., a likelihood of more than 50 percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. See Note 16 – Income Taxes for additional information.

Income tax benefits credited to equity relate to tax benefits associated with amounts that are deductible for income tax purposes but do not affect earnings. These benefits are principally generated from employee exercises of non-qualified stock options and vesting of employee restricted stock awards.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We enter into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments as required by FASB ASC Topic 815, Derivatives and Hedging, and those utilized as economic hedges. We use financial and commodities derivatives to manage interest rate, compensation, commodities pricing and foreign currency exchange rate risks inherent in our business operations. Our use of derivative instruments is currently limited to interest rate hedges; equity forwards contracts; commodities futures and options contracts and foreign currency forward contracts. These instruments are generally structured as hedges of the variability of cash flows related to forecasted transactions (cash flow hedges). However, we do at times enter into instruments designated as fair value hedges to reduce our exposure to changes in fair value of the related hedged item. We do not enter into derivative instruments for trading or speculative purposes, where changes in the cash flows or fair value of the derivative are not expected to offset changes in cash flows or fair value of the hedged item. However, we have entered into equity forwards to economically hedge changes in the fair value of employee investments in our non-qualified deferred compensation plan and certain commodity futures contracts to economically hedge changes in the value of certain inventory purchases, for which we have not applied hedge accounting. All derivatives are recognized on the balance sheet at fair value. For those derivative instruments for which we intend to elect hedge accounting, on the date the derivative contract is entered into, we document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking the various hedge transactions. This process includes linking all derivatives designated as cash flow hedges to specific assets and liabilities on the consolidated balance sheet or to specific forecasted transactions. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Notes to Consolidated Financial Statements

Darden

To the extent our derivatives are effective in offsetting the variability of the hedged cash flows, and otherwise meet the cash flow hedge accounting criteria required by Topic 815 of the FASB ASC, changes in the derivatives' fair value are not included in current earnings but are included in accumulated other comprehensive income (loss), net of tax. These changes in fair value will be reclassified into earnings at the time of the forecasted transaction. Ineffectiveness measured in the hedging relationship is recorded currently in earnings in the period in which it occurs. To the extent our derivatives are effective in mitigating changes in fair value, and otherwise meet the fair value hedge accounting criteria required by Topic 815 of the FASB ASC, gains and losses in the derivatives' fair value are included in current earnings, as are the gains and losses of the related hedged item. To the extent the hedge accounting criteria are not met, the derivative contracts are utilized as economic hedges and changes in the fair value of such contracts are recorded currently in earnings in the period in which they occur. Cash flows related to derivatives are included in operating activities. See Note 10 – Derivative Instruments and Hedging Activities for additional information.

LEASES

For operating leases, we recognize rent expense on a straight-line basis over the expected lease term, including cancelable option periods where failure to exercise the options would result in an economic penalty to the Company.

Differences between amounts paid and amounts expensed are recorded as deferred rent. Capital leases are recorded as an asset and an obligation at an amount equal to the present value of the minimum lease payments during the lease term. Within the provisions of certain of our leases, there are rent holidays and escalations in payments over the base lease term, as well as renewal periods. The effects of the holidays and escalations have been reflected in rent expense on a straight-line basis over the expected lease term, which includes cancelable option periods where failure to exercise such options would result in an economic penalty to the Company. The lease term commences on the date when we have the right to control the use of the leased property, which is typically before rent payments are due under the terms of the lease. Many of our leases have renewal periods totaling 5 to 20 years, exercisable at our option and require payment of property taxes, insurance and maintenance costs in addition to the rent payments. The consolidated financial statements reflect the same lease term for amortizing leasehold improvements as we use to determine capital versus operating lease classifications and in calculating straight-line rent expense for each restaurant. Percentage rent expense is generally based on sales levels and is accrued at the point in time we determine that it is probable that such sales levels will be achieved. Amortization expense related to capital leases is included in depreciation and amortization expense in our consolidated statements of earnings. Landlord allowances are recorded based on contractual terms and are included in accounts receivable, net and as a deferred rent liability and amortized as a reduction of rent expense on a straight-line basis over the expected lease term.

PRE-OPENING EXPENSES

Non-capital expenditures associated with opening new restaurants are expensed as incurred.

ADVERTISING

Production costs of commercials are charged to operations in the fiscal period the advertising is first aired. The costs of programming and other advertising, promotion and marketing programs are charged to operations in the fiscal period incurred. Advertising expense related to continuing operations, included in selling, general and administrative expenses was as follows:

(in millions)	Fiscal Year		
	2014	2014	2012
Advertising expense	\$252.3	\$241.1	\$215.6

STOCK-BASED COMPENSATION

We recognize the cost of employee service received in exchange for awards of equity instruments based on the grant date fair value of those awards. We utilize the Black-Scholes option pricing model to estimate the fair value of stock option awards. We recognize compensation expense on a straight-line basis over the employee service period for awards granted. The dividend yield has been estimated based upon our historical results and expectations for changes in dividend rates. The expected volatility was determined using historical stock prices. The risk-free interest rate was the rate available on zero coupon U.S. government obligations with a term approximating the expected life of each grant. The expected life was estimated based on the exercise history of previous grants, taking into consideration the remaining contractual period for outstanding awards. The weighted-average fair value of non-qualified stock options and the related assumptions used in the Black-Scholes model to record stock-based compensation are as follows:

	Stock Options Granted in Fiscal Year		
	2014	2013	2012
Weighted-average fair value	\$12.06	\$12.22	\$14.31
Dividend yield	4.4%	4.0%	3.5%
Expected volatility of stock	39.6%	39.7%	39.4%
Risk-free interest rate	1.9%	0.8%	2.1%
Expected option life (in years)	6.4	6.5	6.5

NET EARNINGS PER SHARE

Basic net earnings per share are computed by dividing net earnings by the weighted-average number of common shares outstanding for the reporting period. Diluted net earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Outstanding stock options and restricted stock granted by us represent the only dilutive effect reflected in diluted weighted-average shares outstanding. These stock-based compensation instruments do not impact the numerator of the diluted net earnings per share computation.

The following table presents the computation of basic and diluted net earnings per common share:

<i>(in millions, except per share data)</i>	Fiscal Year		
	2014	2013	2012
Earnings from continuing operations	\$183.2	\$237.3	\$279.2
Earnings from discontinued operations	103.0	174.6	196.3
Net earnings	\$286.2	\$411.9	\$475.5
Average common shares outstanding – Basic	131.0	129.0	130.1
Effect of dilutive stock-based compensation	2.2	2.6	3.1
Average common shares outstanding – Diluted	133.2	131.6	133.2
Basic net earnings per share:			
Earnings from continuing operations	\$ 1.40	\$ 1.84	\$ 2.15
Earnings from discontinued operations	0.78	1.35	1.50
Net earnings	\$ 2.18	\$ 3.19	\$ 3.65
Diluted net earnings per share:			
Earnings from continuing operations	\$ 1.38	\$ 1.80	\$ 2.10
Earnings from discontinued operations	0.77	1.33	1.47
Net earnings	\$ 2.15	\$ 3.13	\$ 3.57

Restricted stock and options to purchase shares of our common stock excluded from the calculation of diluted net earnings per share because the effect would have been anti-dilutive, are as follows:

<i>(in millions)</i>	Fiscal Year Ended		
	May 25, 2014	May 26, 2013	May 27, 2012
Anti-dilutive restricted stock and options	4.2	2.8	2.6

COMPREHENSIVE INCOME

Comprehensive income includes net earnings and other comprehensive income (loss) items that are excluded from net earnings under U.S. generally accepted accounting principles. Other comprehensive income (loss) items include foreign currency translation adjustments, the effective unrealized portion of changes in the fair value of cash flow hedges, unrealized gains and losses on our marketable securities classified as held for sale and recognition of the funded status related to our pension and other postretirement plans. See Note 13 – Stockholders' Equity for additional information.

FOREIGN CURRENCY

The Canadian dollar is the functional currency for our Canadian restaurant operations and the Malaysian ringgit is the functional currency for our franchise and aquaculture activities based in Malaysia. Assets and liabilities denominated in foreign currencies are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates prevailing throughout the period. Translation gains and losses are reported as a separate component of other comprehensive income (loss). Aggregate cumulative translation losses were \$4.7 million and \$1.8 million at May 25, 2014 and May 26, 2013, respectively. Gains and losses from foreign currency transactions recognized in our consolidated statements of earnings were not significant for fiscal 2014, 2013 or 2012.

SEGMENT REPORTING

As of May 25, 2014, we operated the Olive Garden, Red Lobster, LongHorn Steakhouse, The Capital Grille, Yard House, Bahama Breeze, Seasons 52 and Eddie V's restaurant brands in North America as operating segments. The brands operate principally in the U.S. within the full-service dining industry, providing similar products to similar customers. The brands also possess similar economic characteristics, resulting in similar long-term expected financial performance characteristics. Sales from external customers are derived principally from food and beverage sales. We do not rely on any major customers as a source of sales. We believe we meet the criteria for aggregating our operating segments into a single reporting segment.

RESEARCH AND DEVELOPMENT

We are currently researching and developing proprietary technology for lobster aquaculture farming. We expense research and development costs as incurred. Our lobster aquaculture expenditures were \$13.5 million, \$6.3 million and \$1.6 million in fiscal 2014, 2013 and 2012, respectively, and were recorded in selling, general and administrative expenses in our consolidated statements of earnings.

APPLICATION OF NEW ACCOUNTING STANDARDS

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This update is effective for annual and interim periods beginning after December 15, 2016, which will require us to adopt these provisions in the first quarter of fiscal 2018. Early application is not permitted. This update permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect this guidance will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

Notes to Consolidated Financial Statements

Darden

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360), *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This update modifies the requirements for reporting discontinued operations. Under the amendments in ASU 2014-08, the definition of discontinued operation has been modified to only include those disposals of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. This update also expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. This update is effective for annual and interim periods beginning after December 15, 2014, which will require us to adopt these provisions in the first quarter of fiscal 2016. We are evaluating the effect this guidance will have on our consolidated financial statements and related disclosures.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740), *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The objective of this update is to eliminate the diversity in practice in the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Under this guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain circumstances. This update does not require any new recurring disclosures and is effective for annual and interim periods beginning after December 15, 2013, which will require us to adopt these provisions in the first quarter of fiscal 2015. We do not believe adoption of this new guidance will have a significant impact on our consolidated financial statements.

NOTE 2 DISCONTINUED OPERATIONS

On May 15, 2014, we entered into an agreement to sell Red Lobster and certain related assets and associated liabilities for \$2.11 billion in cash and we expect the transaction to close during the first quarter of fiscal 2015. These assets and liabilities are classified as held for sale on our consolidated balance sheet as of May 25, 2014. Additionally, in the fourth quarter of fiscal 2014, in connection with the sale of Red Lobster, we closed two synergy restaurants. During fiscal 2014, we recorded long-lived asset impairment charges of \$7.6 million, \$7.4 million of which was recorded during the fourth quarter as a result of these actions and \$20.7 million of separation-related costs which are included in earnings from discontinued operations. No amounts for shared general and administrative operating support expense or interest expense were allocated to discontinued operations. We expect all direct cash flows related to operating these businesses to be eliminated at the date of sale. Our continuing involvement will be limited to a transition service agreement for up to two years with minimal impact to our cash flows.

For fiscal 2014, 2013 and 2012, all impairment charges and disposal costs, along with the sales, direct costs and expenses and income taxes attributable to restaurants classified as discontinued operations have been aggregated to a single caption entitled earnings from discontinued operations, net of tax in our consolidated statements of earnings for all periods presented. Earnings from discontinued operations, net of taxes in our accompanying consolidated statements of earnings are comprised of the following:

	Fiscal Year Ended		
	May 25, 2014	May 26, 2013	May 27, 2012
<i>(in millions)</i>			
Sales	\$2,472.1	\$2,630.9	\$2,671.6
Earnings before income taxes	135.3	247.3	281.2
Income tax expense	32.3	72.7	84.9
Earnings from discontinued operations, net of tax	\$ 103.0	\$ 174.6	\$ 196.3

The following table presents the carrying amounts of the major classes of assets and liabilities associated with the restaurants reported as discontinued operations and classified as held for sale on our accompanying consolidated balance sheet as of May 25, 2014:

<i>(in millions)</i>	May 25, 2014
Current assets	\$ 241.0
Land, buildings and equipment, net	1,084.8
Other assets	64.5
Total assets	\$1,390.3
Current liabilities	\$ 130.6
Other liabilities	84.9
Total liabilities	\$ 215.5

NOTE 3 RECEIVABLES, NET

Receivables from the sale of gift cards in national retail outlets, allowances due from landlords based on lease terms, miscellaneous receivables and our overall allowance for doubtful accounts are as follows:

<i>(in millions)</i>	May 25, 2014	May 26, 2013
Retail outlet gift card sales	\$39.6	\$37.5
Landlord allowances due	22.5	26.5
Miscellaneous	22.0	21.7
Allowance for doubtful accounts	(0.3)	(0.3)
Receivables, net	\$83.8	\$85.4

NOTE 4 ASSET IMPAIRMENTS, NET

During fiscal 2014, 2013 and 2012, we recognized long-lived asset impairment charges of \$18.3 million (\$11.3 million net of tax), \$0.7 million (\$0.4 million net of tax) and \$0.2 million (\$0.1 million net of tax), respectively. Impairment charges resulted primarily from the carrying value of restaurant assets exceeding the estimated fair market value, which is based on projected cash flows. These costs are included in asset impairments, net as a component of earnings from continuing operations in the accompanying consolidated statements of earnings for fiscal 2014, 2013 and 2012. Impairment charges were measured based on the amount by which the carrying amount of these assets exceeded their fair value. Fair value is generally determined based on appraisals or sales prices of comparable assets and estimates of future cash flows.

NOTE 5 LAND, BUILDINGS AND EQUIPMENT, NET

The components of land, buildings and equipment, net, are as follows:

<i>(in millions)</i>	May 25, 2014	May 26, 2013
Land	\$ 659.7	\$ 888.1
Buildings	3,234.5	4,474.5
Equipment	1,378.4	1,860.9
Assets under capital leases	69.5	67.7
Construction in progress	89.1	149.7
Total land, buildings and equipment	\$ 5,431.2	\$ 7,440.9
Less accumulated depreciation and amortization	(2,027.0)	(3,030.2)
Less amortization associated with assets under capital leases	(23.2)	(19.6)
Land, buildings and equipment, net	\$ 3,381.0	\$ 4,391.1

NOTE 6 WORKFORCE REDUCTION

During fiscal 2014, we performed comprehensive reviews of our operations and support structure resulting in changes in our growth plans and related support structure needs. As a result, we had workforce reductions and program spending cuts in September 2013 (September 2013 Plan), January 2014 (January 2014 Plan) and May 2014 (May 2014 Plan). In accordance with these actions, we incurred employee termination benefits costs and other costs which are included in selling, general and administrative expenses in our consolidated statements of earnings as follows:

<i>(in millions)</i>	Fiscal Year 2014
Employee termination benefits ⁽¹⁾	\$17.2
Other ⁽²⁾	0.9
Total	\$18.1

(1) Includes salary and stock-based compensation expense.

(2) Includes postemployment medical, outplacement and relocation costs.

The following table summarizes the accrued employee termination benefits and other costs which are primarily included in other current liabilities on our consolidated balance sheet as of May 25, 2014:

<i>(in millions)</i>	September 2013 Plan	January 2014 Plan	May 2014 Plan	Payments	Adjustments	Balance at May 25, 2014
Employee termination benefits ⁽¹⁾	\$7.7	\$0.7	\$5.0	\$(4.9)	\$(0.3)	\$8.2
Other	0.8	0.1	0.2	(0.5)	(0.2)	0.4
Total	\$8.5	\$0.8	\$5.2	\$(5.4)	\$(0.5)	\$8.6

(1) Excludes costs associated with stock options and restricted stock that will be settled in shares upon vesting.

We expect the majority of the remaining liability to be paid by the first quarter of fiscal 2015 and the remainder to be paid by the first quarter of fiscal 2016.

NOTE 7 SHORT-TERM DEBT

As of May 25, 2014, amounts outstanding as short-term debt, which consist of unsecured commercial paper borrowings, bearing an interest rate of 0.80 percent, were \$207.6 million. As of May 26, 2013, amounts outstanding as short-term debt, which consist of unsecured commercial paper borrowings, bearing an interest rate of 0.20 percent, were \$164.5 million.

NOTE 8 OTHER CURRENT LIABILITIES

The components of other current liabilities are as follows:

<i>(in millions)</i>	May 25, 2014	May 26, 2013
Non-qualified deferred compensation plan	\$228.8	\$224.3
Sales and other taxes	70.4	74.3
Insurance-related	35.8	40.8
Employee benefits	47.4	44.7
Derivative liabilities	1.7	2.2
Accrued interest	19.9	17.7
Miscellaneous	53.4	46.3
Total other current liabilities	\$457.4	\$450.3

NOTE 9 LONG-TERM DEBT

The components of long-term debt are as follows:

<i>(in millions)</i>	May 25, 2014	May 26, 2013
7.125% debentures due February 2016	\$ 100.0	\$ 100.0
Variable-rate term loan (1.65% at May 25, 2014) due August 2017	300.0	300.0
6.200% senior notes due October 2017	500.0	500.0
3.790% senior notes due August 2019	80.0	80.0
4.500% senior notes due October 2021	400.0	400.0
3.350% senior notes due November 2022	450.0	450.0
4.520% senior notes due August 2024	220.0	220.0
6.000% senior notes due August 2035	150.0	150.0
6.800% senior notes due October 2037	300.0	300.0
Total long-term debt	\$2,500.0	\$2,500.0
Fair value hedge	1.6	1.9
Less issuance discount	(5.2)	(5.7)
Total long-term debt less issuance discount	\$2,496.4	\$2,496.2
Less current portion	(15.0)	-
Long-term debt, excluding current portion	\$2,481.4	\$2,496.2

We maintain a \$750.0 million revolving Credit Agreement (Revolving Credit Agreement), with Bank of America, N.A. (BOA) as administrative agent, and the lenders and other agents party thereto. The Revolving Credit Agreement is a senior unsecured credit commitment to the Company and contains customary representations and affirmative and negative covenants (including limitations on liens and subsidiary debt and a maximum consolidated lease adjusted total debt to total capitalization ratio of 0.75 to 1.00) and events of default customary for credit facilities of this type. As of May 25, 2014, we were in compliance with the covenants under the Revolving Credit Agreement.

On October 24, 2013, we entered into an amendment (First Amendment) to the Revolving Credit Agreement, which extended the maturity date from October 3, 2016 to October 24, 2018, and gives us the option to request a further extension of the maturity date for up to two additional one-year

periods. Additionally, interest rates on borrowings and fees under the Revolving Credit Agreement are determined by reference to a ratings-based pricing grid, which was amended by the First Amendment.

The Revolving Credit Agreement proceeds may be used for commercial paper back-up, working capital and capital expenditures, the refinancing of certain indebtedness, certain acquisitions and general corporate purposes. Loans under the Revolving Credit Agreement bear interest at a rate of LIBOR plus a margin determined by reference to a ratings-based pricing grid (Applicable Margin), or the base rate (which is defined as the highest of the BOA prime rate, the Federal Funds rate plus 0.500 percent, and the Eurocurrency Rate plus 1.00 percent) plus the Applicable Margin. Assuming a "BBB-" equivalent credit rating level, the Applicable Margin under the Revolving Credit Agreement will be 1.300 percent for LIBOR loans and 0.300 percent for base rate loans.

As of May 25, 2014, we had no outstanding balances under the Revolving Credit Agreement. As of May 25, 2014, \$207.6 million of commercial paper was outstanding, which was backed by this facility. After consideration of commercial paper backed by the Revolving Credit Agreement, as of May 25, 2014, we had \$542.4 million of credit available under the Revolving Credit Agreement.

The interest rates on our \$500.0 million 6.200 percent senior notes due October 2017 and \$300.0 million 6.800 percent senior notes due October 2037 are subject to adjustment from time to time if the debt rating assigned to such series of notes is downgraded below a certain rating level (or subsequently upgraded). The maximum adjustment is 2.000 percent above the initial interest rate and the interest rate cannot be reduced below the initial interest rate. As of May 25, 2014, no adjustments to these interest rates had been made.

The aggregate contractual maturities of long-term debt for each of the five fiscal years subsequent to May 25, 2014, and thereafter are as follows:

<i>(in millions)</i>	Amount
Fiscal Year	
2015	\$ 15.0
2016	115.0
2017	15.0
2018	755.0
2019	-
Thereafter	1,600.0
Long-term debt	\$2,500.0

We expect to use approximately \$1.00 billion of the cash proceeds from the anticipated sale of Red Lobster to retire outstanding long-term debt. On June 30, 2014, we commenced cash tender offers for up to \$600.0 million (which subsequently increased to \$610.0 million) aggregate principal amount of our outstanding 4.500 percent senior notes due 2021, 3.350 percent senior notes due 2022, 6.000 percent senior notes due 2035 and 6.200 percent senior notes due 2017. Additionally, we have agreed to repurchase \$80.0 million and \$210.0 million aggregate principal amount of our 3.790 percent senior notes due 2019 and our 4.520 percent senior notes due 2024, respectively. We also intend to call for redemption approximately \$100.0 million aggregate principal amount of our outstanding 7.125 percent debentures due 2016. Our ability to retire the long-term debt is dependent upon the acceptance of our tender offer, in addition to the closing of the Red Lobster sale.

NOTE 10 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We use financial and commodities derivatives to manage interest rate, equity-based compensation and commodities pricing and foreign currency exchange rate risks inherent in our business operations. 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 May 25, 2014, 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.

The notional values of our derivative contracts are as follows:

<i>(in millions)</i>	May 25, 2014	May 26, 2013
Derivative contracts designated as hedging instruments:		
Commodities	\$ 0.9	\$ 18.2
Foreign currency	0.3	20.3
Interest rate swaps	200.0	100.0
Equity forwards	20.6	24.9
Derivative contracts not designated as hedging instruments:		
Equity forwards	\$ 47.4	\$ 49.1
Commodities	-	0.6

We periodically enter into commodity futures, swaps and option contracts (collectively, commodity contracts) to reduce the risk of variability in cash flows associated with fluctuations in the price we pay for natural gas, diesel fuel and butter. For certain of our commodity purchases, changes in the price we pay for these commodities are highly correlated with changes in the market price of these commodities. For these commodity purchases, we designate commodity contracts as cash flow hedging instruments. For the remaining commodity purchases, changes in the price we pay for these commodities are not highly correlated with changes in the market price, generally due to the timing of when changes in the market prices are reflected in the price we pay. For these commodity purchases, we utilize commodity contracts as economic hedges. Our commodity contracts extended through May 2014.

We periodically enter into foreign currency forward contracts to reduce the risk of fluctuations in exchange rates specifically related to forecasted transactions or payments made in a foreign currency either for commodities and items used directly in our restaurants or for forecasted payments of services. Our foreign currency forward contracts extended through May 2014.

We are currently party to interest-rate swap agreements with \$200.0 million of notional value to limit the risk of changes in fair value of a portion of the \$400.0 million 4.500 percent senior notes due October 2021 and a portion of the \$500.0 million 6.200 percent senior notes due October 2017. The swap agreements effectively swap the fixed-rate obligations for floating-rate obligations, thereby mitigating changes in fair value of the related debt prior to maturity. The swap agreements were designated as fair value hedges of the related debt and met the requirements to be accounted for under the short-cut method, resulting in no ineffectiveness in the hedging relationship. During fiscal 2014, 2013 and 2012, \$2.9 million, \$3.0 million and \$3.3 million, respectively, was recorded as a reduction to interest expense related to net swap settlements.

We enter into equity forward contracts to hedge the risk of changes in future cash flows associated with the unvested, unrecognized Darden stock units. The equity forward contracts will be settled at the end of the vesting periods of their underlying Darden stock units, which range between four and five years. The contracts were initially designated as cash flow hedges to the extent the Darden stock units are unvested and, therefore, unrecognized as a liability in our financial statements. As of May 25, 2014, we were party to equity forward contracts that were indexed to 1.2 million shares of our common stock, at varying forward rates between \$31.19 per share and \$52.66 per share, extending through August 2018. The forward contracts can only be net settled in cash. As the Darden stock units vest, we will de-designate that portion of the equity forward contract that no longer qualifies for hedge accounting and changes in fair value associated with that portion of the equity forward contract will be recognized in current earnings. We periodically incur interest on the notional value of the contracts and receive dividends on the underlying shares. These amounts are recognized currently in earnings as they are incurred or received.

We entered into equity forward contracts to hedge the risk of changes in future cash flows associated with recognized, cash-settled performance stock units and employee-directed investments in Darden stock within the non-qualified deferred compensation plan. The equity forward contracts are indexed to 0.3 million shares of our common stock at forward rates between \$46.17 and \$51.95 per share, can only be net settled in cash and expire between fiscal 2015 and 2019. We did not elect hedge accounting with the expectation that changes in the fair value of the equity forward contracts would offset changes in the fair value of the performance stock units and Darden stock investments in the non-qualified deferred compensation plan within selling, general and administrative expenses in our consolidated statements of earnings.

Notes to Consolidated Financial Statements

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The fair value of our derivative contracts designated as hedging instruments and derivative contracts that are not designated as hedging instruments are as follows:

(in millions)	Balance Sheet Location	Derivative Assets		Derivative Liabilities	
		May 25, 2014	May 26, 2013	May 25, 2014	May 26, 2013
Derivative contracts designated as hedging instruments					
Commodity contracts	(1)	\$ –	\$0.1	\$ –	\$(0.3)
Equity forwards	(1)	–	–	(0.5)	(0.6)
Interest rate related	(1)	1.6	1.9	–	–
Foreign currency forwards	(1)	0.1	0.6	–	–
		\$1.7	\$2.6	\$(0.5)	\$(0.9)
Derivative contracts not designated as hedging instruments					
Commodity contracts	(1)	\$ –	\$ –	\$ –	\$ –
Equity forwards	(1)	–	–	(1.2)	(1.3)
		\$ –	\$ –	\$(1.2)	\$(1.3)
Total derivative contracts		\$1.7	\$2.6	\$(1.7)	\$(2.2)

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

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

(in millions)	Amount of Gain (Loss) Recognized in AOCI (Effective Portion)			Location of Gain (Loss) Reclassified from AOCI to Earnings	Amount of Gain (Loss) Reclassified from AOCI to Earnings (Effective Portion)			Location of Gain (Loss) Recognized in Earnings (Ineffective Portion)	Amount of Gain (Loss) Recognized in Earnings (Ineffective Portion) ⁽¹⁾		
	Fiscal Year				Fiscal Year				Fiscal Year		
	2014	2013	2012		2014	2013	2012		2014	2013	2012
Commodity	\$ 0.6	\$ 0.7	\$(2.2)	(2)	\$ 0.4	\$ 0.4	\$(1.7)	(2)	\$ –	\$ –	\$ –
Equity	(3.5)	(2.8)	(0.7)	(3)	(0.8)	0.2	–	(3)	1.4	1.1	0.6
Interest rate	–	(10.1)	(75.2)	Interest, net	(10.3)	(8.3)	(2.9)	Interest, net	–	–	(0.7)
Foreign currency	0.5	(0.5)	0.9	(4)	1.0	–	0.8	(4)	–	–	–
	\$(2.4)	\$(12.7)	\$(77.2)		\$ (9.7)	\$(7.7)	\$(3.8)		\$1.4	\$1.1	\$(0.1)

(1) Generally, all of our derivative instruments designated as cash flow hedges have some level of ineffectiveness, which is recognized currently in earnings. However, as these amounts are generally nominal and our consolidated financial statements are presented "in millions," these amounts may appear as zero in this tabular presentation.

(2) Location of the gain (loss) reclassified from AOCI to earnings as well as the gain (loss) recognized in earnings for the ineffective portion of the hedge is food and beverage costs and restaurant expenses, which are components of cost of sales.

(3) Location of the gain (loss) reclassified from AOCI to earnings as well as the gain (loss) recognized in earnings for the ineffective portion of the hedge is restaurant labor expenses, which is a component of cost of sales, and selling, general and administrative expenses.

(4) Location of the gain (loss) reclassified from AOCI to earnings as well as the gain (loss) recognized in earnings for the ineffective portion of the hedge is food and beverage costs, which is a component of cost of sales, and selling, general and administrative expenses.

The effects of derivative instruments in fair value hedging relationships in the consolidated statements of earnings are as follows:

(in millions)	Amount of Gain (Loss) Recognized in Earnings on Derivatives			Location of Gain (Loss) Recognized in Earnings on Derivatives	Hedged Item in Fair Value Hedge Relationship	Amount of Gain (Loss) Recognized in Earnings on Related Hedged Item			Location of Gain (Loss) Recognized in Earnings on Related Hedged Item
	Fiscal Year					Fiscal Year			
	2014	2013	2012			2014	2013	2012	
Interest rate	\$(0.3)	\$(1.3)	\$(0.4)	Interest, net	Debt	\$0.3	\$1.3	\$0.4	Interest, net

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

(in millions)	Location of Gain (Loss) Recognized in Earnings	Amount of Gain (Loss) Recognized in Earnings		
		Fiscal Year		
		2014	2013	2012
Commodity contracts	Cost of sales ⁽¹⁾	\$ –	\$(0.1)	\$(7.9)
Equity forwards	Cost of sales ⁽²⁾	(0.5)	1.6	2.3
Equity forwards	Selling, general and administrative	(1.3)	1.4	6.0
		\$(1.8)	\$ 2.9	\$ 0.4

(1) Location of the gain (loss) recognized in earnings is food and beverage costs and restaurant expenses, which are components of cost of sales.

(2) Location of the gain (loss) recognized in earnings is restaurant labor expenses, which is a component of cost of sales.

Based on the fair value of our derivative instruments designated as cash flow hedges as of May 25, 2014, we expect to reclassify \$10.1 million of net losses on derivative instruments from accumulated other comprehensive income (loss) to earnings during the next 12 months based on the timing of our forecasted commodity purchases, the maturity of equity forwards and the amortization of losses on interest rate related instruments. However, the amounts ultimately realized in earnings will be dependent on the fair value of the contracts on the settlement dates. Additionally, based on the results of our tender offer in the first quarter of fiscal 2015 (see Note 9 – Long-Term Debt for further information), which is contingent upon the closing of the Red Lobster sale, additional amortization of losses on interest-rate related instruments may be recognized.

NOTE 11 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 at May 25, 2014 and May 26, 2013:

(in millions)	Items Measured at Fair Value at May 25, 2014			
	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)
Fixed-income securities:				
Corporate bonds ⁽¹⁾	\$ 9.7	\$ –	\$ 9.7	\$–
U.S. Treasury securities ⁽²⁾	6.1	6.1	–	–
Mortgage-backed securities ⁽¹⁾	2.6	–	2.6	–
Derivatives:				
Commodities futures, swaps & options ⁽³⁾	–	–	–	–
Equity forwards ⁽⁴⁾	(1.7)	–	(1.7)	–
Interest rate swaps ⁽⁵⁾	1.6	–	1.6	–
Foreign currency forwards ⁽⁶⁾	0.1	–	0.1	–
Total	\$18.4	\$6.1	\$12.3	\$–

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(in millions)	Items Measured at Fair Value at May 26, 2013			
	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)
Fixed-income securities:				
Corporate bonds ⁽¹⁾	\$10.0	\$ —	\$10.0	\$—
U.S. Treasury securities ⁽²⁾	8.7	8.7	—	—
Mortgage-backed securities ⁽¹⁾	5.6	—	5.6	—
Derivatives:				
Commodities futures, swaps & options ⁽³⁾	(0.2)	—	(0.2)	—
Equity forwards ⁽⁴⁾	(1.9)	—	(1.9)	—
Interest rate locks & swaps ⁽⁵⁾	1.9	—	1.9	—
Foreign currency forwards ⁽⁶⁾	0.6	—	0.6	—
Total	\$24.7	\$8.7	\$16.0	\$—

(1) The fair value of these securities is based on closing market prices of the investments, when applicable, or, alternatively, valuations utilizing market data and other observable inputs, inclusive of the risk of nonperformance.

(2) The fair value of our U.S. Treasury securities is based on closing market prices.

(3) 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.

(4) The fair value of our equity forwards is based on the closing market value of Darden stock, inclusive of the risk of nonperformance.

(5) The fair value of our interest rate lock and swap agreements is based on current and expected market interest rates, inclusive of the risk of nonperformance.

(6) The fair value of our foreign currency forward contracts is based on closing forward exchange market prices, inclusive of the risk of nonperformance.

The carrying value and fair value of long-term debt including the amounts included in current liabilities, as of May 25, 2014, was \$2.50 billion and \$2.63 billion, respectively. The carrying value and fair value of long-term debt as of May 26, 2013, was \$2.50 billion and \$2.70 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.

Adjustments to the fair values of non-financial assets measured at fair value on a non-recurring basis as of May 25, 2014 and May 26, 2013 were generally related to impairments of property to be disposed of and were not material.

NOTE 12 FINANCIAL INSTRUMENTS

Marketable securities are carried at fair value and consist of available-for-sale securities related to insurance funding requirements for our workers' compensation and general liability claims. The following table summarizes cost and market value for our securities that qualify as available-for-sale as of May 25, 2014:

(in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Available-for-sale securities	\$18.3	\$0.1	\$—	\$18.4

Earnings include insignificant realized gains and loss from sales of available-for-sale securities. At May 25, 2014, the scheduled maturities of our available-for-sale securities are as follows:

(in millions)	Cost	Market Value
Less than 1 year	\$ 4.5	\$ 4.5
1 to 3 years	8.4	8.5
3 to 5 years	5.4	5.4
Total	\$18.3	\$18.4

NOTE 13 STOCKHOLDERS' EQUITY

SHARE REPURCHASE PROGRAM

Repurchased common stock has historically been reflected as a reduction of stockholders' equity. On December 17, 2010, our Board of Directors authorized an additional share repurchase authorization totaling 25.0 million shares in addition to the previous authorization of 162.4 million shares. Share repurchase authorizations and cumulative share repurchases under these authorizations, are as follows:

(in millions)	May 25, 2014
Share repurchase authorizations	187.4
Cumulative shares repurchased	171.9

The total shares and related cost of our common stock we repurchased was as follows:

(in millions)	Fiscal Year					
	2014		2013		2012	
	Shares	Cost	Shares	Cost	Shares	Cost
Repurchases of common stock	—	\$0.5	1.0	\$52.4	8.2	\$375.1

As of May 25, 2014, of the 171.9 million cumulative shares repurchased, 159.3 million shares were retired and restored to authorized but unissued shares of common stock. We expect that all shares of common stock acquired in the future will also be restored to authorized but unissued shares of common stock.

STOCKHOLDERS' RIGHTS PLAN

Under our Rights Agreement dated May 16, 2005, each share of our common stock has associated with it one right to purchase one thousandth of a share of our Series A Participating Cumulative Preferred Stock at a purchase price of \$120 per share, subject to adjustment under certain circumstances to prevent dilution. The rights are exercisable when, and are not transferable apart from our common stock until, a person or group has acquired 15 percent or more, or makes a tender offer for 15 percent or more, of our common stock. If the specified percentage of our common stock is then acquired, each right will entitle the holder (other than the acquiring company) to receive, upon exercise, common stock of either us or the acquiring company having a value equal to two times the exercise price of the right. The rights are redeemable by our Board of Directors under certain circumstances and expire on May 25, 2015.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive income (loss), net of tax, are as follows:

<i>(in millions)</i>	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Marketable Securities	Unrealized Gains (Losses) on Derivatives	Benefit Plan Funding Position	Accumulated Other Comprehensive Income (Loss)
Balances at May 27, 2012	\$(1.6)	\$ 0.4	\$(49.7)	\$(95.7)	\$(146.6)
Gain (loss)	(0.2)	(0.2)	(8.8)	11.4	2.2
Reclassification realized in net earnings	—	—	4.7	6.9	11.6
Balances at May 26, 2013	\$(1.8)	\$ 0.2	\$(53.8)	\$(77.4)	\$(132.8)
Gain (loss)	(2.9)	(0.1)	(2.9)	(1.7)	(7.6)
Reclassification realized in net earnings	—	—	6.3	6.0	12.3
Balances at May 25, 2014	\$(4.7)	\$ 0.1	\$(50.4)	\$(73.1)	\$(128.1)

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:

<i>(in millions)</i>	Location of Gain (Loss) Recognized in Earnings	Fiscal Year	
		May 25, 2014	May 26, 2013
AOCI Components			
Derivatives			
Commodity contracts	(1)	\$ 0.4	\$ 0.4
Equity contracts	(2)	(0.8)	0.2
Interest rate contracts	Interest, net	(10.3)	(8.3)
Foreign currency contracts	(2)	1.0	—
	Total before tax	\$ (9.7)	\$ (7.7)
	Tax benefit	3.4	3.0
	Net of tax	\$ (6.3)	\$ (4.7)
Benefit plan funding position			
Recognized net actuarial loss – pension/postretirement plans	(3)	\$ (8.6)	\$ (8.9)
Recognized net actuarial loss – other plans	(4)	(1.4)	(2.3)
	Total before tax	\$ (10.0)	\$(11.2)
	Tax benefit	4.0	4.3
	Net of tax	\$ (6.0)	\$ (6.9)

(1) Primarily included in cost of sales. See Note 10 for additional details.

(2) Primarily included in cost of sales and selling, general and administrative expenses. See Note 10 for additional details.

(3) Included in the computation of net periodic benefit costs – pension and postretirement plans, which is a component of restaurant labor expenses and selling, general and administrative expenses. See Note 17 for additional details.

(4) Included in the computation of net periodic benefit costs – other plans, which is a component of selling, general and administrative expenses.

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NOTE 14 LEASES

An analysis of rent expense incurred related to restaurants in continuing operations is as follows:

<i>(in millions)</i>	Fiscal Year		
	2014	2013	2012
Restaurant minimum rent	\$146.4	\$125.8	\$100.6
Restaurant rent averaging expense	26.9	24.2	16.7
Restaurant percentage rent	6.6	6.0	4.9
Other	5.5	5.6	4.1
Total rent expense	\$185.4	\$161.6	\$126.3

Total rent expense included in discontinued operations was \$36.2 million, \$34.6 million and \$33.7 million for fiscal 2014, 2013 and 2012, respectively. These amounts include restaurant minimum rent of \$33.0 million, \$31.8 million and \$30.3 million for fiscal 2014, 2013 and 2012, respectively.

The annual future lease commitments under capital lease obligations and noncancelable operating leases, including those related to restaurants reported as discontinued operations, for each of the five fiscal years subsequent to May 25, 2014 and thereafter is as follows:

<i>(in millions)</i> Fiscal Year	Capital	Operating
	2015	\$ 5.6
2016	5.7	192.9
2017	5.8	175.1
2018	6.0	155.4
2019	6.0	130.5
Thereafter	56.6	375.2
Total future lease commitments	\$ 85.7	\$1,233.8
Less imputed interest (at 6.5%)	(31.4)	
Present value of future lease commitments	\$ 54.3	
Less current maturities	(2.3)	
Obligations under capital leases, net of current maturities	\$ 52.0	

NOTE 15 INTEREST, NET

The components of interest, net are as follows:

<i>(in millions)</i>	Fiscal Year		
	2014	2013	2012
Interest expense	\$134.0	\$126.2	\$102.7
Imputed interest on capital leases	3.5	3.6	3.7
Capitalized interest	(2.6)	(2.9)	(3.4)
Interest income	(0.6)	(0.9)	(0.9)
Interest, net	\$134.3	\$126.0	\$102.1

Capitalized interest was computed using our average borrowing rate. Interest paid, net of amounts capitalized was as follows:

<i>(in millions)</i>	Fiscal Year		
	2014	2013	2012
Interest paid, net of amounts capitalized	\$117.5	\$112.6	\$95.3

NOTE 16 INCOME TAXES

Total income tax expense was allocated as follows:

<i>(in millions)</i>	Fiscal Year		
	2014	2013	2012
Earnings from continuing operations	\$ (8.6)	\$ 36.7	\$ 75.9
Earnings from discontinued operations	32.3	72.7	84.9
Total consolidated income tax expense	\$23.7	\$109.4	\$160.8

The components of earnings from continuing operations before income taxes and the provision for income taxes thereon are as follows:

<i>(in millions)</i>	Fiscal Year		
	2014	2013	2012
Earnings from continuing operations before income taxes:			
U.S.	\$189.2	\$278.0	\$351.0
Foreign	(14.6)	(4.0)	4.1
Earnings from continuing operations before income taxes	\$174.6	\$274.0	\$355.1
Income taxes:			
Current:			
Federal	\$ 39.5	\$ 26.1	\$ 25.5
State and local	5.4	7.9	11.6
Foreign	3.0	3.5	2.7
Total current	\$ 47.9	\$ 37.5	\$ 39.8
Deferred (principally U.S.):			
Federal	(43.7)	6.9	37.6
State and local	(12.8)	(7.7)	(1.5)
Total deferred	\$ (56.5)	\$ (0.8)	\$ 36.1
Total income taxes	\$ (8.6)	\$ 36.7	\$ 75.9

Income taxes paid were as follows:

<i>(in millions)</i>	Fiscal Year		
	2014	2013	2012
Income taxes paid	\$90.0	\$98.5	\$123.5

The following table is a reconciliation of the U.S. statutory income tax rate to the effective income tax rate from continuing operations included in the accompanying consolidated statements of earnings:

	Fiscal Year		
	2014	2013	2012
U.S. statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal tax benefits	(2.7)	—	1.8
Benefit of federal income tax credits	(30.3)	(18.1)	(14.4)
Other, net	(6.9)	(3.5)	(1.0)
Effective income tax rate	(4.9)%	13.4%	21.4%

As of May 25, 2014, we had estimated current prepaid state and federal income taxes of \$0.9 million and \$10.0 million, respectively, which are included on our accompanying consolidated balance sheets as prepaid income taxes.

As of May 25, 2014, we had unrecognized tax benefits of \$38.1 million, which represents the aggregate tax effect of the differences between tax return positions and benefits recognized in our consolidated financial statements, all of which would favorably affect the effective tax rate if resolved in our favor. A reconciliation of the beginning and ending amount of unrecognized tax benefits follows:

<i>(in millions)</i>	
Balances at May 26, 2013	\$29.9
Additions related to current-year tax positions	10.0
Reductions related to prior-year tax positions	(2.1)
Additions due to settlements with taxing authorities	2.2
Reductions to tax positions due to statute expiration	(1.9)
Balances at May 25, 2014	\$38.1

We recognize accrued interest related to unrecognized tax benefits in interest expense. Penalties, when incurred, are recognized in selling, general and administrative expense. Interest expense associated with unrecognized tax benefits, excluding the release of accrued interest related to prior year matters due to settlement or the lapse of the statute of limitations was as follows:

<i>(in millions)</i>	Fiscal Year		
	2014	2013	2012
Interest expense on unrecognized tax benefits	\$0.4	\$0.5	\$0.4

At May 25, 2014, we had \$3.2 million accrued for the payment of interest associated with unrecognized tax benefits.

For U.S. federal income tax purposes, we participate in the Internal Revenue Service's (IRS) Compliance Assurance Process (CAP) whereby our U.S. federal income tax returns are reviewed by the IRS both prior to and after their filing. Income tax returns are subject to audit by state and local governments, generally years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws. The major jurisdictions in which the Company files income tax returns

include the U.S. federal jurisdiction, Canada, and all states in the U.S. that have an income tax. With a few exceptions, the Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before fiscal 2013, and state and local, or non-U.S. income tax examinations by tax authorities for years before fiscal 2010.

Included in the balance of unrecognized tax benefits at May 25, 2014 is \$27.4 million related to tax positions for which it is reasonably possible that the total amounts could change during the next 12 months based on the outcome of examinations. The \$27.4 million relates to items that would impact our effective income tax rate.

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are as follows:

<i>(in millions)</i>	May 25, 2014	May 26, 2013
Accrued liabilities	\$ 111.0	\$ 85.5
Compensation and employee benefits	216.3	212.9
Deferred rent and interest income	102.2	83.3
Net operating loss, credit and charitable contribution carryforwards	57.3	50.7
Other	7.9	6.8
Gross deferred tax assets	\$ 494.7	\$ 439.2
Valuation allowance	(16.5)	(15.4)
Deferred tax assets, net of valuation allowance	\$ 478.2	\$ 423.8
Trademarks and other acquisition related intangibles	(209.4)	(205.6)
Buildings and equipment	(396.1)	(403.2)
Capitalized software and other assets	(26.6)	(19.4)
Other	(8.2)	(7.4)
Gross deferred tax liabilities	\$(640.3)	\$(635.6)
Net deferred tax liabilities	\$(162.1)	\$(211.8)

Net operating loss, credit and charitable contribution carryforwards have the potential to expire. We have taken current and potential future expirations into consideration when evaluating the need for valuation allowances against these deferred tax assets. A valuation allowance for deferred tax assets is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Realization is dependent upon the generation of future taxable income or the reversal of deferred tax liabilities during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which our deferred tax assets are deductible, we believe it is more-likely-than-not that we will realize the benefits of these deductible differences, net of the existing valuation allowances at May 25, 2014.

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NOTE 17

RETIREMENT PLANS

DEFINED BENEFIT PLANS AND POSTRETIREMENT BENEFIT PLAN

Certain of our employees are eligible to participate in a retirement plan. We sponsor non-contributory defined benefit pension plans, which have been frozen, for a group of salaried employees in the United States, in which benefits are based on various formulas that include years of service and compensation factors; and for a group of hourly employees in the United States, in which a fixed level of benefits is provided. Pension plan assets are primarily invested in U.S. and International equities as well as long-duration bonds and real estate investments. Our policy is to fund, at a minimum, the amount necessary on an actuarial basis to provide for benefits in accordance with the requirements of the Employee Retirement Income Security Act of 1974, as amended and the Internal Revenue Code (IRC), as amended by the Pension Protection Act of 2006. We also sponsor a contributory postretirement benefit plan that provides health care benefits to our salaried retirees. Fundings related to the defined benefit pension plans and postretirement benefit plans, which are funded on a pay-as-you-go basis, were as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Defined benefit pension plans funding	\$0.4	\$2.4	\$22.2
Postretirement benefit plan funding	0.9	0.8	0.5

We expect to contribute approximately \$0.4 million to our defined benefit pension plans and approximately \$1.1 million to our postretirement benefit plan during fiscal 2015.

We are required to recognize the over-or-under-funded status of the plans as an asset or liability as measured by the difference between the fair value of the plan assets and the benefit obligation and any unrecognized prior service costs and actuarial gains and losses as a component of accumulated other comprehensive income (loss), net of tax.

During fiscal 2014, we amended our defined benefit pension plan to freeze all plan benefits as of December 31, 2014 and to provide an additional year of benefit service for all final average pay participants accruing benefits and employed as of the effective date of the freeze. However, interest credits will continue for cash balance participants. As a result of these changes, we recorded a \$6.4 million curtailment gain into unrecognized loss and recognized a \$0.6 million net prior service credit into net periodic benefit cost.

The following provides a reconciliation of the changes in the plan benefit obligation, fair value of plan assets and the funded status of the plans as of May 25, 2014 and May 26, 2013:

(in millions)	Defined Benefit Plans		Postretirement Benefit Plan	
	2014	2013	2014	2013
Change in Benefit Obligation:				
Benefit obligation at beginning of period	\$276.8	\$274.4	\$ 29.9	\$ 29.6
Service cost	4.4	4.7	0.7	0.8
Interest cost	10.2	9.9	1.4	1.3
Plan amendments	(0.6)	—	—	—
Plan curtailments	(6.4)	—	(4.8)	—
Participant contributions	—	—	0.5	0.4
Benefits paid	(13.3)	(11.2)	(1.4)	(1.2)
Actuarial loss (gain)	12.8	(1.0)	12.2	(1.0)
Benefit obligation at end of period	\$283.9	\$276.8	\$ 38.5	\$ 29.9
Change in Plan Assets:				
Fair value at beginning of period	\$234.1	\$203.5	\$ —	\$ —
Actual return on plan assets	22.7	39.4	—	—
Employer contributions	0.4	2.4	0.9	0.8
Participant contributions	—	—	0.5	0.4
Benefits paid	(13.3)	(11.2)	(1.4)	(1.2)
Fair value at end of period	\$243.9	\$234.1	\$ —	\$ —
Reconciliation of the Plans' Funded Status:				
Unfunded status at end of period	\$ (40.0)	\$ (42.7)	\$(38.5)	\$(29.9)

The following is a detail of the balance sheet components of each of our plans and a reconciliation of the amounts included in accumulated other comprehensive income (loss):

<i>(in millions)</i>	Defined Benefit Plans		Postretirement Benefit Plan	
	May 25, 2014	May 26, 2013	May 25, 2014	May 26, 2013
Components of the Consolidated Balance Sheets:				
Current liabilities	\$ –	\$ –	\$ 1.1	\$ –
Non-current liabilities	40.0	42.7	37.4	29.9
Net amounts recognized	\$ 40.0	\$ 42.7	\$38.5	\$29.9
Amounts Recognized in Accumulated Other Comprehensive Income (Loss), net of tax:				
Prior service (cost) credit	\$ –	\$ (0.2)	\$ –	\$ 0.1
Net actuarial loss	(64.0)	(69.0)	(5.8)	(1.3)
Net amounts recognized	\$ (64.0)	\$ (69.2)	\$ (5.8)	\$ (1.2)

The following is a summary of our accumulated and projected benefit obligations:

<i>(in millions)</i>	May 25, 2014	May 26, 2013
Accumulated benefit obligation for all pension plans	\$283.3	\$267.6
Pension plans with accumulated benefit obligations in excess of plan assets:		
Accumulated benefit obligation	283.3	267.6
Fair value of plan assets	243.9	234.1
Projected benefit obligations for all plans with projected benefit obligations in excess of plan assets	283.9	276.8

The following table presents the weighted-average assumptions used to determine benefit obligations and net expense:

	Defined Benefit Plans		Postretirement Benefit Plan	
	2014	2013	2014	2013
Weighted-average assumptions used to determine benefit obligations at May 25 and May 26 ⁽¹⁾				
Discount rate	4.41%	4.60%	4.45%	4.74%
Rate of future compensation increases	3.86%	4.04%	N/A	N/A
Weighted-average assumptions used to determine net expense for fiscal years ended May 25 and May 26 ⁽²⁾				
Discount rate	4.60%	4.35%	4.74%	4.52%
Expected long-term rate of return on plan assets	8.00%	9.00%	N/A	N/A
Rate of future compensation increases	4.04%	4.22%	N/A	N/A

(1) Determined as of the end of fiscal year.

(2) Determined as of the beginning of fiscal year.

We set the discount rate assumption annually for each of the plans at their valuation dates to reflect the yield of high-quality fixed-income debt instruments, with lives that approximate the maturity of the plan benefits. The expected long-term rate of return on plan assets and health care cost trend rates are based upon several factors, including our historical assumptions compared with actual results, an analysis of current market conditions, asset fund allocations and the views of leading financial advisers and economists.

We reduced our expected long-term rate of return on plan assets for our defined benefit plan from 9.0 percent, used in fiscal 2013 and 2012, to 8.0 percent for fiscal 2014 in connection with our current expectations for long-term returns and target asset fund allocation. In developing our expected rate of return assumption, we have evaluated the actual historical performance and long-term return projections of the plan assets, which give consideration to the asset mix and the anticipated timing of the pension plan outflows. We employ a total return investment approach whereby a mix of equity and fixed-income investments are used to maximize the long-term return of plan assets for what we consider a prudent level of risk. Our historical 10-year, 15-year and 20-year rates of return on plan assets, calculated using the geometric method average of returns, are approximately 9.3 percent, 8.4 percent and 9.9 percent, respectively, as of May 25, 2014. Our Benefit Plans Committee sets the investment policy for the Defined Benefit Plans and oversees the investment allocation, which includes setting long-term strategic targets. Our overall investment strategy is to achieve appropriate diversification through a mix of equity investments, which may include U.S., International, and private equities, as well as long-duration bonds and real estate investments. Currently, our target asset fund allocation is 37.0 percent U.S. equities, 40.0 percent high-quality, long-duration fixed-income securities, 18.5 percent international equities and 4.5 percent real estate securities. Prior to fiscal 2014, our target asset fund allocation was 40.0 percent U.S. equities, 35.0 percent high-quality, long-duration fixed-income securities, 20.0 percent international equities and 5.0 percent real estate securities. The investment policy establishes a re-balancing band around the established targets within which the asset class weight is allowed to vary. Equity securities,

international equities and fixed-income securities include investments in various industry sectors. Investments in real estate securities follow different strategies designed to maximize returns, allow for diversification and provide a hedge against inflation. Our current positioning is neutral on investment style between value and growth companies and large and small cap companies. We monitor our actual asset fund allocation to ensure that it approximates our target allocation and believe that our long-term asset fund allocation will continue to approximate our target allocation. Investments held in the U.S. commingled fund, U.S. corporate securities, an international commingled fund, U.S. government fixed-income securities, an emerging markets commingled fund and public sector utility securities represented approximately 35.9 percent, 19.7 percent, 12.8 percent, 11.3 percent, 5.5 percent and 5.4 percent, respectively, of total plan assets and represents the only significant concentrations of risk related to a single entity, sector, country, commodity or investment fund. No other single sector concentration of assets exceeded 5.0 percent of total plan assets.

The discount rate and expected return on plan assets assumptions have a significant effect on amounts reported for defined benefit pension plans. A quarter percentage point change in the defined benefit plans' discount rate and the expected long-term rate of return on plan assets would increase or decrease earnings before income taxes by \$0.6 million and \$0.5 million, respectively.

The assumed health care cost trend rate increase in the per-capita charges for postretirement benefits was 6.8 percent for fiscal 2015. The rate gradually decreases to 5.0 percent through fiscal 2021 and remains at that level thereafter.

The assumed health care cost trend rate has a significant effect on amounts reported for retiree health care plans. A one percentage point increase or decrease in the assumed health care cost trend rate would affect the service and interest cost components of net periodic postretirement benefit cost by \$0.5 million and \$0.4 million, respectively, and would increase or decrease the accumulated postretirement benefit obligation by \$7.4 million and \$5.9 million, respectively.

Components of net periodic benefit cost included in continuing operations are as follows:

<i>(in millions)</i>	Defined Benefit Plans			Postretirement Benefit Plan		
	2014	2013	2012	2014	2013	2012
Service cost	\$ 4.4	\$ 4.7	\$ 5.1	\$ 0.7	\$ 0.8	\$ 0.8
Interest cost	10.2	9.9	9.6	1.4	1.3	1.5
Expected return on plan assets	(17.1)	(19.4)	(17.8)	—	—	—
Amortization of unrecognized prior service cost	0.1	0.1	0.1	(0.1)	(0.1)	(0.1)
Recognized net actuarial loss	9.0	8.8	8.2	—	—	—
Curt ailment gain recognized	(0.5)	—	—	—	—	—
Net pension and postretirement cost (benefit)	\$ 6.1	\$ 4.1	\$ 5.2	\$ 2.0	\$ 2.0	\$ 2.2

The amortization of the net actuarial loss component of our fiscal 2015 net periodic benefit cost for the defined benefit plans and postretirement benefit plan is expected to be approximately \$2.6 million and \$0.5 million, respectively.

The fair values of the defined benefit pension plans assets at their measurement dates of May 25, 2014 and May 26, 2013, are as follows:

<i>(in millions)</i>	Items Measured at Fair Value at May 25, 2014			
	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)
Equity:				
U.S. Commingled Funds ⁽¹⁾	\$ 87.5	\$ —	\$ 87.5	\$—
International Commingled Funds ⁽²⁾	31.2	—	31.2	—
Emerging Market Commingled Funds ⁽³⁾	13.3	—	13.3	—
Real Estate Commingled Funds ⁽⁴⁾	10.5	—	10.5	—
Fixed-Income:				
U.S. Treasuries ⁽⁵⁾	27.6	27.6	—	—
U.S. Corporate Securities ⁽⁵⁾	48.0	—	48.0	—
International Securities ⁽⁵⁾	10.0	—	10.0	—
Public Sector Utility Securities ⁽⁵⁾	13.1	—	13.1	—
Cash & Accruals	2.7	2.7	—	—
Total	\$243.9	\$30.3	\$213.6	\$—

Notes to Consolidated Financial Statements

Darden

(in millions)	Items Measured at Fair Value at May 26, 2013			
	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)
Equity:				
U.S. Commingled Funds ⁽¹⁾	\$ 97.2	\$ —	\$ 97.2	\$—
International Commingled Funds ⁽²⁾	33.4	—	33.4	—
Emerging Market Commingled Funds ⁽³⁾	13.8	—	13.8	—
Real Estate Commingled Funds ⁽⁴⁾	11.6	—	11.6	—
Fixed-Income:				
U.S. Treasuries ⁽⁵⁾	16.3	16.3	—	—
U.S. Corporate Securities ⁽⁵⁾	42.5	—	42.5	—
International Securities ⁽⁵⁾	8.2	—	8.2	—
Public Sector Utility Securities ⁽⁵⁾	9.4	—	9.4	—
Cash & Accruals	1.7	1.7	—	—
Total	\$234.1	\$18.0	\$216.1	\$—

(1) U.S. commingled funds are comprised of investments in funds that purchase publicly traded U.S. common stock for total return purposes. Investments are valued at unit values provided by the investment managers which are based on the fair value of the underlying investments. There are no redemption restrictions associated with these funds.

(2) International commingled funds are comprised of investments in funds that purchase publicly traded non-U.S. common stock for total return purposes. Investments are valued at unit values provided by the investment managers which are based on the fair value of the underlying investments. There are no redemption restrictions associated with these funds.

(3) Emerging market commingled funds and developed market securities are comprised of investments in funds that purchase publicly traded common stock of non-U.S. companies for total return purposes. Funds are valued at unit values provided by the investment managers which are based on the fair value of the underlying investments. There are no redemption restrictions associated with these funds.

(4) Real estate commingled funds are comprised of investments in funds that purchase publicly traded common stock of real estate securities for purposes of total return. These investments are valued at unit values provided by the investment managers which are based on the fair value of the underlying investments. There are no redemption restrictions associated with these funds.

(5) Fixed-income securities are comprised of investments in government and corporate debt securities. These securities are valued by the trustee at closing prices from national exchanges or pricing vendors on the valuation date.

The following benefit payments are expected to be paid between fiscal 2015 and fiscal 2025:

(in millions)	Defined Benefit Plans	Postretirement Benefit Plan
2015	\$21.2	\$1.1
2016	10.2	1.2
2017	10.6	1.2
2018	11.1	1.3
2019	11.5	1.4
2020-2025	68.7	8.5

POSTEMPLOYMENT SEVERANCE PLAN

We accrue for postemployment severance costs in our consolidated financial statements and recognize actuarial gains and losses related to our postemployment severance accrual as a component of accumulated other comprehensive income (loss). As of May 25, 2014 and May 26, 2013, \$3.1 million and \$6.1 million, respectively, of unrecognized actuarial losses related to our postemployment severance plan were included in accumulated other comprehensive income (loss) on a net of tax basis.

DEFINED CONTRIBUTION PLAN

We have a defined contribution (401(k)) plan covering most employees age 21 and older. We match contributions for participants with at least one year of service up to 6 percent of compensation, based on our performance. The match ranges from a minimum of \$0.25 to \$1.20 for each dollar contributed by the participant. The plan had net assets of \$729.1 million at May 25, 2014 and \$719.0 million at May 26, 2013. Expense recognized in fiscal 2014, 2013 and 2012 was \$0.7 million, \$0.9 million and \$0.9 million, respectively. Employees classified as "highly compensated" under the IRC are not eligible to participate in this plan. Instead, highly compensated employees are eligible to participate in a separate non-qualified deferred compensation (FlexComp) plan. This plan allows eligible employees to defer the payment of part of their annual salary and all or part of their annual bonus and provides for awards that approximate the matching contributions and other amounts that participants would have received had they been eligible to participate in our defined contribution and defined benefit plans. Amounts payable to highly compensated employees under the FlexComp plan totaled \$228.8 million and \$224.3 million at May 25, 2014 and May 26, 2013, respectively. These amounts are included in other current liabilities.

The defined contribution plan includes an Employee Stock Ownership Plan (ESOP). The ESOP borrowed \$16.9 million from us at a variable rate of interest in July 1996. At May 25, 2014, the ESOP's original debt to us had a balance of \$4.1 million with a variable rate of interest of 0.15 percent and is due to be repaid no later than December 2014. At the end of fiscal 2005, the ESOP borrowed an additional \$1.6 million (Additional Loan) from us at a variable interest rate and acquired an additional 0.05 million shares of our common stock, which were held in suspense within the ESOP at that time. At May 25, 2014, the Additional Loan had a balance of \$1.3 million with a variable interest rate of 0.23 percent and is due to be repaid no later than December 2018. Compensation expense is recognized as contributions are accrued. Fluctuations in our stock price impact the amount of expense to be recognized. Contributions to the plan, plus the dividends accumulated on unallocated shares held by the ESOP, are used to pay principal, interest and expenses of the plan. As loan payments are made, common stock is allocated to ESOP participants. In each of the fiscal years 2014, 2013 and 2012, the ESOP used dividends received of \$0.9 million, \$1.0 million and \$1.9 million, respectively, and contributions received from us of \$0.0 million, \$0.1 million and \$0.5 million, respectively, to pay principal and interest on our debt.

ESOP shares are included in weighted-average common shares outstanding for purposes of calculating net earnings per share with the exception of those shares acquired under the Additional Loan which are accounted for in accordance with FASB ASC Subtopic 718-40, Employee Stock Ownership Plans. Fluctuations in our stock price are recognized as adjustments to common stock and surplus when the shares are committed to be released. The ESOP shares acquired under the Additional Loan are not considered outstanding until they are committed to be released and, therefore, unreleased shares have been excluded for purposes of calculating basic and diluted net earnings per share. As of May 25, 2014, the ESOP shares included in the basic and diluted net earnings per share calculation totaled 4.0 million shares, representing 3.2 million allocated shares and 0.8 million suspense shares.

NOTE 18 STOCK-BASED COMPENSATION

We maintain two active stock option and stock grant plans under which new awards may still be issued, known as the Darden Restaurants, Inc. 2002 Stock Incentive Plan (2002 Plan) and the RARE Hospitality International, Inc. Amended and Restated 2002 Long-Term Incentive Plan (RARE Plan). We also have four other stock option and stock grant plans under which we no longer can grant new awards, although awards outstanding under the plans may still vest and be exercised in accordance with their terms: the Stock Plan for Directors (Director Stock Plan); the Director Compensation Plan; the Stock Option and Long-Term Incentive Plan of 1995 (1995 Plan) and the Restaurant Management and Employee Stock Plan of 2000 (2000 Plan). All of the plans are administered by the Compensation Committee of the Board of Directors. The 2002 Plan provides for the issuance of up to 25.1 million common shares in connection with the granting of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units (RSUs), stock awards and other stock-based awards including performance stock units and Darden stock units to key employees and non-employee directors. The RARE Plan provides for the issuance of up to 3.9 million common shares in connection with the granting of non-qualified stock options, incentive stock options and restricted stock to employees. Awards under the RARE Plan are only permitted to be granted to employees who were employed by RARE as of the date of acquisition and continued their employment with the Company. The Director Stock Plan provided for the issuance of up to 0.375 million common shares out of our treasury in connection with the granting of non-qualified stock options, restricted stock and RSUs to non-employee directors. No new awards could be granted under the Director Stock Plan after September 30, 2000. The Director Compensation Plan provided for the issuance of 0.1 million common shares out of our treasury to non-employee directors. No new awards could be granted under the Director Compensation Plan after September 30, 2005. The 1995 Plan provided for the issuance of up to 33.3 million common shares in connection with the granting of non-qualified stock options, restricted stock or RSUs to key employees. The 2000 Plan provided for the issuance of up to 5.4 million shares of common stock out of our treasury as non-qualified stock options, restricted stock or RSUs. Under all of these plans, stock options are granted at a price equal to the fair value of the shares at the date of grant for terms not exceeding 10 years and have various vesting periods at the discretion of the Compensation Committee. Outstanding options generally vest over one to four years. Restricted stock and RSUs granted under the 1995 Plan, the 2000 Plan and the 2002 Plan generally vest over periods ranging from three to five years and no sooner than one year from the date of grant. Performance Stock Units granted under the 2002 Plan generally vest over a three-year period, and vested amounts may range from 0.0 to 150.0 percent of targeted amounts depending on the achievement of certain sales and diluted net earnings per share performance measures. Darden stock units granted under the 2002 Plan generally vest over a five-year period, with no performance vesting feature.

On December 15, 2005, the Board of Directors approved the Director Compensation Program, effective as of October 1, 2005, for Non-Employee Directors. The Director Compensation Program provides for payments to non-employee directors of: (a) an annual retainer and meeting fees for special Board meetings and committee meetings; (b) an additional annual retainer for the Lead Director and committee chairs; and (c) an annual award of common stock with a fair value of \$0.1 million on the date of grant upon election or re-election to the Board. Directors may elect to have their cash compensation paid in any combination of current or deferred cash, common stock or salary replacement options. Deferred cash compensation may be invested on a tax-deferred basis in the same manner as deferrals under our non-qualified deferred compensation plan. Prior to the date of grant, directors may elect to have their annual stock award paid in the form of common stock or cash, or a combination thereof, or deferred. To the extent directors elect to receive cash or cash settled awards, the value of the awards are carried as a liability on our consolidated balance sheet at fair value until such time as it is settled. All stock options and other stock or stock-based awards that are part of the compensation paid or deferred pursuant to the Director Compensation Program are awarded under the 2002 Plan.

Stock-based compensation expense included in continuing operations was as follows:

<i>(in millions)</i>	Fiscal Year		
	2014	2013	2012
Stock options	\$19.3	\$16.3	\$16.6
Restricted stock/restricted stock units	0.9	2.1	3.8
Darden stock units	12.3	13.6	11.9
Performance stock units	2.5	4.7	11.3
Employee stock purchase plan	1.8	1.8	1.8
Director compensation program/other	1.9	1.5	1.3
	\$38.7	\$40.0	\$46.7

The following table presents a summary of our stock option activity as of and for the year ended May 25, 2014:

	Options (in millions)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Yrs)	Aggregate Intrinsic Value (in millions)
Outstanding beginning of period	11.6	\$38.81	5.47	\$162.6
Options granted	1.7	48.32		
Options exercised	(1.8)	28.57		
Options canceled	(0.3)	47.21		
Outstanding end of period	11.2	\$41.66	5.57	\$ 91.0
Exercisable	6.5	\$36.62	3.76	\$ 84.6

The total intrinsic value of options exercised during fiscal 2014, 2013 and 2012 was \$39.9 million, \$47.1 million and \$49.7 million, respectively. Cash received from option exercises during fiscal 2014, 2013 and 2012 was \$50.9 million, \$57.0 million and \$62.9 million, respectively. Stock options have a maximum contractual period of 10 years from the date of grant. We settle employee stock option exercises with authorized but unissued shares of Darden common stock or treasury shares we have acquired through our ongoing share repurchase program.

As of May 25, 2014, there was \$26.5 million of unrecognized compensation cost related to unvested stock options granted under our stock plans. This cost is expected to be recognized over a weighted-average period of 2.1 years. The total fair value of stock options that vested during fiscal 2014 was \$20.5 million.

Restricted stock and RSUs are granted at a value equal to the market price of our common stock on the date of grant. Restrictions lapse with regard to restricted stock, and RSUs are settled in shares, at the end of their vesting periods, which is generally four years.

The following table presents a summary of our restricted stock and RSU activity as of and for the fiscal year ended May 25, 2014:

	Shares (in millions)	Weighted-Average Grant Date Fair Value Per Share
Outstanding beginning of period	0.2	\$35.13
Shares granted	0.1	49.24
Shares vested	(0.1)	35.12
Outstanding end of period	0.2	\$39.04

As of May 25, 2014, there was \$4.1 million of unrecognized compensation cost related to unvested restricted stock and RSUs granted under our stock plans. This cost is expected to be recognized over a weighted-average period of 2.8 years. The total fair value of restricted stock and RSUs that vested during fiscal 2014, 2013 and 2012 was \$2.3 million, \$5.5 million and \$10.0 million, respectively.

Darden stock units are granted at a value equal to the market price of our common stock on the date of grant and will be settled in cash at the end of their vesting periods, which range between four and five years, at the then market price of our common stock. Compensation expense is measured based on the market price of our common stock each period, is amortized over the vesting period and the vested portion is carried as a liability on our accompanying consolidated balance sheets. We also entered into equity forward contracts to hedge the risk of changes in future cash flows associated with the unvested, unrecognized Darden stock units granted (see Note 10 – Derivative Instruments and Hedging Activities for additional information).

The following table presents a summary of our Darden stock unit activity as of and for the fiscal year ended May 25, 2014:

<i>(All units settled in cash)</i>	Units (in millions)	Weighted-Average Fair Value Per Unit
Outstanding beginning of period	2.2	\$52.83
Units granted	0.6	49.11
Units vested	(0.5)	48.87
Units canceled	(0.2)	46.20
Outstanding end of period	2.1	\$49.55

As of May 25, 2014, our total Darden stock unit liability was \$57.3 million, including \$32.8 million recorded in other current liabilities and \$24.5 million recorded in other liabilities on our consolidated balance sheets. As of May 26, 2013, our total Darden stock unit liability was \$61.1 million, including \$19.9 million recorded in other current liabilities and \$41.2 million recorded in other liabilities on our consolidated balance sheets.

Based on the value of our common stock as of May 25, 2014, there was \$42.3 million of unrecognized compensation cost related to Darden stock units granted under our incentive plans. This cost is expected to be recognized over a weighted-average period of 2.9 years. The total fair value of Darden stock units that vested during fiscal 2014 was \$22.7 million.

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The following table presents a summary of our performance stock unit activity as of and for the fiscal year ended May 25, 2014:

<i>(All units settled in cash)</i>	Units (in millions)	Weighted-Average Fair Value Per Unit
Outstanding beginning of period	0.9	\$36.83
Units granted	0.3	48.63
Units vested	(0.2)	49.08
Units canceled	(0.2)	41.74
Performance unit adjustment	(0.5)	49.90
Outstanding end of period	0.3	\$49.55

As of May 25, 2014, our total performance stock unit liability was \$9.5 million, including \$5.3 million recorded in other current liabilities and \$4.2 million recorded in other liabilities on our consolidated balance sheets. As of May 26, 2013, our total performance stock unit liability was \$16.8 million, including \$9.0 million recorded in other current liabilities and \$7.8 million recorded in other liabilities on our consolidated balance sheets.

Performance stock units cliff vest three years from the date of grant, where 0.0 percent to 150.0 percent of the entire grant is earned or forfeited at the end of three years. The number of units that actually vests will be determined for each year based on the achievement of Company performance criteria set forth in the award agreement and may range from 0.0 percent to 150.0 percent of the annual target. All awards will be settled in cash. The awards are measured based on the market price of our common stock each period, are amortized over the service period and the vested portion is carried as a liability in our accompanying consolidated balance sheets. As of May 25, 2014, there was \$5.3 million of unrecognized compensation cost related to unvested performance stock units granted under our stock plans. This cost is expected to be recognized over a weighted-average period of 1.7 years. The total fair value of performance stock units that vested in fiscal 2014 was \$8.8 million.

We maintain an Employee Stock Purchase Plan to provide eligible employees who have completed one year of service (excluding senior officers subject to Section 16(b) of the Securities Exchange Act of 1934, and certain other employees who are employed less than full time or own 5 percent or more of our capital stock or that of any subsidiary) an opportunity to invest up to \$5.0 thousand per calendar quarter to purchase shares of our common stock, subject to certain limitations. Under the plan, up to an aggregate of 3.6 million shares are available for purchase by employees at a purchase price that is 85.0 percent of the fair market value of our common stock on either the first or last trading day of each calendar quarter, whichever is lower. Cash received from employees pursuant to the plan during fiscal 2014, 2013 and 2012 was \$7.2 million, \$7.3 million and \$7.2 million, respectively.

NOTE 19 COMMITMENTS AND CONTINGENCIES

As collateral for performance on contracts and as credit guarantees to banks and insurers, we were contingently liable for guarantees of subsidiary obligations under standby letters of credit. At May 25, 2014 and May 26, 2013, we had \$113.5 million and \$107.0 million, respectively, of standby letters of credit related to workers' compensation and general liabilities accrued in our consolidated financial statements. At May 25, 2014 and May 26, 2013, we had \$17.8 million and \$20.6 million, respectively, of standby letters of credit related to contractual operating lease obligations and other payments. All standby letters of credit are renewable annually.

At May 25, 2014 and May 26, 2013, we had \$3.4 million and \$4.2 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 these potential payments discounted at our pre-tax cost of capital at May 25, 2014 and May 26, 2013, amounted to \$2.7 million and \$3.4 million, respectively. We did not accrue for the guarantees, as the likelihood of the third parties defaulting on the assignment agreements was deemed to be less than probable. 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 2015 through fiscal 2021.

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. The following is a brief description of the more significant of these matters.

In September 2012, a collective action under the Fair Labor Standards Act was filed in the United States District Court for the Southern District of Florida, *Alequin v. Darden Restaurants, Inc.*, in which named plaintiffs claim that the Company required or allowed certain employees at Olive Garden, Red Lobster, LongHorn Steakhouse, Bahama Breeze and Seasons 52 to work off the clock and required them to perform tasks unrelated to their tipped duties while taking a tip credit against their hourly rate of pay. The plaintiffs seek an unspecified amount of alleged back wages, liquidated damages, and attorneys' fees. In July 2013, the United States District Court for the Southern District of Florida conditionally certified a nationwide class of servers and bartenders who worked in the aforementioned restaurants at any point from September 6, 2009 through September 6, 2012. Unlike a class action, a collective action requires potential class members to "opt in" rather than "opt out" following the issuance of a notice. Out of the approximately 217,000 opt-in notices distributed, 20,225 were returned. In June 2014, the Company filed a motion seeking to have the class de-certified. We believe that our wage and hour policies comply with the law and that we have meritorious defenses to the substantive claims and strong defenses supporting de-certification. An estimate of the possible loss, if any, or the range of loss cannot be made at this stage of the proceeding.

In November, 2011, a lawsuit entitled *ChHab v. Darden Restaurants, Inc.* was filed in the United States District Court for the Southern District of New York alleging a collective action under the Fair Labor Standards Act and a class action under the applicable New York state wage and hour statutes. The named plaintiffs claim that the Company required or allowed certain employees at The Capital Grille to work off the clock, share tips with individuals who polished silverware to assist the plaintiffs, and required the plaintiffs to perform tasks unrelated to their tipped duties while taking a tip credit against their hourly rate of pay. The plaintiffs seek an unspecified amount of alleged back wages, liquidated damages, and attorneys' fees. In September 2013, the United States District Court for the Southern District of New York conditionally certified a nationwide class for the Fair Labor Standards Act claims only of tipped employees who worked in the aforementioned restaurants at any point from November 17, 2008 through September 19, 2013. Potential class members are required to "opt in" rather than "opt out" following the issuance of a notice. Out of the approximately 3,200 opt-in notices distributed, 541 were returned. As with the *Alequin* matter, the Company will have an opportunity to seek to have the class de-certified and/or seek to have the case dismissed on its merits. We believe that our wage and hour policies comply with the law and that we have meritorious defenses to the substantive claims in this matter. An estimate of the possible loss, if any, or the range of loss cannot be made at this stage of the proceeding.

NOTE 20 SUBSEQUENT EVENT

On June 18, 2014, the Board of Directors declared a cash dividend of \$0.55 per share to be paid August 1, 2014 to all shareholders of record as of the close of business on July 10, 2014.

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NOTE 21

QUARTERLY DATA (UNAUDITED)

The following table summarizes unaudited quarterly data for fiscal 2014 and fiscal 2013:

<i>(in millions, except per share data)</i>	Fiscal 2014 – Quarters Ended				
	Aug. 25	Nov. 24	Feb. 23	May 25	Total
Sales	\$1,531.5	\$1,485.6	\$1,618.5	\$1,650.1	\$6,285.6
Earnings before income taxes	49.8	1.8	89.1	33.9	174.6
Earnings from continuing operations	42.2	6.0	86.6	48.4	183.2
Earnings from discontinued operations, net of tax	28.0	13.8	23.1	38.1	103.0
Net earnings	70.2	19.8	109.7	86.5	286.2
Basic net earnings per share:					
Earnings from continuing operations	0.32	0.05	0.66	0.37	1.40
Earnings from discontinued operations	0.22	0.10	0.18	0.29	0.78
Net earnings	0.54	0.15	0.84	0.66	2.18
Diluted net earnings per share:					
Earnings from continuing operations	0.32	0.05	0.65	0.36	1.38
Earnings from discontinued operations	0.21	0.10	0.17	0.29	0.77
Net earnings	0.53	0.15	0.82	0.65	2.15
Dividends paid per share	0.55	0.55	0.55	0.55	2.20
Stock price:					
High	55.25	53.99	54.89	52.50	55.25
Low	46.62	44.78	47.05	47.83	44.78

<i>(in millions, except per share data)</i>	Fiscal 2013 – Quarters Ended				
	Aug. 26	Nov. 25	Feb. 24	May 26	Total
Sales	\$1,373.3	\$1,369.3	\$1,586.0	\$1,592.4	\$5,921.0
Earnings before income taxes	75.6	9.5	105.7	83.1	274.0
Earnings from continuing operations	62.9	7.8	88.0	78.5	237.3
Earnings from discontinued operations, net of tax	47.9	25.8	46.4	54.7	174.6
Net earnings	110.8	33.6	134.4	133.2	411.9
Basic net earnings per share:					
Earnings from continuing operations	0.49	0.06	0.68	0.60	1.84
Earnings from discontinued operations	0.37	0.20	0.36	0.43	1.35
Net earnings	0.86	0.26	1.04	1.03	3.19
Diluted net earnings per share:					
Earnings from continuing operations	0.48	0.06	0.67	0.59	1.80
Earnings from discontinued operations	0.37	0.20	0.35	0.42	1.33
Net earnings	0.85	0.26	1.02	1.01	3.13
Dividends paid per share	0.50	0.50	0.50	0.50	2.00
Stock price:					
High	54.09	57.93	54.19	54.21	57.93
Low	48.39	50.00	44.11	44.81	44.11

	Fiscal Year Ended				
	May 25, 2014	May 26, 2013	May 27, 2012	May 29, 2011	May 30, 2010
<i>(Dollars in millions, except per share data)</i>					
Operating Results ⁽¹⁾					
Sales	\$6,285.6	\$5,921.0	\$ 5,327.1	\$4,980.3	\$4,626.8
Costs and expenses:					
Cost of sales:					
Food and beverage	1,892.2	1,743.6	1,553.7	1,393.4	1,279.1
Restaurant labor	2,017.6	1,892.6	1,683.6	1,600.6	1,531.0
Restaurant expenses	1,080.7	980.4	851.0	791.9	739.5
Total cost of sales, excluding restaurant depreciation and amortization ⁽²⁾	\$4,990.5	\$4,616.6	\$ 4,088.3	\$3,785.9	\$3,549.6
Selling, general and administrative	663.5	625.4	540.1	538.9	497.9
Depreciation and amortization	304.4	278.3	241.3	218.6	205.6
Interest, net	134.3	126.0	102.1	94.0	94.1
Asset impairment, net	18.3	0.7	0.2	1.8	4.9
Total costs and expenses	\$6,111.0	\$5,647.0	\$ 4,972.0	\$4,639.2	\$4,352.1
Earnings before income taxes	174.6	274.0	355.1	341.1	274.7
Income taxes	(8.6)	36.7	75.9	71.2	52.0
Earnings from continuing operations	\$ 183.2	\$ 237.3	\$ 279.2	\$ 269.9	\$ 222.7
Earnings from discontinued operations, net of tax expense of \$32.3, \$72.7, \$84.9, \$96.2 and \$83.1	103.0	174.6	196.3	206.4	181.8
Net earnings	\$ 286.2	\$ 411.9	\$ 475.5	\$ 476.3	\$ 404.5
Basic net earnings per share:					
Earnings from continuing operations	\$ 1.40	\$ 1.84	\$ 2.15	\$ 1.97	\$ 1.60
Earnings from discontinued operations	\$ 0.78	\$ 1.35	\$ 1.50	\$ 1.51	\$ 1.30
Net earnings	\$ 2.18	\$ 3.19	\$ 3.65	\$ 3.48	\$ 2.90
Diluted net earnings per share:					
Earnings from continuing operations	\$ 1.38	\$ 1.80	\$ 2.10	\$ 1.92	\$ 1.56
Earnings from discontinued operations	\$ 0.77	\$ 1.33	\$ 1.47	\$ 1.47	\$ 1.28
Net earnings	\$ 2.15	\$ 3.13	\$ 3.57	\$ 3.39	\$ 2.84
Average number of common shares outstanding:					
Basic	131.0	129.0	130.1	136.8	139.3
Diluted	133.2	131.6	133.2	140.3	142.4
Financial Position					
Total assets	\$7,100.7	\$6,936.9	\$ 5,944.2	\$5,466.6	\$5,276.1
Land, buildings and equipment, net	\$3,381.0	\$4,391.1	\$ 3,951.3	\$3,622.0	\$3,403.7
Working capital (deficit)	\$ 357.9	\$ (651.5)	\$ (1,016.5)	\$ (623.0)	\$ (519.6)
Long-term debt, less current portion	\$2,481.4	\$2,496.2	\$ 1,453.7	\$1,407.3	\$1,408.7
Stockholders' equity	\$2,156.9	\$2,059.5	\$ 1,842.0	\$1,936.2	\$1,894.0
Stockholders' equity per outstanding share	\$ 16.30	\$ 15.81	\$ 14.28	\$ 14.38	\$ 13.47
Other Statistics					
Cash flows from operations ⁽¹⁾	\$ 555.4	\$ 594.4	\$ 513.5	\$ 591.3	\$ 558.8
Capital expenditures ⁽¹⁾	\$ 414.8	\$ 510.1	\$ 457.6	\$ 397.7	\$ 334.6
Dividends paid	\$ 288.3	\$ 258.2	\$ 223.9	\$ 175.5	\$ 140.0
Dividends paid per share	\$ 2.20	\$ 2.00	\$ 1.72	\$ 1.28	\$ 1.00
Advertising expense ⁽¹⁾	\$ 252.3	\$ 241.1	\$ 215.6	\$ 205.4	\$ 185.0
Stock price:					
High	\$ 55.25	\$ 57.93	\$ 55.84	\$ 52.12	\$ 49.01
Low	\$ 44.78	\$ 44.11	\$ 40.69	\$ 37.08	\$ 29.94
Close	\$ 49.55	\$ 52.83	\$ 53.06	\$ 50.92	\$ 42.90
Number of employees	206,489	206,578	181,468	178,380	174,079
Number of restaurants ⁽¹⁾	1,501	1,431	1,289	1,196	1,130

⁽¹⁾ Consistent with our consolidated financial statements, information has been presented on a continuing operations basis. Accordingly, the activities related to Red Lobster, two closed synergy restaurants, Smokey Bones, Rocky River Grillhouse and the nine Bahama Breeze restaurants closed or sold in fiscal 2007 and 2008 have been excluded.

⁽²⁾ Excludes restaurant depreciation and amortization of \$282.3 million, \$257.5 million, \$219.3 million, \$197.5 million and \$188.3 million, respectively.

Shareholder Information

Darden

Company Headquarters

Darden Restaurants, Inc.
1000 Darden Center Drive
Orlando, FL 32837
(407) 245-4000

Mailing Address

Darden Restaurants, Inc.
P.O. Box 695011
Orlando, FL 32869-5011

Website Addresses

www.darden.com
www.olivegarden.com
www.longhornsteakhouse.com
www.bahamabreeze.com
www.seasons52.com
www.thecapitalgrille.com
www.eddiev.com
www.yardhouse.com

Independent Registered Public Accounting Firm

KPMG LLP
111 North Orange Avenue
Suite 1600
Orlando, FL 32801
Phone: (407) 423-3426

Markets

New York Stock Exchange
Stock Exchange Symbol: DRI

Transfer Agent, Registrar and Dividend Payments

Wells Fargo Shareowner Services
1110 Centre Pointe Curve, Suite 101
MAC N9173-010
Mendota Heights, MN 55120
Phone: (877) 602-7596 or (651) 450-4064
www.wellsfargo.com/com/investments/shareowner_services

Address correspondence as appropriate to the attention of:

Address Changes
Stock Transfers
Shareholder Services

Form 10-K Report

Shareholders may request a free copy of our Form 10-K, including financial statements and schedules but excluding exhibits, by writing to:

**Investor Relations
Darden Restaurants, Inc.
P.O. Box 695011
Orlando, FL 32869-5011**

Shareholder Reports/Investor Inquiries

Shareholders seeking information about Darden Restaurants, Inc. are invited to contact the Investor Relations Department at (407) 245-4000. Shareholders may request to receive, free of charge, copies of quarterly earnings releases. Information may also be obtained by visiting our website at www.darden.com. Annual reports, SEC filings, press releases and other Company news are readily available on the website. Our website also includes corporate governance information, including our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and board committee charters, including the charters for our Audit, Compensation and Nominating and Governance Committees.

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held at 9:00 a.m. Eastern Daylight Saving Time on Tuesday, September 30, 2014, at the JW Marriott Orlando Grande Lakes at 4040 Central Florida Parkway, Orlando, Florida 32837.

As of the close of business on June 30, 2014, we had 41,859 registered shareholders of record.

Forward-Looking Statements

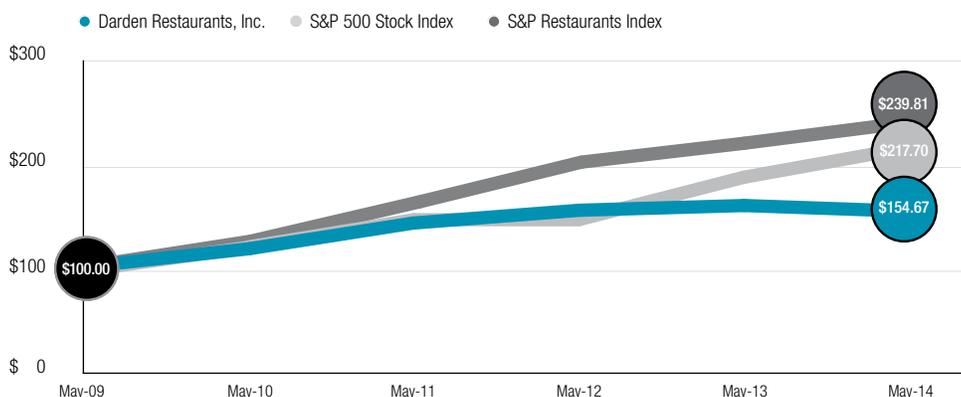
This report contains forward-looking statements. By their nature, forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by such forward-looking statements. Additional cautionary and other information with respect to these forward-looking statements is set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Forward-Looking Statements."

 In alignment with Darden's commitment to sustainability, parts of this report have been printed on paper that is manufactured with 10% post-consumer waste. These forests are certified to a responsibly managed forest management standard.

Diversity is both a core value and a competitive advantage for Darden. As an example of our continuing commitment to diversity, this annual report was designed by a woman-owned company, Corporate Reports Inc., Atlanta, GA.

Stock Performance

Comparison of Five-Year Total Return for Darden Restaurants, Inc., S&P 500 Stock Index and S&P Restaurants Index



	5/31/09	5/30/10	5/29/11	5/27/12	5/26/13	5/25/14
Darden Restaurants, Inc.	\$100.00	\$117.35	\$143.41	\$155.75	\$159.30	\$154.67
S&P 500 Stock Index	\$100.00	\$117.93	\$146.97	\$147.10	\$186.24	\$217.70
S&P Restaurants Index	\$100.00	\$123.17	\$161.51	\$201.10	\$220.13	\$239.81

Board of Directors

Charles A. Ledsinger, Jr.

Chairman of the Board, Darden Restaurants, Inc.; Chairman and Managing Director, SunBridge Manager, LLC, an investment management firm; Retired Vice Chairman and Chief Executive Officer of Choice Hotels International, a lodging franchisor.

Michael W. Barnes

Chief Executive Officer, Signet Jewelers Limited, a specialty retail jeweler.

Dr. Leonard L. Berry

Presidential Professor for Teaching Excellence, Regents Professor, Distinguished Professor of Marketing, and M.B. Zale Chair in Retailing and Marketing Leadership, Mays Business School, Texas A&M University.

Christopher J. (CJ) Fraleigh

Chairman and Chief Executive Officer, Shearer's Foods, Inc., a global snack food company.

Victoria D. Harker

Chief Financial Officer, Gannett Co., Inc., an international media and marketing solutions company.

David H. Hughes

Retired Chairman of the Board, Hughes Supply, Inc., a building supply company.

William M. Lewis, Jr.

Managing Director and Co-Chairman of Investment Banking, Lazard Ltd., an investment banking firm.

Senator Connie Mack III

Chairman Emeritus, Liberty Partners Group, a public policy consulting firm. Former U.S. Senator.

Clarence Otis, Jr.

Chief Executive Officer, Darden Restaurants, Inc.

Michael D. Rose

Private investor and Chairman of the Board, Midaro Investments, Inc., a privately held investment firm.

Maria A. Sastre

President and Chief Operating Officer, Signature Flight Support, a fixed-based operation and distribution network for business aviation services.

William S. Simon

Former Executive Vice President, Wal-Mart Stores, Inc., a global retailer, and Former President and Chief Executive Officer, Walmart U.S.

Senior Leadership

Clarence Otis, Jr.

Chief Executive Officer

Laurie Burns

Senior Vice President
Chief Development Officer

David George

President
Olive Garden

Harald Herrmann

President
Specialty Restaurant Group

Valerie Insignares

President
LongHorn Steakhouse

Jim Lawrence

Senior Vice President
Chief Supply Chain Officer

Eugene Lee

President
Chief Operating Officer

Dave Lothrop

Senior Vice President
Corporate Controller

Robert McAdam

Senior Vice President
Government and Community Affairs

Daisy Ng

Senior Vice President
Chief Human Resources Officer

Matt Park

Senior Vice President
Chief Marketing Officer

C. Bradford Richmond

Senior Vice President
Chief Financial Officer

Teresa Sebastian

Senior Vice President
General Counsel, Chief Compliance Officer
and Corporate Secretary

