

# DARDEN RESTAURANTS INC

## FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 08/15/97 for the Period Ending 05/25/97

Address	1000 DARDEN CENTER DRIVE ORLANDO, FL 32837
Telephone	4072454000
CIK	0000940944
Symbol	DRI
SIC Code	5812 - Eating Places
Industry	Restaurants
Sector	Services
Fiscal Year	05/30

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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## FORM 10-K

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(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 25, 1997

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

For the transition period from to

Commission File Number  
1-13666

## DARDEN RESTAURANTS, INC.

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(Exact name of registrant as specified in its charter)

FLORIDA

59-3305930

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(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer Identification Number)

5900 LAKE ELLENOR DRIVE  
ORLANDO, FLORIDA

32809

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(Address of principal executive offices)

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(Zip Code)

(407) 245-4000

(Registrant's telephone number, including area code)

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### SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Title of each class  
COMMON STOCK, WITHOUT PAR VALUE

Name of each exchange  
on which registered  
NEW YORK STOCK EXCHANGE

### SECURITIES REGISTERED PURSUANT TO SECTION 12 (G) OF THE ACT: NONE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by Reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Aggregate market value of Common Stock held by non-affiliates of the Registrant, based on the closing price of \$9.0625 per share as reported

on the New York Stock Exchange on July 28, 1997: \$1,375 million.

Number of shares of Common Stock outstanding as of July 28, 1997:  
153,019,238 (excluding 7,124,005 shares held in the treasury).

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of Registrant's Proxy Statement dated August 12, 1997 are incorporated by reference into Part III, and portions of Registrant's 1997 Annual Report to Stockholders are incorporated by reference into Parts I, II and IV.

## PART I

### ITEM 1. BUSINESS OF DARDEN RESTAURANTS, INC.

#### INTRODUCTION

Darden Restaurants, Inc. and its subsidiaries (the "Company" or "Darden") is the world's largest full-service restaurant organization.\* In the United States, as of May 25, 1997, it operated 1,122 restaurants in 49 states (the exception being Alaska), including 652 Red Lobster, 461 The Olive Garden, seven The Olive Garden Cafe and two Bahama Breeze restaurants. In addition, the Company operated 67 restaurants in Canada, including 51 Red Lobster units and 16 The Olive Garden units. All of its restaurants in North America are Company-operated. Although the Company has been investigating the possibility of the franchising of its Canadian units, no viable prospects exist as of the date of the filing of this report. In Japan, as of May 25, 1997, Red Lobster Japan Partners, a Japanese retailer unaffiliated with Darden, operated 38 Red Lobster restaurants pursuant to an Area Development and Franchise Agreement.

The Company, a Florida corporation incorporated in March of 1995, is the parent company of GMRI, Inc., a Florida corporation, which owns the operating assets of the restaurants. GMRI, Inc. was originally incorporated on March 27, 1968, as Red Lobster Inns of America, Inc.

The Company's principal executive offices are located at 5900 Lake Ellenor Drive, Orlando, Florida 32809 (telephone number (407) 245-4000). Unless the context indicates otherwise, all references to Darden or the Company include Darden, GMRI and their subsidiaries.

#### BACKGROUND

The Company opened its first restaurant, a Red Lobster, in Lakeland, Florida in January of 1968. Red Lobster was founded by William B. Darden, for whom the Company is named. The Company was acquired by General Mills, Inc. ("General Mills") in 1970 and became an independent publicly held company in May of 1995 when General Mills distributed all outstanding Darden stock to General Mills stockholders (the "Distribution").

While the expansion of the Company's two largest restaurant chains has historically been steady, the number of restaurants for both Red Lobster and The Olive Garden declined in fiscal 1997 due to the closing of under-performing units and an increased focus on system optimization. Red Lobster has grown from three restaurants in operation in 1970 to 703 units in North America by the end of fiscal year 1997. The Olive Garden, an internally developed concept, opened its first restaurant in December of 1982, and expanded to 461 restaurants in the United States and 16 restaurants in Canada by the end of fiscal year 1997. Additionally, at the end of fiscal year 1997, The Olive Garden operated seven cafes in food courts located in regional shopping malls within the United States.

The Company's newest restaurant concept is Bahama Breeze, an internally developed concept with a Caribbean theme. The Company opened its first Bahama Breeze in Orlando in February of 1996 and a second in May of 1997.

#### STRATEGY

The Company is a leader in the casual-dining segment of the restaurant industry. The Company is committed to the following key strategies.

o Developing and operating distinctive restaurant concepts, each with its own culture, operating practices, physical environment, menu and marketing approach.

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\* Source: Restaurants & Institutions Magazine, July 1, 1996 edition.

o Expanding its current portfolio of restaurant concepts, and internally developing or acquiring additional concepts which can be expanded profitably.

o Attracting, developing and retaining experienced management and personnel committed to providing customer satisfaction and business results.

o Achieving operating efficiencies by sharing support services and infrastructure among its restaurant concepts.

o Maintaining consumer awareness through advertising and consumer promotions.

The following table lists the number of restaurants by year of the Red Lobster, The Olive Garden, China Coast and Bahama Breeze concepts and total sales:

**COMPANY-OPERATED RESTAURANTS OPEN AT FISCAL YEAR-END**

FISCAL YEAR	RED LOBSTER	THE OLIVE GARDEN (a)	CHINA COAST (b)	BAHAMA BREEZE	TOTAL RESTAURANTS (a)	TOTAL SALES (IN MILLIONS)
1970	6				6	\$ 3.5
1971	24				24	9.1
1972	47				47	27.1
1973	70				70	48.0
1974	97				97	72.6
1975	137				137	108.5
1976	174				174	174.1
1977	210				210	229.2
1978	236				236	291.4
1979	244				244	337.5
1980	260				260	397.6
1981	291				291	528.4
1982	328				328	614.3
1983	360	1			361	718.5
1984	368	2			370	782.3
1985	372	4			376	842.2
1986	401	14			415	917.3
1987	433	52			485	1,097.7
1988	443	92			535	1,300.8
1989	490	145			635	1,621.5
1990	521	208	1		730	1,927.7
1991	568	272	1		841	2,212.3
1992	619	341	1		961	2,542.0
1993	638	400	5		1,043	2,737.0
1994	675	458	25		1,158	2,963.0
1995	715	477	51		1,243	3,163.3
1996	729	487	0	1	1,217	3,191.8
1997	703	477	0	2	1,182	3,171.8

(a) These numbers do not include the seven The Olive Garden Cafes in operation as of May 25, 1997.

(b) In August 1995, the Company approved the closing of all China Coast restaurants.

## **INDUSTRY OVERVIEW**

In the United States, the restaurant industry generates approximately \$211 billion in annual sales, or roughly one-third of total consumer food expenditures.\* Expenditures for restaurant dining and other meals prepared away from home have increased from 25% of the food dollar in 1955 to 44% in 1996.\* Over the past 20 years, restaurant sales have grown at a rate one to two percentage points faster than the growth of food-at-home sales.\* The industry is highly fragmented and is characterized by the presence of thousands of independent operators and small chains. While chain restaurants dominate the fast-food segment with a combined market share of 63%, chains account for just 23% in the full-service segment.\* The Company believes that capable operators of strong multi-unit concepts will continue to increase their share of the full-service restaurant market.

Casual dining is the fastest growing segment of the full-service restaurant market, with sales increasing at a 6.5% annual compound growth rate since 1991.\* Today, casual dining represents 36% of full-service restaurant sales, or \$35 billion.\* Darden is a leader in the casual-dining segment, with approximately a nine percent market share.\* Management believes that casual-dining concepts will benefit from favorable demographic trends, most notably the maturing population. Forty to sixty year olds are the most frequent users of casual-dining restaurants, and through this decade and the next, the population aged forty-five or older is projected to increase by approximately 34 million. In addition, "baby-boomers" (i.e., thirty-two to fifty year olds) tend to eat out more than generations before them so, as they age, their casual dining frequency may become even higher. Finally, this group includes a high proportion of two-income families, which the Company believes could increase the demand for food-away-from-home due to a combination of more discretionary income and less discretionary time.

Restaurants face growing competition from the supermarket industry which is offering improved entrees and side dishes from the deli section. Supermarkets' renewed emphasis on such "convenient meals" may have the most impact on segments of the restaurant industry in which the meals fulfill a primarily physiological objective, such as in the "quick serve" and "midscale" segments. Casual dining offers a more significant social component with the meal, a feature that the supermarkets' "convenient meals" do not readily confer.

## **RESTAURANT CONCEPTS**

### **RED LOBSTER(R)**

Red Lobster is the largest chain of full-service, seafood-specialty restaurants in the United States. It offers an extensive menu featuring fresh fish, shrimp, crab, lobster, scallops, and other seafood in a casual atmosphere. The menu includes a variety of specialty seafood and non-seafood appetizers and desserts. For the ninth consecutive year, Red Lobster was named Best Seafood Chain in America in the 1997 America's Choice In Chains national consumer survey published in the February 1, 1997 issue of Restaurants & Institutions magazine.

Dinner entree prices range from \$6.99 to \$18.99, with fresh fish and certain lobster items available at market price. Lunch entree prices range from \$4.99 to \$7.99. During fiscal year 1997, the average check per person was between \$12.75 to \$14.25, with alcoholic beverages accounting for approximately eight percent of sales. Red Lobster also offers a lower-priced children's menu. The Company maintains approximately 100 different menus to reflect geographic differences in consumer preferences, prices and selections in its trade areas.

Red Lobster is currently remodeling its restaurants with a distinctive wharfside look that uses weathered wood accented by nautical artifacts to create a warm and casual seaside atmosphere. Research indicates strong, positive consumer response. As of May 25, 1997, approximately 90% of total Red Lobster units had the wharfside look. This percentage includes 496 remodeled restaurants and 144 new or relocated restaurants. Red Lobster plans to substantially complete the wharfside remodeling project within fiscal year 1998.

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\* Sources: United States Department of Commerce Census of Retail Trade (1996); National Restaurant Association Annual Foodservice Forecast (1996); and CREST Annual Household Summary (1996).

## THE OLIVE GARDEN(R)

The Olive Garden is the largest chain of casual, full-service Italian restaurants in the United States. The moderately priced menu features recipes from both northern and southern Italy. For the eighth consecutive year, The Olive Garden was named Best Dinnerhouse Chain in America in the 1997 America's Choice In Chains national consumer survey published in the February 1, 1997 issue of Restaurants & Institutions magazine.

Dinner entree prices range from \$6.95 to \$13.95, and lunch entree prices range from \$4.75 to \$7.95. During fiscal year 1997, the average check per person was between \$10.00 and \$12.00, with alcoholic beverages accounting for approximately eight percent of sales.

The Olive Garden places importance on brand building and, as a result, is (like Red Lobster) one of the largest advertisers in the full-service restaurant industry. The Olive Garden Cafe concept, which is a limited-menu cafe in food court settings of regional shopping malls, operated in seven locations at the end of fiscal year 1997. The Company is also experimenting with new restaurant decor and additional menu improvements.

## EXPANSION STRATEGY

During fiscal year 1997, the Company opened 20 restaurants (excluding pre-existing restaurants relocated to other sites). It plans to open from six to ten new Red Lobster, The Olive Garden and Bahama Breeze restaurants during fiscal year 1998 (excluding relocations). The Company's new store openings by concept are shown below:

	ACTUAL FISCAL 1997	PROJECTED FISCAL 1998
	-----	-----
Red Lobster.....	13	1
The Olive Garden.....	6	5-6
Bahama Breeze.....	1	0-3
	--	----
Totals.....	20	6-10
	==	====

The Company's objective is to continue to expand its current portfolio of restaurant concepts, and to develop internally or acquire additional concepts which can be expanded. It is currently working on test concepts, including its recently opened Bahama Breeze restaurant in Orlando. The Company also regularly evaluates potential acquisition candidates as to whether they would satisfy the Company's strategic and financial objectives. At present, the Company has not identified any specific acquisitions.

The Company will continue to focus on improving operational execution at The Olive Garden and Red Lobster, and limit new restaurant expansion to the highest-potential sites. The specific number of openings will also depend upon a number of factors, including the Company's ability to locate appropriate sites, negotiate acceptable purchase or lease terms, obtain necessary local governmental permits, complete construction, and recruit and train restaurant management and hourly personnel.

Darden considers location to be a critical factor in determining a restaurant's long-term success and devotes significant effort to the site selection process for new locations. Prior to entering a market, a thorough study is conducted to determine the optimal number and placement of restaurants. The Company's site selection process utilizes a variety of analytical techniques to evaluate a number of important factors. These factors include trade area demographics, such as target population density and household income levels; competitive influences in the trade area; the site's visibility, accessibility, and traffic volume; and proximity to activity centers such as shopping malls, hotel/motel complexes, offices and universities. Members of senior management evaluate, inspect and approve each restaurant site prior to its acquisition. After site acquisition and receipt of permits, it typically takes 120 to 180 days to construct and open a new restaurant.

The following table illustrates the approximate average capital investment, size and dining capacity of the fiscal year 1997 Red Lobster and The Olive Garden openings (excluding relocations of existing restaurants):

	CAPITAL INVESTMENT	SQUARE FEET	DINING SEATS	DINING TABLES
	-----	-----	-----	-----
Red Lobster.....	\$1,846,000	5,039	162	44
The Olive Garden.....	\$2,529,000	7,092	243	47

The Red Lobster figures reflect the average of three building sizes which the Company utilizes to expand in trade areas of varying sizes. The building sizes for new restaurants opened in fiscal 1997 (excluding relocations) range from 4,100 to 6,400 square feet; the numbers of dining seats range from 135 to 222; and the numbers of dining tables range from 34 to 58. During fiscal year 1997, Red Lobster opened 13 restaurants that were located primarily in smaller markets.

The Olive Garden figures reflect the average of three building sizes which the Company utilizes to expand in trade areas of varying sizes. The building sizes for new restaurants opened in fiscal 1997 (excluding relocations) range from 6,050 to 9,100 square feet; the numbers of dining seats range from 180 to 378; and the numbers of dining tables range from 38 to 68. During fiscal year 1997, The Olive Garden opened six restaurants.

Bahama Breeze opened its second restaurant in Altamonte Springs, Florida, in May, 1997. The Company hopes to secure up to three additional Bahama Breeze restaurant sites for potential fiscal year 1998 openings, but the actual number of openings may vary due to the factors previously discussed.

The Company systematically reviews the performance of its restaurant sites to ensure that each unit meets its standards. When a unit falls below minimum standards, a thorough analysis is completed to determine the causes, and marketing and operational plans are implemented to improve that unit's performance. If performance does not improve to acceptable levels, the site is evaluated for relocation, closing or conversion to one of the Company's other concepts. In fiscal year 1997, the Company permanently closed 38 Red Lobster restaurants in the United States and one Red Lobster restaurant in Canada. During the same period, The Olive Garden permanently closed 16 restaurants in the United States. For a discussion of restructuring and asset impairment charges related to these restaurant closings, see Management's Discussion of Results of Operations and Financial Condition and Note 3 of Notes to Consolidated Financial Statements on pages 12 and 19, respectively, of the Company's 1997 Annual Report to Stockholders.

During fiscal 1997, Red Lobster relocated or rebuilt 20 restaurants (not included in the numbers of new store openings or permanent closings stated above). These actions repositioned older Red Lobster restaurants to better locations and/or more contemporary buildings.

## **RESTAURANT OPERATIONS**

The Company believes that high-quality restaurant management is critical to its long-term success. It also believes that its leadership position, strong success-oriented culture and various short-term and long-term incentive programs, including stock options, help attract and retain highly-motivated restaurant managers committed to providing superior customer satisfaction and outstanding business results.

The Company's restaurant management structure varies by concept and restaurant size. Each restaurant is led by a general manager and one to four additional managers, depending on the operating complexity and sales volume of the restaurant. Each restaurant also employs approximately 65 to 115 hourly employees, most of whom work part-time. The Company issues detailed operations manuals covering all aspects of restaurant operations as well as food and beverage manuals which detail the preparation procedures of the Company's formulated recipes. The restaurant management teams are responsible for the day-to-day operation of each restaurant and for ensuring compliance with the Company's operating standards. Restaurant general managers report to directors at Red Lobster and The Olive Garden, and each director is responsible for seven to 14 restaurants. Restaurants are visited regularly by all levels of supervision to ensure strict adherence to all aspects of the Company's standards.



Each concept's vice president or director of training, together with senior operations executives, is responsible for developing and maintaining that concept's operational training programs. These efforts include a 12-to-15 week training program for management trainees, and continuing development programs for managers, supervisors and directors. The emphasis of the training and development programs vary by restaurant concept but include improvement of leadership, restaurant business management and culinary skills. The Company also utilizes a highly structured training program to open new restaurants, including training teams consisting of groups of employees experienced in all aspects of restaurant operations. The opening training teams typically begin on-site training one week prior to opening and remain on location one week following the opening. They are phased out when appropriate to ensure a smooth transition to the restaurant's operating staff.

## **QUALITY ASSURANCE**

The Company's Quality Assurance Department helps ensure that all restaurants provide high-quality food products in a clean and safe environment. The Company ensures that all seafood purchased meets or exceeds its specifications through rigorous physical evaluation and testing. Since 1976, the Company has maintained a microbiological laboratory to routinely test seafood and commodity products for quality. In addition, quality assurance managers visit each restaurant location periodically throughout the year to ensure that food is properly handled, and to provide education and training in food safety and sanitation. The quality assurance managers also serve as a liaison to regulatory agencies on issues relating to food safety. The Company uses independent third party auditors to inspect and evaluate vendors of commodity food products to ensure that its suppliers are operating under good manufacturing practices with the comprehensive industry standard Hazard Analysis Critical Control Points programs in place.

## **PURCHASING AND DISTRIBUTION**

The Company's ability to ensure a consistent supply of high-quality food and supplies at competitive prices to all of its restaurant concepts depends upon procurement from reliable sources. The Company's purchasing staff sources, negotiates and buys internally specified food and supplies from more than 1,490 suppliers in 44 countries. To ensure the quality of all food products, suppliers are required to meet strict quality control standards in the development, harvest, catch and/or production of food products. Competitive bids, long-term contracts and long-term vendor relationships are routinely used to ensure availability of products and stability of costs.

The Company believes that its seafood purchasing capabilities are a significant competitive advantage. The Company's purchasing staff routinely travels within the United States and internationally to source over 100 varieties of top-quality seafood at competitive prices. Red Lobster is the single largest buyer in the United States of many seafood products. The Company believes that it has established excellent long-term relationships with key seafood vendors, and sources product directly when possible. It employs an agent in South America to provide timely information on local seafood market trends, identify purchasing opportunities and inspect product at the source. It also operates a procurement office in Singapore to source products directly from Asia. While the supply of certain seafood species is volatile, the Company believes that it has demonstrated the ability to identify alternative seafood products and to adjust its menus as required. All other essential food products are available, or can be made available upon short notice, from alternative qualified suppliers. Because of the relatively rapid turnover of perishable food products, inventories in the restaurants have a modest aggregate dollar value in relation to revenues. Controlled inventories of specified products are distributed to all restaurants through a national distribution company. See Note 2 of Notes to the Consolidated Financial Statements on page 19 of the Company's 1997 Annual Report to Stockholders.

## **ADVERTISING AND MARKETING**

The Company believes that it has developed significant advertising and marketing capabilities. The Company's size enables it to be the dominant advertiser in the full-service segment of the restaurant industry. The Company leverages the efficiency of national network television advertising and supplements it with local market television advertising. The Company's restaurants appeal to a broad spectrum of consumers and it uses advertising and product promotions to attract customers. The Company implements periodic promotions as appropriate to maintain and increase its sales and profits. It also relies on radio and newspaper advertising, as well as newspaper

and direct mail couponing programs to attract customers. The Company has developed and consistently utilizes sophisticated consumer marketing research techniques to monitor customer satisfaction and customers' evolving expectations.

## **EMPLOYEES**

At the end of fiscal year 1997, the Company employed 114,582 persons: 1,105 corporate personnel; 87 seafood processing plant personnel; 5,446 restaurant management personnel; and the remainder, hourly restaurant personnel. Of the 1,105 corporate employees, 621 were in management and 484 were administrative or office employees. The operating executives of the Company have an average of more than 18.1 years of experience with the Company. The restaurant general managers average 9.4 years with the Company. The Company believes that it provides working conditions and compensation that compare favorably with those of its competition. Most employees, other than restaurant management and corporate management, are paid on an hourly basis. None of the Company's employees are covered by a collective bargaining agreement. The Company considers its employee relations to be good.

## **MANAGEMENT INFORMATION SYSTEMS**

The Company strives for leadership in the restaurant business by utilizing technology as a competitive advantage. Since 1975, in-store computers have been used to assist in the management of the restaurants. The Company has implemented systems targeted at improved financial control, cost management, enhanced guest service and improved employee effectiveness. Management information systems are designed to be used across restaurant concepts, yet are flexible enough to meet the unique needs of each restaurant chain. Restaurant support is provided from the corporate office, seven days a week, 24 hours a day. A communications network sends and receives critical business data to and from the restaurants each night, providing timely and extensive information each morning on business activity in every location. The corporate office houses the Company's Data Center, which contains sufficient computing power to process information from all restaurants quickly and efficiently. The Company uses internally developed proprietary software, as well as purchased software, with proven, non-proprietary hardware. This allows processing power in terms of hardware and software to be distributed effectively to each of the Company's restaurant locations.

The Company's management believes these systems have well positioned the Company to support current needs as well as future growth. The Company is committed to maintaining an industry leadership position in information systems and computing technology. The Company utilizes a long-range information systems plan that is prepared internally and reviewed with senior management. The plan is a result of projects approved by the Information Systems Executive Steering Committee. This plan prioritizes information systems projects based upon financial, regulatory and other business advantage criteria.

The Company has committed the resources necessary to ensure that its critical information systems and technology are "Year 2000 compliant" in advance of the next millennium. "Year 2000 compliant" refers to information systems and technology that accurately process date/time data (including calculating, comparing and sequencing) from, into and between the twentieth and twenty-first centuries and, in particular, the years 1999 and 2000. As of May 25, 1997, approximately 25% of the Company's systems either have been modified to be Year 2000 compliant or have been eliminated due to changes in business requirements. Remaining applications are expected to be Year 2000 compliant over the next two years. The total cost to the Company of achieving Year 2000 compliant systems is not expected to have a material impact on the Company's financial condition or results of operations.

## **COMPETITION**

The restaurant industry is intensely competitive with respect to food quality, price, service, restaurant location, concept, the attractiveness of facilities, and the effectiveness of advertising and marketing programs. The restaurant business is often affected by changes in consumer tastes; national, regional or local economic conditions; demographic trends; traffic patterns; the type, number and location of competing restaurants; and consumers' discretionary purchasing power. The Company competes within each market with national and regional chains as

well as locally-owned restaurants, not only for customers but also for management and hourly personnel and suitable real estate sites. Restaurants face growing competition from the supermarket industry, which is offering "convenient meals" in the form of improved entrees and side dishes from the deli section. The Company expects intense competition to continue in all of these areas.

## **TRADEMARKS AND RELATED AGREEMENTS**

The Company regards its Red Lobster(R), The Olive Garden(R) and Bahama Breeze(SM) servicemarks as having significant value and as being important in marketing the restaurants. The Company's policy is to pursue registration of its important servicemarks and trademarks whenever possible and to oppose vigorously any infringement of them.

The only restaurant operations outside of North America historically have been conducted through Red Lobster Japan Partners, a partnership venture with the Japanese retailer JUSCO that was established in 1982. The historical financial results of Darden exclude the results of such operations. On April 26, 1995, the Darden subsidiary, GMRI, Inc., entered into an Area Development and Franchise Agreement with Red Lobster Japan Partners, which operated 38 Red Lobster restaurants in Japan as of May 25, 1997. Darden does not have an ownership interest in Red Lobster Japan Partners. Royalty income is not expected to be material.

## **SEASONALITY**

The Company's sales volumes fluctuate seasonally, and are generally higher in the spring and summer months, and lower in the fall and winter months. Severe weather, storms and similar conditions may impact sales volumes seasonally in some operating regions.

## **GOVERNMENT REGULATION**

The Company is subject to various federal, state and local laws affecting its business. Each of the Company's restaurants must comply with licensing requirements and regulations by a number of governmental authorities, which include health, sanitation, safety and fire agencies in the state or municipality in which the restaurant is located. The development and operation of restaurants depend on selecting and acquiring suitable sites, which are subject to zoning, land use, environmental, traffic and other regulations. To date, the Company has not been significantly affected by any difficulty, delay or failure to obtain required licenses or approvals.

Presently about eight percent of restaurant revenues are attributable to the sale of alcoholic beverages. Regulations governing their sale require licensure by each site (in most cases, on an annual basis) and licenses may be revoked or suspended for cause at any time. These regulations relate to many aspects of restaurant operation, including the minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control and handling, storage and dispensing of alcoholic beverages. The failure of a restaurant to obtain or retain these licenses would adversely affect the restaurant's operations. The Company is also subject in certain states to "dram-shop" statutes, which generally provide an injured party with recourse against an establishment that wrongfully serves alcoholic beverages to an intoxicated person causing the injury. The Company carries liquor liability coverage as part of its comprehensive general liability insurance.

The Company is also subject to federal and state minimum wage laws and other laws governing such matters as overtime, tip credits, working conditions, safety standards, and hiring and employment practices. Changes in these laws during the fiscal year ended May 25, 1997, have not had a material effect on the Company's operations.

The Company is subject to federal and state environmental regulations, but these rules have not had a material effect on the Company's operations.

The Company continues to monitor its facilities for compliance with the Federal Americans With Disabilities Act ("ADA") and

related state statutes in order to conform to their requirements. Under the ADA and related state laws, the Company could be required to expend funds to modify its restaurants to better provide service to, or make reasonable accommodation for the employment of, disabled persons.

The Company is currently operating under a Tip Rate Alternative Commitment ("TRAC") agreement with the Internal Revenue Service. The TRAC agreement is expected to reduce the likelihood of future chain-wide employer-only FICA assessments for previously unreported tips.

## **EXECUTIVE OFFICERS**

The executive officers of the Company as of the date of this report are as follows.

Joe R. Lee, age 56, is currently Chief Executive Officer and Chairman of the Board of Darden. Mr. Lee joined Red Lobster in 1967 as a member of its founding team, and was named its President in 1975. He was elected a Vice President of General Mills in 1976, a Group Vice President in 1979, and an Executive Vice President in 1981, was named Executive Vice President, Finance and International Restaurants in 1991, and was elected a Vice Chairman of General Mills in 1992 with responsibility for various consumer foods businesses and corporate staff functions. Mr. Lee was elected a director of General Mills in 1985. He was named Chief Executive Officer of Darden in December of 1994.

Blaine Sweatt, III, age 49, is President, New Business Division. He joined General Mills in 1976 in the Red Lobster organization and was named Director of New Restaurant Concept Development in 1981. Mr. Sweatt led the teams that developed the concepts for The Olive Garden, China Coast and Bahama Breeze. He was named Vice President in 1985 and Senior Vice President in 1994.

Bradley D. Blum, age 43, is President of The Olive Garden. Mr. Blum joined General Mills in 1978. He was named Director of Marketing in 1984, responsible for Big G Cereals, and he became Vice President of Big G New Enterprises in 1989. In 1990, he was named Vice President of Marketing for Cereal Partners Worldwide, General Mills' joint venture with Nestle, headquartered in Switzerland. He joined the Company in 1994 as Senior Vice President of Marketing for The Olive Garden and was named President of The Olive Garden in December of 1994. He was named Senior Vice President of Darden in September of 1995.

Clarence Otis, Jr., age 41, is Senior Vice President, Investor Relations and Treasurer of the Company. Mr. Otis joined the Company in 1995 as Vice President and Treasurer. In July of 1997, he assumed responsibility for Investor Relations and was named to his present position. Prior to joining the Company, Mr. Otis was employed by Chemical Securities, Inc. in New York where he had been Managing Director and Manager of Public Finance since 1991. Prior to his work at Chemical Securities, Mr. Otis was employed by Siebert Municipal Capital Group as Managing Director and Principal.

Daniel Lyons, age 44, is Senior Vice President, Personnel of the Company with overall responsibility for all personnel, including aviation, benefits, compensation, employment, corporate security, and diversity management. Mr. Lyons joined the Company in 1993 as Senior Vice President of Personnel for The Olive Garden. He was elected to his present position in January of 1997. Prior to joining The Olive Garden, Mr. Lyons spent 18 years with the Quaker Oats Company.

James D. Smith, age 54, is Senior Vice President, Finance, with responsibility for Financial Operations, Treasury and Information Services. Mr. Smith joined General Mills in 1982 and was named Senior Vice President and Controller of the restaurant operations in 1988. He was named to his present position in December of 1994.

Richard J. Walsh, age 45, is Senior Vice President, Corporate Relations, with responsibility for all corporate communications, environmental relations, media and government, public and community relations, including the Darden Foundation. Mr. Walsh joined General Mills in 1984 as Manager of Government Affairs for Red Lobster. He was named Vice President of Government Relations in 1987 and was promoted to his present position in December of 1994.

Clifford L. Whitehill, age 66, was named a Senior Vice President of the Company in December of 1994. Mr. Whitehill joined General Mills in 1962 as an attorney in the Law Department. He was appointed Assistant General Counsel in 1968, elected Vice President in 1971, named General Counsel in 1975, elected Senior Vice President in 1981 and elected Secretary of General Mills in 1983. Mr. Whitehill retired from General Mills immediately prior to the Distribution, and on that date he assumed his responsibilities at Darden as Senior Vice President, General Counsel and Secretary.

## ITEM 2. PROPERTIES

As of May 25, 1997, the Company operated 1,189 restaurants, including 703 Red Lobster, 477 The Olive Garden, seven The Olive Garden Cafe and two Bahama Breeze restaurants in the following locations:

Alabama (18)	Arizona (24)	Arkansas (10)	California (96)
Colorado (21)	Connecticut (12)	Delaware (4)	Florida (113)
Georgia (37)	Hawaii (1)	Idaho (5)	Illinois (49)
Indiana (34)	Iowa (15)	Kansas (11)	Kentucky (13)
Louisiana (11)	Maine (5)	Maryland (17)	Massachusetts (8)
Michigan (42)	Minnesota (18)	Mississippi (8)	Missouri (26)
Montana (2)	Nebraska (7)	Nevada (9)	New Hampshire (5)
New Jersey (27)	New Mexico (8)	New York (47)	North Carolina (25)
North Dakota (4)	Ohio (67)	Oklahoma (18)	Oregon (9)
Pennsylvania (51)	Rhode Island (2)	South Carolina (18)	South Dakota (3)
Tennessee (25)	Texas (101)	Utah (9)	Vermont (2)
Virginia (37)	Washington (20)	West Virginia (5)	Wisconsin (21)
Wyoming (2)	Canada (67)		

Of the Company's 1,189 restaurants open on May 25, 1997, 744 were on owned sites and 445 were on leased sites. The 445 leases are classified as follows:

Land-Only Leases (Darden owns buildings and equipment)	293
Ground and Building Leases	81
Space/In-Line/Other Leases	71
	---
Total	445
	===

The Company owns its executive offices, culinary center and training facilities in Orlando, Florida. It also owns and operates a small seafood processing plant in St. Petersburg, Florida. Except in limited instances, the Company's restaurant sites and other facilities are not subject to mortgages or encumbrances securing money borrowed by the Company.

See also Notes 5 and 13 of Notes to Consolidated Financial Statements on pages 20 and 23, respectively, of the Company's 1997 Annual Report to Stockholders.

## ITEM 3. LEGAL PROCEEDINGS

The Company is from time to time made a party to legal proceedings arising in the ordinary course of business. The Company does not believe that the results of such legal proceedings, even if unfavorable to the Company, will have a materially adverse impact on its financial condition or the results of its operations. See the section entitled "Government Regulation" for a discussion of various federal, state and local regulatory matters.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock (no par value) has been registered and is traded on the New York Stock Exchange. As of July 28, 1997, the number of record holders of common stock was 27,969. Trading of the Company's common stock began on a "when issued" basis on May 9, 1995, at a price per share of \$9.375. The following table sets forth the high and low sales prices for the Company's common stock for each full quarterly period from the Distribution to the end of fiscal year 1997.

#### PER SHARE SALES PRICE OF COMMON STOCK

FISCAL YEAR 1996	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
HIGH	\$11.50	\$12.00	\$13.25	\$14.00
LOW	\$ 9.75	\$10.00	\$10.625	\$11.50

  

FISCAL YEAR 1997	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
HIGH	\$12.125	\$ 9.25	\$ 9.375	\$ 8.50
LOW	\$ 7.50	\$ 7.75	\$ 6.75	\$ 6.875

During fiscal year 1997, the Company declared two semi-annual dividends of four cents per share each. The first semi-annual dividend (four cents per share) was paid on November 1, 1996, to stockholders of record on October 10, 1996. The second semi-annual dividend (four cents per share) was paid on May 1, 1997, to stockholders of record on April 10, 1997.

### ITEM 6. SELECTED FINANCIAL INFORMATION

The information for fiscal years 1993 through 1997, contained in the Five-Year Financial Summary on page 27 of the Company's 1997 Annual Report to Stockholders, is incorporated herein by reference.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information set forth in the section entitled "Management's Discussion of Results of Operations and Financial Condition" on pages 12 through 13 of the Company's 1997 Annual Report to Stockholders is incorporated herein by reference.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Independent Auditors' Report, Consolidated Statements of Earnings (Loss), Consolidated Balance Sheets, Consolidated Statements of Cash Flows, and Notes to Consolidated Financial Statements on pages 14 through 26 of the Company's 1997 Annual Report to Stockholders are incorporated herein by reference.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

### **PART III**

#### **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information contained in the sections entitled "Information Concerning Nominees" on pages 3 through 4, "Committees of the Board" on pages 5 through 6, and "Section 16(a) Beneficial Ownership Reporting Compliance" on page 15 of the Company's definitive proxy materials dated August 12, 1997, is incorporated herein by reference. Certain information regarding executive officers is contained in Part I above.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information contained in the sections entitled "Board Compensation and Benefits" on pages 4 and 5, "Summary Compensation Table" on pages 8 through 9, and "Option Grants in Last Fiscal Year" on page 9 of the Company's definitive proxy materials dated August 12, 1997, is incorporated by reference. The information appearing in such proxy materials under the heading "Report of Compensation Committee on Executive Compensation" is not incorporated herein.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information contained in the sections entitled "Certain Owners of Common Stock" on page 2 and "Share Ownership of Directors and Officers" on pages 6 through 7 of the Company's definitive proxy materials dated August 12, 1997, is incorporated herein by reference.

#### **ITEM 13. CERTAIN RELATIONS AND RELATED TRANSACTIONS**

The information contained in the section entitled "Certain Relationships and Related Transactions" on page 7 of the Company's definitive proxy materials dated August 12, 1997, is incorporated herein by reference.

### **PART IV**

#### **ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K**

##### **(a) 1. FINANCIAL STATEMENTS:**

Consolidated Statements of Earnings (Loss) for the fiscal years ended May 25, 1997, May 26, 1996, and May 28, 1995 (incorporated by reference to page 15 of the Company's 1997 Annual Report to Stockholders)

Consolidated Balance Sheets at May 25, 1997 and May 26, 1996 (incorporated by reference to page 16 of the Company's 1997 Annual Report to Stockholders)

Consolidated Statements of Cash Flows for the fiscal years ended May 25, 1997, May 26, 1996 and May 28, 1995 (incorporated by reference to page 17 of the Company's 1997 Annual Report to Stockholders)

Notes to Consolidated Financial Statements (incorporated by reference to pages 18 through 26 of the Company's 1997 Annual Report to Stockholders)

##### **2. FINANCIAL STATEMENTS SCHEDULES:**

Not applicable.

### 3. EXHIBITS:

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of certain instruments defining the rights of holders of certain long-term debt of the Company are not filed, and in lieu thereof, the Company agrees to furnish copies thereof to the Securities and Exchange Commission upon request.

EXHIBIT NUMBER	TITLE
3(a)	Articles of Incorporation (incorporated herein by reference to Exhibit 3(a) to the Company's Registration Statement on Form 10 effective May 5, 1995)
3(b)	Bylaws (incorporated herein by reference to Exhibit 3(b) to the Company's Registration Statement on Form 10 effective May 5, 1995)
4(a)	Rights Agreement dated as of May 28, 1995 between the Company and Norwest Bank Minnesota, N.A., as Rights Agent (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form 10 effective May 5, 1995)
4(b)	Indenture dated as of January 1, 1996, between the Company and Norwest Bank Minnesota, National Association, as Trustee (incorporated herein by reference to the Company's Current Report on Form 8-K filed February 9, 1996)
*10(a)	Darden Restaurants, Inc. Stock Option and Long-Term Incentive Plan of 1995, as amended (incorporated herein by reference to Exhibit 10(a) to the Company's Annual Report on Form 10-K for the fiscal year ended May 26, 1996)
*10(b)	Darden Restaurants, Inc. FlexComp Plan (incorporated herein by reference to Exhibit 10(b) to the Company's Registration Statement on Form 10 effective May 5, 1995)
*10(c)	Darden Restaurants, Inc. Stock Option and Long-Term Incentive Conversion Plan, as amended (incorporated herein by reference to Exhibit 10(c) to the Company's Annual Report on Form 10-K for the fiscal year ended May 26, 1996)
*10(d)	Supplemental Pension Plan of Darden Restaurants, Inc. (incorporated herein by reference to Exhibit 10(d) to the Company's Registration Statement on Form 10 effective May 5, 1995)
*10(e)	Executive Health Plan of Darden Restaurants, Inc. (incorporated herein by reference to Exhibit 10(e) to the Company's Registration Statement on Form 10 effective May 5, 1995)
*10(f)	Stock Plan for Non-Employee Directors of Darden Restaurants, Inc. (incorporated herein by reference to Exhibit 10(f) to the Company's Registration Statement on Form 10 Effective May 5, 1995)
*10(g)	Compensation Plan for Non-Employee Directors of Darden Restaurants, Inc. (incorporated herein by reference to Exhibit 10(g) to the Company's Registration Statement on Form 10 effective May 5, 1995)

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\* Items that are management contracts or compensatory plans or arrangements to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.



*10(h)	Darden Restaurants, Inc. Management Incentive Plan, as amended (incorporated herein by reference to Exhibit 10(h) to the Company's Annual Report on Form 10-K for the fiscal year ended May 26, 1996)
*10(i)	Benefits Trust Agreement dated as of October 3, 1995, between the Company and Norwest Bank Minnesota, N.A., as Trustee
*10(j)	Form of Management Continuity Agreement between the Company and certain of its executive officers
11	Determination of Common Shares and Common Share Equivalents
12	Computation of Ratio of Consolidated Earnings to Fixed Charges
13	Portions of 1997 Annual Report to Stockholders (incorporated by reference herein)
21	Subsidiaries of Darden Restaurants, Inc.
23	Independent Accountant's Consent
24	Powers of Attorney
27	Financial Data Schedule

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\* Items that are management contracts or compensatory plans or arrangements to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

(b) REPORTS ON FORM 8-K. During the last quarter covered by this Report, the Company filed one report on Form 8-K. On March 11, 1997, the Company filed a Current Report on Form 8-K announcing certain financial results for the third quarter of fiscal year 1997 and a \$230 million fourth-quarter pretax charge.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 15, 1997

DARDEN RESTAURANTS, INC.  
By: /s/ C.L. Whitehill  
-----  
C.L. Whitehill  
SENIOR VICE PRESIDENT,  
GENERAL COUNSEL AND SECRETARY

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following person's on behalf of the Registrant and in the capacities and on the date indicated.

SIGNATURE	TITLE	DATE
/s/ H.B. Atwater, Jr. ----- H.B. Atwater, Jr.*	Director	
/s/ Daniel B. Burke ----- Daniel B. Burke*	Director	
/s/ Betty Southard Murphy ----- Betty Southard Murphy*	Director	
/s/ Jack A. Smith ----- Jack A. Smith*	Director	
/s/ Michael D. Rose ----- Michael D. Rose*	Director	
/s/ Joe R. Lee ----- Joe R. Lee	Director, Chairman of the Board and Chief Executive Officer (principal executive officer)	August 15, 1997
/s/ Blaine Sweatt, III ----- Blaine Sweatt, III*	Director and President, New Business Division	
/s/ James D. Smith ----- James D. Smith	Senior Vice President-Finance (principal financial officer and principal accounting officer)	August 15, 1997

\*BY: C.L. Whitehill  
Attorney-In-Fact  
August 15, 1997

## EXHIBIT INDEX

## EXHIBITS

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EXHIBITS

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\* Items that are management contracts or compensatory plans or arrangements to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

**DARDEN RESTAURANTS, INC.  
BENEFITS TRUST AGREEMENT**

This BENEFITS TRUST AGREEMENT entered into as of October 3, 1995, is between Darden Restaurants, Inc., (the "Grantor") and Norwest Bank Minnesota, N.A. (the "Trustee").

1. Purpose. The purpose of this trust (the "Trust"), is to provide a trust account to (a) hold assets of the Grantor as a reserve for the discharge of the Grantor's obligations to certain individuals (the "Beneficiaries") entitled to receive cash settlements and/or benefits under the Management Continuity Agreement(s) of Darden Restaurants, Inc. ("Darden"), and any other supplemental benefits plan or deferred compensation plan that the Grantor so designates in writing to the Trustee from time to time including those plans designated in Exhibit A attached hereto and made a part hereof (the "Plans"), and (b) invest, reinvest, disburse and distribute those assets and the earnings thereon as provided hereunder and in the Plans.

2. Trust Corpus. The Grantor hereby transfers to the Trustee and the Trustee hereby accepts and agrees to hold, in trust, the sum of Ten Dollars (\$10.00) plus such cash and/or property, if any, transferred to the Trustee by the Grantor or on behalf of the Grantor pursuant to obligations incurred under any or all of the Plans and the earnings thereon, and such cash and/or property, together with the earnings thereon and together with any other cash or property received by the Trustee pursuant to Section 8(a) of this Trust Agreement, shall constitute the trust estate and shall be held, managed and distributed as hereinafter provided. The Grantor shall execute any and all instruments necessary to vest the Trustee with full title to the property hereby transferred.

3. Grantor Trust. The Trust is intended to be a trust of which the Grantor is treated as the owner for federal income tax purposes in accordance with the provisions of Sections 671 through 679 of the Internal Revenue Code of 1986, as amended (the "Code"). If the Trustee, in its sole discretion, deems it necessary or advisable for the Grantor and/or the Trustee to undertake or refrain from undertaking any actions (including, but not limited to, making or refraining from making any elections or filings) in order to ensure that the Grantor is at all times treated as the owner of the Trust for federal income tax purposes, the Grantor and/or the Trustee will undertake or refrain from undertaking (as the case may be) such actions. The Grantor hereby irrevocably authorizes the Trustee to be its attorney-in-fact for the purpose of performing any act which the Trustee, in its sole discretion, deems necessary or advisable in order to accomplish the purposes and the intent of this Section 3. Grantor shall indemnify and hold Trustee harmless in acting or refraining from acting in accordance with the provisions of this Section 3.

4. Irrevocability of Trust. The Trust shall be irrevocable and may not be altered or amended in any substantive respect, or revoked or terminated by the Grantor in whole or in part, without the express written consent of a majority of the Beneficiaries of the Trust; provided, however, that the Trust may be amended, as may be necessary either (i) to obtain a favorable ruling from the Internal Revenue Service with respect to the tax consequences of the establishment and settlement of the Trust, or (ii) to make nonsubstantive changes, which have no effect upon the amount of any Beneficiary's benefits, the time of receipt of benefits, the identity of any recipient of benefits, or the reversion of any assets to the Grantor prior to the Trustee's satisfaction of all the Trustee's obligations hereunder; provided, further, that in the event of a "Change of Control" the Trust may not be altered or amended in any substantive respect, or

revoked or terminated by the Grantor's successor unless a majority of the Beneficiaries, determined as of the day before such Change in Control, agree in writing to such an alteration, amendment, revocation or termination. For the purpose of this Benefits Trust Agreement, a "Change of Control" shall mean an event required to be reported in response to Item 1(a) of the Current Report of a Form 8-K of the Grantor, as in effect on the date hereof, pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 (the "Exchange Act"); provided that, without limitation, such a "Change of Control" shall be deemed to have occurred if: (i) a third person, including a "group" as defined in Section 13(d)(3) of the Exchange Act, becomes the beneficial owner, directly or indirectly, of 15% or more of the combined voting power of the Grantor's outstanding voting securities ordinarily having the right to vote for the election of directors of the Grantor; or (ii) individuals who constitute the Board of Directors of the Grantor as of the date hereof (the "Incumbent Board") cease for any reason to constitute at least two-thirds thereof, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Grantor's stockholders, was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board shall be, for purposes of this clause (ii), considered as though such persons were a member of the Incumbent Board. The Grantor shall give Trustee notice of a Change of Control and Trustee may rely on such notice if given in accordance with Section 14(a) of this Trust Agreement. Trustee shall have no duty to inquire whether a Change of Control has occurred.

#### 5. Investment of Trust Assets.

(a) Subject to the provisions of paragraph (b) below, until the Trustee has distributed all of the assets of the Trust in accordance with the terms hereof, the Trustee shall



invest and reinvest such assets (without regard to any state law limiting the investment powers of fiduciaries) in such securities and other property as the Trustee deems advisable, considering the probable safety of the assets of the Trust and, where appropriate, the liquidity of the assets of the Trust and the probable income (including capital appreciation potential) from any such investment. Accordingly, the Trustee is specifically authorized to acquire, for cash or on credit, every kind of property, real, personal or mixed, and to make every kind of investment, specifically including, but not limited to, corporate and governmental obligations of every kind, preferred or common stocks, securities of any regulated investment company or trust, interests in common trust funds now or hereafter established by a corporate trustee, and property in which the Trustee owns an undivided interest in any other trust capacity. The Trustee is expressly authorized and empowered to purchase such insurance in its own name (and with itself as the beneficiary) as it shall determine to be necessary or advisable to advance the purposes of the Trust and the interests of the Beneficiaries.

(b) The Trustee shall invest and reinvest the assets of the Trust in accordance with such investment objectives, guidelines, restrictions or directions as the Grantor may furnish to the Trustee at the time of the execution of this Trust or at any later date; provided, however that if there is a Change in Control the Trust's investment objections, guidelines, restrictions or directions may not be changed by the Grantor's successor unless a majority of the Beneficiaries, determined as of the day before such Change in Control, agree, in writing, to such a change.

#### 6. Distribution of Trust Assets.

(a) Subject to the provisions of paragraph (b) below, at such time as a Beneficiary is entitled to a payment under any of the Plans, the Beneficiary shall be entitled to receive from

the Trust (i) an amount in cash equal to the amount to which the Beneficiary is entitled under the Plan or Plans at such time, less (ii) any payments previously made to the Beneficiary by the Grantor with respect to such amount pursuant to the terms of the Plans. The commencement of payments from the Trust shall be conditioned on the Trustee's prior receipt of a written instrument from the Beneficiary in a form satisfactory to the Trustee containing representations as to (A) the amount to which the Beneficiary is entitled under the Plans, (B) the fact that the Beneficiary has requested the payment of such amount from the Grantor pursuant to the terms of the Plans, (C) the amount, if any, the Beneficiary has received from the Grantor under the Plans with respect to such amount, and (D) the amount to be paid to the Beneficiary by the Trust (i.e., the difference between (A) and (C) above). All payments to a Beneficiary from the Trust shall be made in accordance with the provisions of the applicable Plan. Grantor shall indemnify and hold Trustee harmless in making any payment in accordance with the provisions of this paragraph.

(b) The Trustee shall make or commence payment to the Beneficiary in accordance with the Beneficiary's representations not later than 20 business days after its receipt thereof; provided, however, that before the Trustee makes or commences any such payment and not later than 7 business days after its receipt of the Beneficiary's representations, the Trustee may request in writing the Grantor's agreement that the Beneficiary's representations are accurate with respect to the amount, fact, and time of payment to the Beneficiary. The Trustee shall enclose with such request a copy of the Beneficiary's representations and written advice to the Grantor that it must respond to the Trustee's request on or before the 20th day (which date shall be set forth in such written advice) after the Beneficiary furnished such representations to

the Trustee. If the Grantor, in a writing delivered to the Trustee, agrees with the Beneficiary's representations in all respects, or if the Grantor does not respond to the Trustee's request by the 20th day deadline, the Trustee shall make payment in accordance with the Beneficiary's representations. If the Grantor advises the Trustee in writing on or before the 20th day deadline that it does not agree with any or all of the Beneficiary's representations, the Trustee immediately shall take whatever steps it in its sole discretion, deems appropriate, including, but not limited to, payment of any uncontested amount, as well as a review of the notice furnished by the Grantor pursuant to paragraph (e) hereof, to attempt to resolve the difference(s) between the Grantor and the Beneficiary. If, however, the Trustee is unable to resolve such difference(s) to its satisfaction within 60 business days after its receipt of the Beneficiary's representations, the Trustee shall make payment at such time and in such form and manner as is allowed under the Plans as of the date first stated above and as the Trustee, in its sole discretion, selects. Grantor shall indemnify and hold Trustee harmless in making or refraining from making any payment in accordance with the provisions of this paragraph.

(c) Notwithstanding any other provision of the Trust Agreement to the contrary, the Trustee shall make payments hereunder before such payments are otherwise due under the provisions of paragraph (b) above and after a Change in Control if it determines, based on a change in the tax or revenue laws of the United States of America, a published ruling or similar announcement issued by the Internal Revenue Service, a regulation issued by the Secretary of the Treasury or his delegate, or a decision by a court of competent jurisdiction involving a Beneficiary, or a closing agreement made under Code Section 7121 that is approved by the Internal Revenue Service and involves a Beneficiary, that a Beneficiary has recognized or will

recognize income for federal income tax purposes with respect to amounts that are or will be payable to the Beneficiary under the Plans.

(d) Unless (contemporaneously with the Beneficiary's submission of the written instrument referred to in paragraph (a) hereof) a Beneficiary furnishes documentation in form and substance satisfactory to the Trustee that no withholding is required with respect to a payment to be made to the Beneficiary from the Trust, the Trustee may deduct from any such payment any federal, state or local taxes required by law to be withheld by the Trustee.

(e) The Trustee shall provide the Grantor with written confirmation of the fact and time of any commencement of payments hereunder within 10 business days after any payments commence to a beneficiary. The Grantor shall notify the Trustee in the same manner of any payments it commences to make to a Beneficiary pursuant to the Plans.

(f) Grantor shall indemnify and hold Trustee harmless in making or refraining from making any payment or any calculations in accordance with the provisions of this Section 6, in particular but not limited to (i) making payments to one Beneficiary before payments are made to other Beneficiaries, and

(ii) making payments without determination of whether there are sufficient assets in the Trust to satisfy the known or unknown claims of all of the Beneficiaries.

7. Termination of the Trust and Reversion of Trust Assets. The Trust shall terminate upon the first to occur of (i) the payment by the Grantor of all amounts due the Beneficiaries under each of the Plans and the receipt by the Trustee of a release to that effect from each of the Beneficiaries with respect to payments made to the Beneficiaries or (ii) the twenty-first anniversary of the death of the last survivor of the Beneficiaries who are in being on the date of

the execution of this Trust Agreement. Upon termination of the Trust, any and all assets remaining in the Trust, after the payment to the Beneficiaries of all amounts to which they are entitled and after payment of the expenses and compensation in Sections 10 and 15(i) of this Trust Agreement, shall revert to the Grantor and the Trustee shall promptly take such action as shall be necessary to transfer any such assets to the Grantor. Notwithstanding the above, the Grantor shall be obligated to take whatever steps are necessary to ensure that the Trust is not terminated for a period of five (5) years following a Change in Control, such steps to include, but not being limited to, the transfer to the Trustee of cash or other assets pursuant to the provisions of Section 8(a) hereof.

8. Powers of the Trustee. To carry out the purposes of the Trust and subject to any limitations herein expressed, the Trustee is vested with the following powers until final distribution, in addition to any now or hereafter conferred by law affecting the trust or estate created hereunder. In exercising such powers, the Trustee shall act in a manner reasonable and equitable in view of the interests of the Beneficiaries and in a manner in which persons of ordinary prudence, diligence, discretion and judgment would act in the management of their own affairs.

(a) Receive and Retain Property. To receive and retain any property received at the inception of the Trust or at any other time, whether or not such property is unproductive of income or is property in which the Trustee owns an undivided interest in any other trust capacity.

(b) Dispose of, Develop, and Abandon Assets. To dispose of an asset, for cash or on credit, at public or private sale and, in connection with any sale or disposition, to

give such warranties and indemnifications as the Trustee shall determine; to manage, develop, improve, exchange, partition, change the character of or abandon a Trust asset or any interest therein.

(c) Borrow and encumber. To borrow money for any Trust purpose upon such terms and conditions as may be determined by the Trustee; to obligate the Trust or any part thereof by mortgage, deed of trust, pledge or otherwise, for a term within or extending beyond the term of the Trust.

(d) Lease. To enter for any purpose into a lease as lessor or lessee, with or without an option to purchase or renew, for a term.

(e) Grant or Acquire Options. To grant or acquire options and rights of first refusal involving the sale or purchase of any Trust assets, including the power to write covered call options listed on any securities exchange.

(f) Powers Respecting Securities. To have all the rights, powers, privileges and responsibilities of an owner of securities, including, without limiting the foregoing, the power to vote, to give general or limited proxies, to pay calls, assessments, and other sums; to assent to, or to oppose, corporate sales or other acts; to participate in, or to oppose, any voting trusts, pooling agreements, foreclosures, reorganizations, consolidations, mergers and liquidations, and, in connection therewith, to give warranties and indemnifications and to deposit securities with and transfer title to any protective or other committee; to exchange, exercise or sell stock subscription or conversion rights; and, regardless of any limitations elsewhere in this instrument relative to investments by the Trustee, to

accept and retain as an investment hereunder any securities received through the exercise of any of the foregoing powers.

(g) Use of Nominee. To hold securities or other property in the name of the Trustee, in the name of a nominee of the Trustee, or in the name of a custodian (or its nominee) selected by the Trustee, with or without disclosure of the Trust, the Trustee being responsible for the acts of such custodian or nominee affecting such property.

(h) Advance Money. To advance money for the protection of the Trust, and for all expenses, losses and liabilities sustained or incurred in the administration of the Trust or because of the holding or ownership of any Trust assets, for which advances, with interest, the Trustee has a lien on the Trust assets as against the Beneficiaries.

(i) Pay, Contest or Settle Claims. To pay, contest or settle any claim by or against the Trust by compromise, arbitration or otherwise; to release, in whole or in part, any claim belonging to the Trust to the extent that the claim is uncollectible. Notwithstanding the foregoing, the Trustee may only pay or settle a claim asserted against the Trust by the Grantor if it is compelled to do so by a final order of a court of competent jurisdiction.

(j) Litigate. To prosecute or defend actions, claims or proceedings for the protection of Trust assets and of the Trustee in the performance of its duties.

(k) Employ Advisers and Agents. To employ persons, corporations or associations, including attorneys, auditors, investment advisers or agents, even if they are

associated with the Trustee, to advise or assist the Trustee in the performance of its administrative duties; to act without independent investigation upon their recommendations.

(l) Use Custodian. If no bank or trust company is acting as Trustee hereunder, the Trustee shall appoint a bank or trust company to act as custodian (the "Custodian") for securities and any other Trust assets. Any such appointment shall terminate when a bank or trust company begins to serve as Trustee hereunder. The Custodian shall keep the deposited property, collect and receive the income and principal, and hold, invest, disburse or otherwise dispose of the property or its proceeds (specifically including selling and purchasing securities, and delivering securities sold and receiving securities purchased) upon the order of the Trustee.

(m) Execute Documents. To execute and deliver all instruments which will accomplish or facilitate the exercise of the powers vested in the Trustee.

(n) Grant of Powers Limited. The Trustee is expressly prohibited from exercising any powers vested in it primarily for the benefit of the Grantor rather than for the benefit of the Beneficiaries. The Trustee shall not have the power to purchase, exchange, or otherwise deal with or dispose of the assets of the Trust for less than adequate and full consideration in money or money's worth.

(o) Deposit Assets. To deposit Trust assets in commercial, savings or savings and loan accounts (including such accounts in a corporate Trustee's banking department) and to keep such portion of the Trust assets in cash or cash balances



as the Trustee may, from time to time, deem to be in the best interests of the Trust, without liability for interest thereon.

9. Resignation of Trustee and Appointment of Successor Trustee. Each Trustee shall have the right to resign upon 30 days' advance written notice to the Grantor, during which time the Grantor shall appoint a "Qualified Successor Trustee." If no Qualified Successor Trustee accepts such appointment, the resigning Trustee shall petition a court of competent jurisdiction for the appointment of a "Qualified Successor Trustee." For this purpose, a "Qualified Successor Trustee" may be an individual or a corporation but may not be the Grantor, any entity or person who would be a "related or subordinate party" to the Grantor within the meaning of Section 672(c) of the Code or a corporation that would be a member of an "affiliated group" of corporations including the Grantor within the meaning of Section 1504(a) of the Code if the words "80 percent" wherever they appear in that section were replaced by the words "50 percent." Upon the written acceptance by the Qualified Successor Trustee of the trust and upon approval of the resigning Trustee's final account by those entitled thereto, the resigning Trustee shall be discharged.

10. Trustee Compensation. The Trustee shall be entitled to receive as compensation for its services hereunder the compensation (a) as negotiated and agreed to by the Grantor and the Trustee, or (b) if not negotiated or if the parties are unable to reach agreement, as allowed a trustee under the laws of the State of Minnesota in effect at the time such compensation is payable. Such compensation shall be paid by the Grantor; provided, however, that to the extent such compensation is not paid by the Grantor, subject to the provisions of Section 15(i) hereof, it shall be charged against and paid from the Trust and the Grantor shall reimburse the Trust for

any such payment made from the Trust within 30 days of its receipt from the Trustee of written notice of such payment.

11. Trustee's Consent to Act and Indemnification of the Trustee. The Trustee hereby grants and consents to act as Trustee hereunder. The Grantor agrees to indemnify the Trustee and hold it harmless from and against all claims, liabilities, legal fees and expenses that may be asserted against it, otherwise than on account of the Trustee's own negligence or willful misconduct (as found by a final judgment of a court of competent jurisdiction) by reason of the Trustee's taking or refraining from taking any action in connection with the Trust, whether or not the Trustee is a party to a legal proceeding or otherwise.

12. Prohibition Against Assignment. No Beneficiary shall have any preferred claim on, or any beneficial ownership interest in, any assets of the Trust before such assets are paid to the Beneficiary as provided in Section 6, and all rights created under the Trust and the Plans shall be unsecured contractual rights of the Beneficiary against the Grantor. No part of, or claim against, the assets of the Trust may be assigned, anticipated, alienated, encumbered, garnished, attached or in any other manner disposed of by any of the Beneficiaries, and no such part or claim shall be subject to any legal process or claims of creditors of any of the Beneficiaries.

13. Annual Accounting. The Trustee shall keep accurate and detailed accounts of all investments, receipts and disbursements and other transactions hereunder, and, within ninety days following the close of each calendar year, and within ninety days after the Trustee's resignation or termination of the Trust as provided herein, the Trustee shall render a written account of its administration of the Trust to the Grantor by submitting a record of receipts, investments, disbursements, distributions, gains, losses, assets on hand at the end of accounting

period and other pertinent information, including a description of all securities and investments purchased and sold during such calendar year. Written approval of an account shall, as to all matters shown in the account, be binding upon the Grantor and shall forever release and discharge the Trustee from any liability or accountability. The Grantor will be deemed to have given written approval if the Grantor does not object in writing to the Trustee within one hundred and twenty days after the date of receipt of such account from the Trustee. The Trustee shall be entitled at any time to institute an action in a court of competent jurisdiction for a judicial settlement of its account.

14. Notices. Any notice or instructions required under any of the provisions of this Trust Agreement shall be deemed effectively given only if such notice meets the following requirements:

(a) Notice of a Change in Control pursuant to Section 4 of this Trust Agreement shall be in writing and signed as to the Grantor by any Board-elected officer. For this purpose, Grantor shall provide Norwest with a current list of Board-elected officers, together with specimen copies of their signatures, within twenty days of the date this trust Agreement is executed, and shall update such list in the event of any change. Trustee may rely exclusively on the latest list that it has received to determine who is authorized to give notice under this Section 14(a), regardless of the date it was last updated, and Grantor shall indemnify and hold Norwest harmless for any action taken or not taken in reliance on such list. In the event Trustee receives notice of a Change in Control, Trustee may, in its sole discretion, request written confirmation of such notice from the Grantor, with or without attestation by the Secretary or an Assistant Secretary of the Grantor.

(b) Subject to the notice requirements of Section 14(a) and any notice given in connection with receipt by the Trustee of any cash or property in accordance with Section 8(a), any notice or instructions required under any provisions of this Trust Agreement shall be in writing and signed, as to Grantor, by either the Chairman, President or Treasurer and attested by the Secretary or an Assistant Secretary and as to the Trustee, by an authorized officer, and is delivered personally or by certified or registered mail, return receipt requested and postage prepaid, addressed to the addresses as set forth below of the parties hereto. The addresses of the parties are as follows:

(i) The Grantor:

Darden Restaurants, Inc.  
5900 Lake Ellenor Drive  
Orlando, FL 32809  
Attention: General Counsel

(ii) The Trustee:

Norwest Bank Minnesota, N.A.

6th Street and Marquette Avenue  
Minneapolis, MN 55479-0035

Attention: Jill Greene

For purposes of this Section 14, the Trustee shall treat any facsimile notice or instructions received by telecopy as if it were an originally executed notice or instructions if it otherwise meets the requirements of Section 14(a) or 14(b), as the case may be.

#### 15. Miscellaneous Provisions.

(a) This Trust Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota applicable to contracts made and to be performed therein and the Trustee shall not be required to account in any court other than one of the courts of such state.

(b) All section headings herein have been inserted for convenience of reference only and shall in no way modify, restrict or affect the meaning or interpretation of any of the terms or provisions of this Trust Agreement.

(c) This Trust Agreement and the Letter of Understanding dated October 3, 1995 attached hereto as Exhibit B and made a part hereof are intended as a complete and exclusive statement of the agreement of the parties hereto, supersede all previous agreements or understandings among them and may not be modified or terminated orally.

(d) The term "Trustee" shall include any successor Trustee.

(e) If a Trustee or Custodian hereunder is a bank or trust company, any corporation resulting from any merger, consolidation or conversion to which such bank or trust company may be a party, or any corporation otherwise succeeding generally to all or substantially all of the assets or business of such bank or trust company, shall be the successor to it as Trustee or custodian hereunder, as the case may be without the execution of any instrument or any further action on the part of any party hereto.

(f) If any provision of this Trust Agreement shall be invalid and unenforceable, the remaining provisions hereof shall subsist and be carried into effect.

(g) The Plans are by this reference expressly incorporated herein and made a part hereof with the same force and effect as if fully set forth at length.

(h) The assets of the Trust shall be subject only to the claims of the Grantor's general creditors in the event of the Grantor's bankruptcy or insolvency. The Grantor shall be considered "bankrupt" or "insolvent" if the Grantor is (A) unable to pay its debts when due or (B) engaged as a debtor in a proceeding under the Bankruptcy Code, 11 U.S.C. Section 101 et seq.

The Board of Directors and the chief executive officer of the Grantor must notify the Trustee of the Grantor's bankruptcy or insolvency within three (3) business days following the occurrence of such event. Upon receipt of such a notice, or, upon receipt of a written allegation from a person or entity claiming to be a creditor of the grantor that the Grantor is bankrupt or insolvent, the Trustee shall discontinue payments to Beneficiaries. The Trustee shall, as soon as practicable after receipt of such notice or written allegation, or such other information as it deems appropriate, that the Grantor is bankrupt or insolvent. If the Trustee determines, based on such notice, written allegation, or such other information as it deems appropriate, that the Grantor is bankrupt or insolvent, the Trustee shall hold the assets of the Trust for the benefit of the Grantor's general creditors, and deliver any undistributed assets to satisfy the claims of such creditors a court of competent jurisdiction may direct. The Trustee shall resume payments to Beneficiaries only after it has determined that the Grantor is not bankrupt or insolvent, or is no longer bankrupt or insolvent (if the Trustee determined that the Grantor was bankrupt or insolvent), or pursuant to an order of a court of competent jurisdiction. Unless the Trustee has actual knowledge of the Grantor's bankruptcy or insolvency, the Trustee shall have no duty to inquire whether the Grantor is bankrupt or insolvent. The Trustee may in all events rely on such evidence concerning the Grantor's solvency as may be furnished to the Trustee which give the Trustee a reasonable basis for making a determination concerning the Grantor's solvency.

If the Trustee discontinues payment of benefits from the Trust pursuant to this Section 15(h) and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments which would have been made to each Beneficiary (together with interest) during the period of such discontinuance, less the aggregate

amount of payments made to the Beneficiary by the Grantor in lieu of the payments provided for hereunder during any such period of discontinuance.

(i) Any and all taxes, expenses (including, but not limited to, the Trustee's compensation) and costs of litigation relating to or concerning the adoption, administration and termination of the Trust shall be borne and promptly paid by the Grantor; provided, however, that, to the extent such taxes, expenses and costs relating to the Trust are due and owing and are not paid by the Grantor, they shall be charged against and paid from the Trust, and the Grantor shall reimburse the Trust for any such payment made from the Trust within 30 days of its receipt from the Trustee of written notice of such payment.

(j) Any reference hereunder to a Beneficiary shall expressly be deemed to include, where relevant, the beneficiaries of a Beneficiary duly appointed under the terms of the Plans. A Beneficiary shall cease to have such status once any and all amounts due such Beneficiary under the Plan have been satisfied.

(k) Any reference hereunder to the Grantor shall expressly be deemed to include the Grantor's successor and assigns.

(l) Whenever used herein, and to the extent appropriate, the masculine, feminine or neuter gender shall include the other two genders, the singular shall include the plural and the plural shall include the singular.

IN WITNESS WHEREOF, the Grantor has executed this TRUST AGREEMENT this 3rd day of October, 1995, subject that this Agreement shall not become of force and effect until signed hereafter by the Trustee in Minneapolis, Minnesota.

**GRANTOR:**

**DARDEN RESTAURANTS, INC.**

Attest:

*/s/James O. McIntosh*

*By: /s/Clarence Otis, Jr.*

*Name: James O. McIntosh*

*Name: Clarence Otis, Jr.*

*Title: Assistant Secretary*

*Title: Vice President, Treasurer*

IN WITNESS WHEREOF, the Trustee has executed this TRUST AGREEMENT this 17th day of October, 1995 in Minneapolis, Minnesota.

**TRUSTEE:**

**NORWEST BANK MINNESOTA, N.A.**

Attest:

*/s/Donna K. Dickinson*

*By: /s/ Jill Greene*

*Name: Donna K. Dickinson*

*Name: Jill Greene*

*Title: Vice President*

*Title: Assistant Vice President*



**MANAGEMENT CONTINUITY AGREEMENT**  
(as amended)

THIS MANAGEMENT CONTINUITY AGREEMENT (the "Agreement") between Darden Restaurants, Inc., a Florida corporation (the "Corporation"), and (the "Executive"), is hereby entered into as of , 19 (the "date hereof").

**WITNESSETH:**

WHEREAS, the Corporation wishes to attract and retain well-qualified executive and key personnel and to assure both itself and the Executive of continuity of management in the event of any Change of Control (as defined in Section 2) of the Corporation;

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, it is hereby agreed by and between the Corporation and the Executive as follows:

1. Operation of Agreement. The "Effective Date" of this Agreement shall be the date during the Contract Period (as defined in Section 3) on which a Change of Control occurs.
2. Change of Control. For the purpose of this Agreement, a "Change of Control" shall mean an event during the Contract Period required to be reported in response to Item 1(a) of the Current Report of a Form 8-K, as in effect on the date hereof, pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 (the "Exchange Act"); provided that, without limitation, such a "Change of Control" shall be deemed to have occurred if: (i) a person, including a "group" as defined in Section 13(d)(3) of the Exchange Act, becomes the beneficial owner, directly or indirectly, of 20% or more of the combined voting power of the Corporation's outstanding voting securities ordinarily having the right to vote for the election of directors of the Corporation; or (ii) individuals who constitute the Board of Directors

of the Corporation as of the date hereof (the "Incumbent Board") cease for any reason to constitute at least two-thirds thereof, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Corporation's stockholders, was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board shall be, for purposes of this clause (ii), considered as though such persons were a member of the Incumbent Board.

3. Contract Period. The "Contract Period" is the period commencing on the date hereof and ending on the second anniversary of such date; provided, however, that commencing on the date one year after the date hereof, and on each annual anniversary of such date (the date one year after the date hereof, and each annual anniversary of such date, is hereinafter referred to as the "Renewal Date"), the Contract Period shall be automatically extended so as to terminate two years from such Renewal Date, unless at least 60 days prior to the Renewal Date the Corporation shall give notice that the Contract Period shall not be so extended subject however that any failure of the Corporation to give such notice shall not limit or reduce in any manner the rights and benefits of the Executive contained in this Agreement if a Change of Control has occurred during a Contract Period and, in such event, notwithstanding that a Contract Period may have ended, the rights and benefits of the Executive shall continue in full force and effect until all obligations of the Corporation to the Executive under this Agreement have been met and satisfied.

#### 4. Certain Definitions.

(a) Cause. The Executive's employment may be terminated for Cause if a majority of the Board of Directors, after the Executive shall have been afforded a reasonable opportunity to appear in person before the Board of Directors and to present such evidence as the Executive deems appropriate, determines that Cause exists. For purposes of this Agreement, "Cause" means (i) an act or acts of fraud or misappropriation on the Executive's part which result in or are intended to result in

his or her personal enrichment at the expense of the Corporation and which constitute a criminal offense under State or Federal laws, (ii) conviction of a felony, or (iii) a physical or mental disability which materially interferes with the capacity of the Executive in fulfilling his or her responsibilities and which will qualify the Executive for disability benefits from a Corporation-sponsored plan.

(b) Good Reason. For purposes of this Agreement, "Good Reason" means

(i) without the express written consent of the Executive (A) the assignment to the Executive of any duties inconsistent in any substantial respect with the Executive's position, authority or responsibilities as in effect during the 90-day period immediately preceding the Effective Date of this Agreement, or (B) any other substantial adverse change in such position (including titles), authority, or responsibilities; or

(ii) any failure by the Corporation to furnish the Executive with compensation and benefits at a level equal to or exceeding those received by the Executive from the Corporation during the 90-day period preceding the Effective Date of this Agreement, including a failure by the Corporation to maintain its policy of paying retirement and supplemental savings plan benefits which would be payable under the retirement plan(s) of the Corporation but for the limits imposed by the Employee Retirement Income Security Act of 1974, as may be amended ("ERISA"), other than an insubstantial and inadvertent failure remedied by the Corporation promptly after receipt of notice thereof given by the Executive; or

(iii) the Corporation's requiring the Executive to be based or to perform services at any office or location other than that at which the Executive is based at the Effective Date of this Agreement, except for

travel reasonably required in the performance of the Executive's responsibilities; or

(iv) any failure by the Corporation to obtain the assumption and agreement to perform this Agreement by a successor as contemplated by Section 10(b); or

(v) any failure by the Corporation to deposit amounts which may become payable to the Executive to the Trustee as contemplated by Section 8.

For purposes of this Section 4(b), any determination of "Good Reason" made by the Executive shall be conclusive.

(c) Notice of Termination. Any termination by the Corporation for Cause or by the Executive for Good Reason or otherwise shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 10(b). For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated (provided, however, that any Notice of Termination given by (i) the Executive during a 30 day period commencing the first day and ending on the 31st day after one year from the Effective Date, or (ii) by the Corporation more than two years after the Effective Date, need not set forth any such basis for termination) and (iii) if the termination date is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 15 days after the giving of such notice).

(d) Date of Termination. "Date of Termination" means the date of receipt of the Notice of Termination or any later date specified therein, as the case may be.

5. Obligations of the Corporation upon Termination.

(a) Good Reason and other than for Cause Subject to the limitations of Section 5(b), if:

(i) within two years after the Effective Date of this Agreement, the Corporation shall terminate the Executive's employment for any reason other than for Cause; or

(ii) within two years after the Effective Date of this Agreement, the Executive shall terminate his employment for Good Reason:

(I) the Corporation shall pay to the Executive in a lump sum in cash within 20 business days after the Date of Termination the aggregate of the amounts determined pursuant to the following clauses (A), (B) and (C) but reduced if required under the provisions in Clause (D), as follows:

(A) if not theretofore paid, the Executive's Base Salary through the Date of Termination at the rate in effect at the time the Notice of Termination was given, plus a bonus, determined in accordance with the provisions of the following clause (B)(ii), for that fraction of the fiscal year completed as of the date the Notice of Termination was given; and

(B) three times the sum of (i) the Executive's annual base salary at the rate in effect at the time the Notice of Termination was given and (ii) an amount equal to the highest bonus paid to the Executive by the Corporation or its predecessor in any of the preceding three fiscal years; and

(C)during the period of three years following the Date of Termination (this period of time from the Date of Termination is hereinafter referred to as the "Unexpired Period"), the Corporation shall continue to provide all benefits which the Executive and/or his spouse is or would have been entitled to receive under all present and post-retirement medical, dental, vision, disability, executive life, group life, accidental death and other programs of the Corporation, including additional benefit service under the applicable retirement plan of the Corporation equal to the "Unexpired Period," in each case on a basis providing the Executive or his spouse with benefits at least equal to those provided by the Corporation for the Executive under such plans and programs in effect at any time during the 90-day period immediately preceding the Effective Date of this Agreement, subject that (i) if an Executive is terminated under the provisions of Section 5(a) or Section 5(b), and at the Date of Termination the Executive would not qualify for post-retirement benefits under the plans and programs then in effect during such 90-day period for the reason that the Executive has not reached his 55th birthday, the Executive shall nevertheless be entitled to such benefits equal to the benefits such Executive would have received if the Executive was of the age of 55 at

the Date of Termination; and (ii) the Executive and/or his spouse, as the case may be, shall receive supplemental periodic payments equal to retirement and savings plan benefits which would be payable under the applicable retirement plan of the Corporation but for limits imposed by ERISA, calculated as if the Executive (a) had been employed to the end of the Unexpired Period; (b) had retired at the age he would have attained at the end of the Unexpired Period; and (c) had earnings to the end of the Unexpired Period at a rate equal to the rate of Executive's total compensation for the calendar year prior to the Effective Date of this Agreement.

(D) In the event that the Executive would otherwise become entitled to any or all of the specified payments under clauses (A), (B) or (C) of this Section 5(a)(i) or under Section 5(b) or to any other payments or benefits to be received by the Executive in connection with a Change of Control of the Corporation or the Executive's termination of employment (pursuant to the terms of any plan, stock option, restricted stock, stock performance units, or other benefits or arrangement or agreement with the Corporation, or any person or entity whose actions result in a Change of Control of the Corporation, or any person or entity affiliated with the Corporation which together with the payments or

benefits under Section 5(a) or Section 5(b) constitute the "Total Payments" and such Total Payments (or any part thereof) are "parachute payments" within the meaning of section 280G(b)(2) of the Code, then all "excess parachute payments" within the meaning of section 280G(b)(1) of the Code which are subject to the Excise Tax, and/or any similar tax that may hereafter be imposed by the federal or any state or local government (the "Excise Tax"), shall be reduced by an amount required to eliminate by a margin of \$1,000.00 any liability for the tax under Section 4999 of the Code or any Excise tax. Such reduction shall first be applied to the amount determined under Clause B and then only to payments under Clauses A or C or the payments under Section 5(b) SUBJECT that such reduction shall not cause (i) the payment determined under Section 5(a) to be less than the payment under Section 5(b) and (ii) that the payment determined under Section 5(b) to be less than an amount equal to six months "annual base salary" and one-half of the "bonus" pursuant to Section 5(a)B. If the reduction would cause the payment to be less than specified in the preceding clause (i) or (ii), then an additional "gross up" amount shall be paid to the executive for any liability for an Excise Tax resulting from meeting the minimum payment called for under



clause (i) or (ii). The amounts, reductions and payments including a "gross up" for an Excise Tax, pursuant to the preceding shall be determined by the Corporation's independent public accountants serving prior to the Change of Control. If such accountants determine one or more options which will meet the foregoing provisions the 20 business day period specified in paragraph 5(a)(iii)(l) shall be extended and the Executive shall be fully advised in writing thereof within 30 calendar days of a Change in Control and the choice of any such option shall be the sole prerogative of the Executive. The Executive shall thereupon advise the Corporation in writing within such 30 days as to the Option being chosen by the Executive and (i) such decision shall be binding on the Corporation and (ii) the payments called for shall be made by the Corporation to the Executive within five business days.

(b) By the Executive in accordance with the second (i) of subparagraph (c) of Section 4 (as amended) or by the Corporation more than two years after the Effective Date. If the Executive in accordance with the second (i) of subparagraph (c) of Section 4 (as amended) or, the Corporation more than two years after the Effective Date for any reason other than cause, shall cause the termination of the Executive's employment, the Executive shall be entitled to receive the benefits specified under Clauses (A), (B), and (C) of Section (5)(a) (1) except that the words "three times" in Clause (B), "three years" and "thirty-six" in Clause (B) shall be substituted by "one times", "one year" and "twelve" respectively.

6. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive deferred compensation or other plan or program provided by the Corporation or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any employment, stock option, performance units or other agreements with the Corporation or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of the Corporation or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan or program and shall not in any manner be included in the determination of benefits calculated under Clauses (A) or (B) of Section (a)(1).

7. Full Settlement. The Corporation's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including, without limitation, any setoff, counterclaim, recoupment, defense or other right which the Corporation may have against the Executive or others or by any amounts received by Executive from others. In no event shall the Executive be obligated to seek other employment by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement. Subject to the provisions of paragraph 8, the Corporation agrees to pay, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Corporation or others of the validity or enforceability of, or liability under any provision of this Agreement or any guarantee of performance thereof, in each case plus interest, compounded monthly, on the total unpaid amount determined to be payable under this Agreement, such interest to be

calculated on the basis of the "Prime Rate" as reported in the WALL STREET JOURNAL during the period of such nonpayment plus 5%.

8. Trustee. The Corporation will establish a Supplemental Benefits Trust (the "Trust") with Norwest Bank Minnesota, N.A. as Trustee to hold assets of the Corporation under certain circumstances as a reserve for the discharge of the Corporation's obligations under this Agreement and certain plans of deferred compensation of the Corporation. In the event of a Change of Control as defined in Section 2 hereof, the Corporation shall be obligated to immediately contribute such amounts to the Trust as may be necessary to fully fund all benefits payable under the Agreement. Executives shall have the right to demand and secure specific performance of this provision. All assets held in the Trust remain subject only to the claims of the Corporation's general creditors whose claims against the Corporation are not satisfied because of the Corporation's bankruptcy or insolvency (as those terms are defined in the Trust agreement). The Executive does not have any preferred claim on, or beneficial ownership interest in, any assets of the Trust before the assets are paid to the Executive and all rights created under the Trust, as under this Agreement, are unsecured contractual claims of the Executive against the Corporation. Except in the case of a breach of fiduciary duty by the Trustee, (1) neither the Executive nor the Executive's legal representatives, heirs or legatees shall have any claim or right of action against the Trustee for the performance of its duties under the Trust or the payment of the Corporation's obligations under this Agreement, and (2) the Corporation shall not be liable for the payment of any legal fees or expenses incurred by the Executive or his or her legal representatives, heirs or legatees in pursuing any such action or claim against the Trustee.

In the event the funding of the Trust described in the preceding paragraph does not occur, upon written demand by the Executive given at any time after a Change of Control occurs, the Corporation shall deposit in trust with an institutional trustee (the

"Trustee") designated by the Executive in such demand amounts which may become payable to the Executive pursuant to Section 5(a) or Section 5(b) with irrevocable instructions to pay amounts to the Executive when due in accordance with the terms of this Agreement. All charges of the Trustee shall be paid by the Corporation. The Trustee shall be entitled to rely conclusively on the Executive's written statement as to the fact that payments are due under this Agreement and the amount of such payments. If the Trustee is not notified that payments are due under this Agreement within two years and 60 days after receipt of a deposit hereunder, all amounts deposited with the Trustees and earnings with respect thereto shall be delivered to the Corporation on demand.

9. Successors. (a) This Agreement is personal to the Executive and without the prior written consent of the Corporation shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives, heirs and legatees.

(b) This Agreement shall inure to the benefit of and be binding upon the Corporation and its successors. The Corporation shall require any successor to all or substantially all of the business and/or assets of the Corporation, whether directly or indirectly, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Corporation would be required to perform if no such succession had taken place.

10. Miscellaneous. (a) This Agreement shall be governed by and construed in accordance with the laws of the State of Florida, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified

otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications

**If to the Executive:**

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Darden Restaurants, Inc. 5900 Lake Ellenor Drive Orlando, FL 32809

**If to the Corporation:**

Darden Restaurants, Inc.  
5900 Lake Ellenor Drive  
Orlando, Florida 32809  
Attn.: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Corporation may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) This Agreement contains the entire understanding with the Executive with respect to the subject matter hereof.

(f) The employment of Executive by the Corporation may be terminated by either the Executive or the Corporation at any time and for any reason. Nothing contained in the Agreement shall affect such rights to terminate, provided, however, that nothing in this Section 10(f) shall prevent the Executive from receiving any

amounts payable pursuant to Section 5(a) or Section 5(b) of this Agreement in the event of a termination described in such Section 5(a) or 5(b).

11. Any dispute as to the terms or conditions of this Agreement or any breach thereof, shall be subject to binding arbitration under the rules and procedures of the American Arbitration Association. The arbitration shall be held in Orlando, Florida and shall be decided by three arbitrators competent in the subject of the dispute. Such proceeding shall be conducted under the rules of commercial arbitration of the Association.

IN WITNESS WHEREOF, the Executive has hereunto set his or her hand and, pursuant to the authorization from its Board of Directors, the Corporation has caused these presents to be executed in its name on its behalf, and its corporate seal to be hereunder affixed and attested by its secretary or assistant secretary, all as of the day and year first above written.

**DARDEN RESTAURANTS, INC.**

-----  
By -----  
Its -----  
  
ATTEST:  
-----  
  
Secretary  
-----  
(Seal)

**DARDEN RESTAURANTS, INC.**  
**DETERMINATION OF COMMON SHARES AND COMMON SHARE EQUIVALENTS**  
**(IN THOUSANDS)**

	Fiscal Year Ended		
	May 25, 1997	May 26, 1996	May 28, 1995
-----			
Computation of Shares:			
Weighted average number of shares outstanding.....	155,600	158,700	158,000
Net shares resulting from the assumed exercise of certain stock options (a).....	750(b) -----	2,600(c) -----	-----
Total common shares and common share equivalents.....	156,350 =====	161,300 =====	158,000(d) =====

**NOTES TO EXHIBIT:**

(a) Common share equivalents for the fiscal years ended May 25, 1997 and May 26, 1996, are computed by the "treasury stock" method. This method first determines the number of shares issuable under stock options that had an option price below the average market price for the period, and then deducts the number of shares that could have been repurchased with the proceeds of options exercised.

(b) Common share equivalents for the fiscal year ended May 25, 1997 are not material, and their inclusion would have the effect of being antidilutive. As a result, loss per share has been computed using the weighted average number of shares outstanding of 155,600 for the year.

(c) Common share equivalents for the fiscal year ended May 26, 1996 are not material. As a result, earnings per share has been computed using the weighted average number of shares outstanding of 158,700 for the year.

(d) During the fiscal year ended May 28, 1995, the Company was not a separate, independent company, but a wholly-owned subsidiary of General Mills. As such, the number of shares used to compute earnings per share for the fiscal year ended May 28, 1995 is based on the average number of General Mills' common shares outstanding during the period and a distribution of one share of the Company's common stock for each share of General Mills' common stock outstanding.

**DARDEN RESTAURANTS, INC.**  
**COMPUTATION OF RATIO OF CONSOLIDATED EARNINGS TO FIXED CHARGES**  
**(HISTORICAL AND PRO FORMA)**

COMPUTATION OF RATIO OF HISTORICAL CONSOLIDATED EARNINGS TO FIXED CHARGES

	FISCAL YEAR ENDED				
	MAY 25, 1997	MAY 26, 1996	MAY 28, 1995	MAY 29, 1994	MAY 30, 1993
	-----				
	(\$ AMOUNTS IN THOUSANDS)				
Consolidated Earnings from Operations before Restructuring and Asset Impairment Charges, Cumulative Effect of Accounting Changes and Income Taxes.....	\$ 75,401	\$188,718	\$164,446	\$193,695	\$191,706
Plus Fixed Charges.....	39,582	40,822	42,685	38,304	33,597
Less Capitalized Interest.....	(739)	(2,007)	(4,327)	(4,087)	(3,002)
	-----	-----	-----	-----	-----
Consolidated Earnings from Operations before Restructuring and Asset Impairment Charges, Cumulative Effect of Accounting Changes and Income Taxes Available to Cover Fixed Charges....	\$114,244	\$227,533	\$202,804	\$227,912	\$222,301
	=====	=====	=====	=====	=====
Ratio of Consolidated Earnings to Fixed Charges....	2.89	5.57	4.75	5.95	6.62
	=====	=====	=====	=====	=====

COMPUTATION OF RATIO OF PRO FORMA CONSOLIDATED EARNINGS TO FIXED CHARGES

	FISCAL YEAR ENDED				
	MAY 25, 1997	MAY 26, 1996	MAY 28, 1995	MAY 29, 1994	MAY 30, 1993
	-----				
	(\$ AMOUNTS IN THOUSANDS)				
Pro Forma Consolidated Earnings from Operations before Restructuring and Asset Impairment Charges, Cumulative Effect of Accounting Changes and Income Taxes.....	\$ 75,401	\$188,718	\$159,076	\$188,325	\$186,336
Plus Fixed Charges.....	39,582	40,822	42,685	38,304	33,597
Less Capitalized Interest	(739)	(2,007)	(4,327)	(4,087)	(3,002)
	-----	-----	-----	-----	-----
Pro Forma Consolidated Earnings from Operations before Restructuring and Asset Impairment Charges, Cumulative Effect of Accounting Changes and Income Taxes Available to Cover Fixed Charges.....	\$114,244	\$227,533	\$197,434	\$222,542	\$216,931
	=====	=====	=====	=====	=====
Ratio of Pro Forma Consolidated Earnings to Fixed Charges.....	2.89	5.57	4.63	5.81	6.46
	=====	=====	=====	=====	=====

For purposes of computing the ratio of consolidated earnings to fixed charges, earnings represent consolidated pretax earnings from continuing operations plus fixed charges (net of capitalized interest). Fixed charges represent interest (whether expensed or capitalized) and 40 percent (the percent deemed representative of the interest factor) of minimum restaurant lease payments for continuing operations.

The pro forma adjustments to the historical consolidated statements of earnings for each of the three fiscal years ended May 28, 1995 consist of (a) additional annual general and administrative expenses of \$5,370 which would have been incurred by Darden as a separate publicly-held company, based on estimates by the management of Darden and General Mills, and (b) the estimated income tax benefit associated with the pro forma adjustment described in clause (a) above at an assumed combined state and federal income tax rate of 39.8%.



**MANAGEMENT'S DISCUSSION OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

Darden Restaurants was created as an independent publicly held company in May 1995 through the spin-off of all of General Mills' restaurant operations to its shareholders. Darden operates 1,182 RED LOBSTER, OLIVE GARDEN and BAHAMA BREEZE restaurants in the U.S. and Canada and licenses 38 restaurants in Japan. All of the restaurants in the U.S. and Canada are operated by the Company with no franchising.

This discussion should be read in conjunction with the business information and the Consolidated Financial Statements and related notes found elsewhere in this report. For comparison in this discussion, fiscal years prior to 1996 include a pro forma annual pre-tax cost adjustment of \$5.37 million to reflect the estimated additional general and administrative expenses which would have been incurred by Darden as a separate publicly held company. Darden's fiscal year ends on the last Sunday in May.

**REVENUES**

Total revenues in 1997 were \$3.17 billion, a one percent decrease from 1996 that included \$16 million of sales from the discontinued CHINA COAST(R).

Total revenues in 1996 were \$3.19 billion, a one percent increase from 1995 that included \$71.1 million of sales from the discontinued CHINA COAST.

**COSTS AND EXPENSES**

Food and beverage costs for 1997 were 34.0 percent of sales, an increase of 0.7 percentage points from 1996 and a decline of 0.6 percentage points from 1995. The increase over 1996 primarily resulted from the repositioning strategy at RED LOBSTER, initiated in the second quarter, that lowered check averages and improved food.

Restaurant labor was higher for 1997 at 32.1 percent of sales against 29.9 percent for 1996 and 29.5 percent in 1995. The increase was due to wage-rate inflation, reduced same-store sales at RED LOBSTER, additional training initiatives to improve service at both RED LOBSTER and OLIVE GARDEN, and higher training costs to implement cost-saving systems at OLIVE GARDEN.

Restaurant expenses (primarily lease expenses, property taxes, utilities and workers' compensation costs) increased in 1997 to 15.2 percent of sales compared to 14.3 percent in 1996 and 14.8 percent in 1995. The 1997 increase resulted from an overall inflation in operating costs during a period when sales volume was essentially flat.

Selling, general and administrative expenses declined in 1997 to 11.4 percent of sales compared to 11.7 percent in 1996 and a pro forma 11.1 percent in 1995. The 1997 decline resulted from an overall decrease in marketing costs for the year.

Depreciation and amortization expense of 4.3 percent of sales in 1997 was up slightly from the 4.2 percent in 1996 and was flat compared to 1995. Interest expense of 0.7 percent of sales in 1997 was flat compared to 1996 and 1995.

**INCOME FROM OPERATIONS**

Pre-tax earnings before restructuring and asset impairment charges declined by 60 percent in 1997 to \$75.4 million, compared to \$188.7 million in 1996, and the pro forma \$159.1 million in 1995. The decline in 1997 was mainly attributable to lower earnings at RED LOBSTER. The Company initiated actions during the second quarter intended to enhance long-term performance through new menu items, bolder flavors, lower prices and service improvements.

**PROVISION FOR INCOME TAXES**

The effective tax rate before restructuring and asset impairment charges declined to 27.9 percent in 1997, compared to 36.8 percent in 1996 and 32.2 percent in 1995, primarily because of higher tax credits and lower pre-tax earnings. After restructuring and asset impairment charges, the net effective tax rate was a 41.1 percent benefit in 1997, compared to a 34.6 percent expense in 1996 and the pro forma 17.7 percent expense in 1995. The effective rate in 1997 was primarily attributable to operating losses combined with federal income tax credits, both of which created an income tax benefit.

**EARNINGS AFTER TAX AND EARNINGS PER SHARE BEFORE RESTRUCTURING AND ASSET IMPAIRMENT CHARGES**

Earnings after tax before restructuring and asset impairment charges for 1997 declined 54 percent to \$54.3 million or 35 cents per share, compared to \$119.2 million or 75 cents per share earned in 1996. Pro forma earnings after tax before restructuring and asset impairment

charges were \$108.3 million or 68 cents per share in 1995.

#### **NET EARNINGS (LOSS) AND NET EARNINGS (LOSS) PER SHARE**

During 1997, an after-tax restructuring and asset impairment charge of \$145.4 million (93 cents per share) was taken in the fourth quarter related to low-performing restaurant properties in the U.S. and Canada and other long-lived assets including those restaurants that have been closed. The pre-tax charge includes approximately \$160.7 million of non-cash charges primarily related to the write-down of buildings and equipment to net realizable value, and approximately \$69.2 million of charges to be settled in cash related to carrying costs of buildings and equipment prior to their disposal, lease buy-out provisions, employee severance and other costs. Cash required to carry out these activities will be provided by operations and the sale of closed properties (see Note 3 of Notes to Consolidated Financial Statements). Net earnings (loss) after restructuring and asset impairment charges were \$(91.0) million (59 cents per share) in 1997 compared with \$74.4 million (47 cents per share) in 1996 and the pro forma \$49.2 million (31 cents per share) in 1995.

During 1996, an after-tax restructuring and asset impairment charge of \$44.8 million (28 cents per share) was taken in the first quarter to close all China Coast operations. The pre-tax restructuring charge includes approximately \$60.4 million of non-cash charges primarily related to the write-down of buildings and equipment to net realizable value, and approximately \$14.6 million of charges to be settled in cash related to carrying costs of buildings and equipment prior to their disposal, lease buy-out provisions, employee severance and other costs. Cash required to carry out these restructuring activities is being provided by operations and the sale of closed properties (see Note 3 of Notes to Consolidated Financial Statements).

In 1995, an after-tax restructuring and asset impairment charge of \$59.1 million (37 cents per share) was taken to position the Company for its spin-off from General Mills and to close low-performing restaurants. The pre-tax 1995 charge included approximately \$65.4 million of non-cash charges primarily related to the write-down of buildings and equipment to net realizable value, and approximately \$33.9 million of charges to be settled in cash related to carrying costs of buildings and equipment prior to their disposal, lease buy-out provisions, employee severance and other costs (see Note 3 of Notes to Consolidated Financial Statements).

**LIQUIDITY AND CAPITAL RESOURCES**

The Company intends to manage its business and its financial ratios to maintain an investment-grade bond rating, which allows access to financing at reasonable costs. Currently, the Company's publicly issued long-term debt carries "Baa1" (Moody's Investors Service, Inc.), "BBB" (Standard & Poor's Corporation) and "BBB+" (Duff & Phelps Credit Rating Company) ratings. Our commercial paper has ratings of "P-2" (Moody's), "A-2" (Standard & Poor's) and "D-2" (Duff & Phelps).

Darden's long-term debt includes \$150 million of 6.375 percent notes due in 2006, and \$100 million of 7.125 percent debentures due in 2016. The effective annual interest rate is 7.57 percent for the notes and 7.82 percent for the debentures, after consideration of loan costs, issuance discounts and cost to terminate an interest-rate swap that was established prior to the distribution from General Mills. Darden's shelf registration statement permits issuance of an additional \$250 million of unsecured debt securities.

Darden's long-term debt also includes a \$66.9 million commercial bank loan to the Company, with an outstanding principal balance of \$64.7 million as of May 25, 1997, that is used to support two loans from the Company to the Employee Stock Ownership Plan portion of the Profit Sharing and Savings Plan for Darden Restaurants, Inc. (the ESOP). By way of this commercial loan during the fiscal year ended May 25, 1997, the ESOP refinanced \$66.9 million in existing debt, \$50 million of which was third party debt previously guaranteed by the Company.

Commercial paper is the primary source of short-term financing. Bank credit lines are maintained to ensure availability of short-term funds on an as-needed basis. In April 1997, the fee-paid available credit lines were reduced from \$350 million to \$250 million.

The Company's adjusted debt-to-total-capital ratio (which includes 6.25 times the total annual restaurant minimum rent as a component of debt and total capital) was 36 percent and 34 percent at May 25, 1997, and May 26, 1996, respectively. The Company's fixed-charge coverage ratio, which measures the number of times each year that the Company earns enough to cover its fixed charges, amounted to 2.9 times at May 25, 1997, and 5.9 times at May 26, 1996. Based on these ratios, the Company's financial condition remains strong. The composition of the Company's capital structure is shown in the following table.

**CAPITAL STRUCTURE**

	May 25, 1997 \$ IN MILLIONS	May 26, 1996 \$ IN MILLIONS
-----		
Short-term debt	\$ 43.4	\$ 72.6
Long-term debt	313.2	301.2
-----		
Total debt	356.6	373.8
-----		
Stockholders' equity	1,081.2	1,222.6
-----		
Total capital	\$1,437.8	\$1,596.4
=====		
ADJUSTMENTS TO CAPITAL		
Leases-debt equivalent	244.5	249.2
-----		
Adjusted total debt	601.1	623.0
-----		
Adjusted total capital	\$1,682.3	\$1,845.6
Debt-to-total-capital ratio	25%	23%
Adjusted debt-to-total-capital ratio	36%	34%
=====		

In 1997, the Company declared eight cents per share in annual dividends paid in two installments. In September 1996, the Company's Board approved a stock buy-back plan whereby the Company may purchase on the open market up to 9.3 million shares of Darden common stock. This buy-back plan is in addition to another previously approved plan by the Board in December 1995 covering open-market purchases of up to 6.5 million shares of Darden common stock. In 1997 and 1996, 5.0 million and 1.9 million shares were purchased under these programs, respectively.

The Company typically carries current liabilities in excess of current assets, because the restaurant business receives substantially immediate payment for sales (nominal receivables), while inventories and other current liabilities normally carry longer payment terms (usually 15 to 30 days). The seasonal variation in net working capital is typically in the \$30 million to \$50 million range.

The Company requires capital principally for building new restaurants, replacing equipment and remodeling existing units. Capital expenditures were \$160 million in 1997, down from \$214 million in 1996 and \$358 million in 1995 because of decisions to slow the growth in new Olive Garden and Red Lobster units and, in 1996, to discontinue China Coast operations. Capital expenditure and dividend requirements

in 1997 were financed primarily through internally generated funds. The Company generated \$189 million, \$294 million and \$274 million in funds from operating activities during 1997, 1996 and 1995, respectively.

**INDEPENDENT AUDITORS' REPORT**

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, 1997, and May 26, 1996, and the related consolidated statements of earnings (loss), and cash flows for each of the years in the three-year period ended May 25, 1997. 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 generally accepted auditing standards. 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, 1997, and May 26, 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended May 25, 1997, in conformity with generally accepted accounting principles.

*/s/ KPMG Peat Marwick LLP*

*Orlando, Florida  
June 17, 1997*

## CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(IN THOUSANDS, EXCEPT PER SHARE DATA)	May 25, 1997	Fiscal Year Ended May 26, 1996	May 28, 1995*
Sales	\$3,171,810	\$3,191,779	\$3,163,289
Costs and Expenses:			
Cost of sales:			
Food and beverages	1,077,316	1,062,624	1,093,896
Restaurant labor	1,017,315	954,886	931,553
Restaurant expenses	481,348	455,626	470,194
Total Cost of Sales	\$2,575,979	\$2,473,136	\$2,495,643
Selling, General and Administrative	361,263	373,920	345,827
Depreciation and Amortization	136,876	134,599	135,472
Interest, Net	22,291	21,406	21,901
Restructuring and Asset Impairment	229,887	75,000	99,302
Total Costs and Expenses	\$3,326,296	\$3,078,061	\$3,098,145
Earnings (Loss) before Income Taxes	(154,486)	113,718	65,144
Income Taxes	(63,457)	39,363	12,738
Net Earnings (Loss)	\$ (91,029)	\$ 74,355	\$ 52,406
Net Earnings (Loss) per Share	\$ (0.59)	\$ 0.47	\$ 0.33
Average Number of Common Shares Outstanding	155,600	158,700	158,000

See accompanying notes to consolidated financial statements.

\* The historical consolidated statement of earnings for 1995 reflects a period during which the Company did not operate as a separate, independent entity. The table below reflects the impact of pro forma adjustments of \$5,370 to record the estimated additional general and administrative expenses that would have been incurred by Darden as a separate publicly held company, and \$2,138 of associated income tax benefit at an assumed effective tax rate of 39.8 percent.

(In thousands, except per share data)	Fiscal Year Ended (Unaudited) Pro Forma May 28, 1995
Earnings before Income Taxes	\$59,774
Income Taxes	10,600
Net Earnings	\$49,174
Net Earnings per Share	\$ 0.31

## CONSOLIDATED BALANCE SHEETS

(In thousands)	May 25, 1997	May 26, 1996
-----		
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 25,490	\$ 30,343
Receivables	16,333	24,772
Refundable income taxes, net	16,968	
Inventories	132,241	120,725
Net assets held for disposal	47,471	31,762
Prepaid expenses and other current assets	14,709	17,298
Deferred income taxes	84,157	63,080
-----		
Total Current Assets	\$ 337,369	\$ 287,980
Land, Buildings and Equipment	1,533,272	1,702,861
Other Assets	93,081	97,663
-----		
Total Assets	\$1,963,722	\$2,088,504
=====		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 113,087	\$ 128,196
Short-term debt	43,400	72,600
Current portion of long-term debt	5	54
Accrued payroll	58,312	53,677
Accrued income taxes		12,522
Other accrued taxes	22,180	18,921
Other current liabilities	243,596	159,336
-----		
Total Current Liabilities	\$ 480,580	\$ 445,306
Long-term Debt	313,187	301,151
Deferred Income Taxes	70,118	101,109
Other Liabilities	18,624	18,301
-----		
Total Liabilities	\$ 882,509	\$ 865,867
-----		
Stockholders' Equity:		
Common stock and surplus, no par value.		
Authorized 500,000 shares; issued and		
outstanding 152,993 and 159,619 shares,		
respectively	\$1,268,656	\$1,266,212
Preferred stock, no par value. Authorized		
25,000 shares; none issued and outstanding		
Retained earnings (accumulated deficit)	(41,706)	61,708
Treasury stock, 6,951 and 1,908 shares, at cost	(69,184)	(25,037)
Cumulative foreign currency adjustment	(10,037)	(10,351)
Unearned compensation	(66,516)	(69,895)
-----		
Total Stockholders' Equity	\$1,081,213	\$1,222,637
-----		
Total Liabilities and Stockholders' Equity	\$1,963,722	\$2,088,504
=====		

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Fiscal Year Ended		
	May 25, 1997	May 26, 1996	May 28, 1995
<b>Cash Flows--Operating Activities</b>			
Net Earnings (loss)	\$ (91,029)	\$ 74,355	\$ 52,406
Adjustments to reconcile net earnings (loss) to cash flow:			
Depreciation and amortization	136,876	134,599	135,472
Amortization of unearned compensation and loan costs	3,824	1,929	
Change in current assets and liabilities	(41,401)	9,722	(8,718)
Change in other liabilities	323	1,861	(2,086)
Loss on disposal of land, buildings and equipment	6,358	6,076	2,572
Deferred income taxes	(52,068)	(3,513)	2,000
Non-cash restructuring and asset impairment expenses	226,342	69,073	92,356
Other, net	(22)	(70)	(24)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 189,203</b>	<b>\$ 294,032</b>	<b>\$ 273,978</b>
<b>Cash Flows--Investment Activities</b>			
Purchases of land, buildings and equipment	(159,688)	(213,905)	(357,904)
Purchases of intangibles	(651)	(1,200)	(1,623)
(Increase) decrease in other assets	1,844	(733)	(21,790)
Proceeds from sales of land, buildings and equipment (including net assets held for disposal)	34,017	16,338	6,604
<b>Net Cash Used by Investment Activities</b>	<b>\$(124,478)</b>	<b>\$(199,500)</b>	<b>\$(374,713)</b>
<b>Cash Flows--Financing Activities</b>			
Proceeds from issuance of common stock	1,450	7,318	
Income tax benefit credited to equity	871	2,570	
Dividends paid	(12,385)	(12,647)	
Purchases of treasury stock	(44,147)	(25,037)	
Loan to ESOP	(66,900)		
ESOP note receivable repayments	19,100	1,100	
Increase (decrease) in short-term debt	(29,200)	(25,400)	98,000
Proceeds from issuance of long-term debt	66,900	248,303	250,000
Repayment of long-term debt	(5,054)	(251,010)	(111)
Payment of interest-rate swap settlement and loan costs	(213)	(29,520)	
Decrease in advances from former parent company			(244,719)
<b>Net Cash Provided by (Used by) Financing Activities</b>	<b>\$ (69,578)</b>	<b>\$ (84,323)</b>	<b>\$ 103,170</b>
Increase (Decrease) in Cash and Cash Equivalents	(4,853)	10,209	2,435
Cash and Cash Equivalents--Beginning of Year	30,343	20,134	17,699
<b>Cash and Cash Equivalents--End of Year</b>	<b>\$ 25,490</b>	<b>\$ 30,343</b>	<b>\$ 20,134</b>
<b>Cash Flow from Changes in Current Assets and Liabilities</b>			
Receivables	8,439	558	820
Refundable income taxes, net	(16,968)		
Inventories	(11,516)	42,243	(27,436)
Net assets held for disposal	(3,088)	1,566	
Prepaid expenses and other current assets	2,589	10,024	(3,067)
Accounts payable	(15,109)	(38,503)	6,461
Accrued payroll	4,635	(1,721)	6,008
Accrued income taxes	(12,522)	572	11,950
Other accrued taxes	3,259	(675)	(1,297)
Other current liabilities	(4,208)	312	(3,723)
<b>Change in Current Assets and Liabilities</b>	<b>\$ (41,401)</b>	<b>\$ 9,722</b>	<b>\$ (8,718)</b>
Transfer of long-term debt from former parent company			\$ 50,000
Transfer of unearned compensation from former parent company			\$ (69,172)

See accompanying notes to consolidated financial statements.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

**NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Principles of Consolidation**

The accompanying 1997 and 1996 consolidated financial statements include the operations of Darden Restaurants, Inc. and its wholly-owned subsidiaries (Darden or the Company). The consolidated financial statements prior to 1996 represent the former combined restaurant operations of General Mills, Inc. (General Mills or former parent) in the United States and Canada that now comprise Darden. The common shares of Darden were distributed by General Mills to its stockholders as of May 28, 1995.

The consolidated financial statements prior to 1996 include an allocation of certain general corporate expenses of General Mills that are not directly related to Darden, as well as an allocation of interest expense and income taxes that approximate the amounts Darden would have incurred on a stand-alone basis. Management believes the allocation methods used are reasonable.

Darden's fiscal year ends on the last Sunday in May. 1997, 1996 and 1995 each consisted of 52 weeks.

**B. Land, Buildings and Equipment**

All land, buildings and equipment are recorded at cost. Building components are depreciated over estimated useful lives ranging from seven to 40 years using the straight-line method. Equipment is depreciated over estimated useful lives ranging from three to ten years also using the straight-line method. Accelerated depreciation methods are generally used for income tax purposes.

In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of," the Company periodically reviews restaurant sites and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Measurement of an impairment loss for such assets is based on the fair value of the asset. Restaurant sites and certain identifiable intangibles to be disposed of are reported at the lower of the carrying amount or fair value, less estimated cost to sell.

**C. Inventories**

Inventories are valued at the lower of cost or market value, using the "first-in, first-out" method.

**D. Intangible Assets**

The cost of intangible assets is amortized evenly over their estimated useful lives. Most of these costs were incurred through the purchase of leases with favorable rent terms. The Audit Committee of the Board of Directors annually reviews intangible assets. At its meeting on June 17, 1997, the Board of Directors affirmed that the remaining amounts of these assets have continuing value.

**E. Liquor Licenses**

The costs of obtaining non-transferable liquor licenses that are directly issued by local government agencies for nominal fees are expensed in the year incurred. The costs of purchasing transferable liquor licenses through open markets in jurisdictions with a limited number of authorized liquor licenses for fees in excess of nominal amounts are capitalized. If there is permanent impairment in the value of a liquor license due to market changes, the asset is written down to its net realizable value. Annual liquor license renewal fees are expensed.

**F. Foreign Currency Translation**

The Canadian dollar is the functional currency for the Canadian restaurant operations. Assets and liabilities are translated 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 accumulated in a cumulative foreign currency adjustment account included as a separate component of stockholders' equity. Gains and losses from foreign currency transactions are generally included in the consolidated statements of earnings (loss) for each period.

**G. Pre-Opening Costs**

Capitalized pre-opening costs include the direct and incremental costs associated with the opening of a new restaurant and are amortized over a

one-year period from the restaurant opening date.

#### H. Advertising

Production costs of commercials and programming are charged to operations in the year first aired. The costs of other advertising, promotion and marketing programs are charged to operations in the year incurred. Advertising expense was \$204,321, \$239,526 and \$211,904 in 1997, 1996 and 1995, respectively.

#### I. Income Taxes

The Company provides for federal and state income taxes currently payable, as well as for those deferred because of timing differences between reporting income and expenses for financial statement purposes and income and expenses for 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 of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

#### J. Statements of Cash Flows

For purposes of the consolidated statements of cash flows, amounts receivable from credit card companies and investments purchased with a maturity of three months or less are considered cash equivalents.

#### K. Net Earnings (Loss) Per Share

Net earnings (loss) per share for 1997 and 1996 have been determined by dividing net earnings (loss) by the weighted average number of common shares outstanding during the year, net of common shares held in treasury. Net earnings per share for 1995 has been determined by dividing net earnings by the weighted average number of common shares outstanding during the year, based on the average number of General Mills' common shares presumed to be outstanding during the year. Common share equivalents were not material.

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 (SFAS 128), "Earnings per Share." SFAS 128 requires companies with complex capital structures that have publicly-held common stock or common stock equivalents to present both basic and diluted earnings per share (EPS) on

the face of the income statement. The presentation of basic EPS replaces the presentation of primary EPS currently required by Accounting Principles Board Opinion No. 15 (APB 15), "Earnings per Share." Basic EPS is calculated as income available to common stockholders, divided by the weighted average number of common shares outstanding during the period. Diluted EPS (previously referred to as "fully diluted EPS") is calculated using the "if converted" method for convertible securities, and the treasury stock method for options and warrants as prescribed by APB 15. This statement is effective for financial statements issued for interim and annual periods ending after December 15, 1997. The adoption of SFAS 128 in 1998 will not have a significant impact on the Company's reported EPS.

#### L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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 revenues and expenses during the reporting period. Actual results could differ from those estimated.

#### M. Accounting for Stock Options

During 1997, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," which was effective for fiscal years beginning after December 15, 1995. The statement encourages the use of a fair-value-based method of accounting for stock-based awards under which the fair value of stock options is determined on the date of grant and expensed over the vesting period. Companies may, however, continue to measure compensation costs for those plans using the method prescribed by Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." Companies that continue to apply APB 25 are required to include pro forma disclosures of net earnings (loss) and net earnings (loss) per share as if the fair-value-based method of accounting had been applied. The Company has elected to continue to account for such plans under the provisions of APB 25.

#### NOTE 2--ACCOUNTS RECEIVABLE

Darden contracts with a national storage and distribution company to provide services that are billed to Darden on a per-case basis. In connection with these services, certain Darden inventory items are sold to the distribution company at a predetermined price when they are shipped to the distribution company's storage facilities. These items are repurchased at the same price by Darden when the inventory is delivered to Company restaurants by the distribution company. The receivable from the distribution company was \$12,106 and \$20,083 at May 25, 1997, and May 26, 1996, respectively.

#### NOTE 3--RESTRUCTURING AND ASSET IMPAIRMENT EXPENSE

Darden recorded asset impairment charges of \$158,987, \$56,600 and \$65,399 in 1997, 1996 and 1995, respectively, representing the difference between fair value and carrying value of impaired assets. The asset impairment charges relate to low-performing restaurant properties and other long-lived assets including those restaurants that have been closed. Fair value is generally determined based on appraisals or sales prices of comparable properties. In connection with the closing of certain restaurant properties, the Company recorded other restructuring expenses of \$70,900, \$18,400 and \$33,903 in 1997, 1996 and 1995, respectively.

The components of the restructuring expense and the after-tax and earnings per share effects of the restructuring and asset impairment expense are as follows:

	1997	Fiscal Year 1996	1995
Carrying costs of buildings and equipment prior to disposal and employee severance costs	\$ 27,500	\$ 8,600	\$ 3,912
Lease buy-out provisions	30,000	1,600	27,880
Other	13,400	8,200	2,111
Subtotal	70,900	18,400	33,903
Impairment of restaurant properties and other long-lived assets	158,987	56,600	65,399
Total restructuring and asset impairment expense	229,887	75,000	99,302
Less related income tax effect	(84,528)	(30,151)	(40,217)
Restructuring and asset impairment expense, net of income taxes	\$145,359	\$ 44,849	\$ 59,085

Earnings per share effect	\$ 0.93	\$ 0.28	\$ 0.37
=====			

As of May 25, 1997, approximately \$3,550, \$13,200 and \$26,250 of costs associated with the 1997, 1996 and 1995 restructurings, respectively, had been paid and charged against the restructuring liability. The total restructuring liability included in other current liabilities was \$91,770 and \$37,773 as of May 25, 1997, and May 26, 1996, respectively. The restructuring actions related to the 1996 and 1995 restructurings were substantially completed as of May 25, 1997. The 1997 restructuring actions are expected to be substantially completed during 1999.

## NOTE 4--INCOME TAXES

The components of earnings (loss) before income taxes and the provision for income taxes thereon are as follows:

	1997	Fiscal Year 1996	1995
Earnings (loss) before income taxes:			
U.S.	\$ (108,687)	\$ 118,506	\$ 82,450
Canada	(45,799)	(4,788)	(17,306)
Earnings (loss) before income taxes	\$ (154,486)	\$ 113,718	\$ 65,144
Income taxes:			
Current:			
Federal	\$ (13,285)	\$ 33,935	\$ 11,848
State and local	1,529	8,608	5,812
Canada	367	333	(6,922)
Total current	(11,389)	42,876	10,738
Deferred (principally U.S.)	(52,068)	(3,513)	2,000
Total income taxes	\$ (63,457)	\$ 39,363	\$ 12,738

During 1997, 1996 and 1995, Darden paid income taxes of \$15,900, \$25,777 and \$31,469, respectively. 1995 income taxes were paid as part of the General Mills consolidated tax returns.

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

	1997	Fiscal Year 1996	1995
U.S. statutory rate	(35.0)%	35.0%	35.0%
State and local income taxes, net of federal tax benefits (expense)	(3.3)	4.6	4.6
Benefit of U.S. federal income tax credits	(5.7)	(6.8)	(21.2)
Other, net	2.9	1.8	1.2
Effective income tax rate	(41.1)%	34.6%	19.6%

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

	May 25, 1997	May 26, 1996
Accrued liabilities	\$ 12,135	\$ 14,750
Compensation and employee benefits	32,334	29,766
Asset disposition liabilities	41,147	27,248
Operating loss and tax credit carryforwards	4,016	
Net assets held for disposal	2,372	
Other	1,584	1,667
Gross deferred tax assets	93,588	73,431
Buildings and equipment	(59,356)	(89,368)
Prepaid pension asset	(14,482)	(15,055)
Prepaid interest	(5,015)	(5,424)
Other	(696)	(1,613)
Gross deferred tax liabilities	(79,549)	(111,460)
Net deferred tax asset (liability)	\$ 14,039	\$ (38,029)

Management believes the Company will obtain the full benefit of deferred tax assets on the basis of its evaluation of anticipated profitability

over the period of years that the temporary differences are expected to become tax deductions. It believes that sufficient book and taxable income will be generated to realize the benefit of these tax assets.

**NOTE 5--LAND, BUILDINGS AND EQUIPMENT**

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

	May 25, 1997	May 26, 1996
-----		
Land	\$ 379,411	\$ 402,056
Buildings	1,315,209	1,300,025
Equipment	649,689	642,287
Construction in progress	46,214	65,107
-----		
Total land, buildings and equipment	2,390,523	2,409,475
Less accumulated depreciation	(857,251)	(706,614)
-----		
Net land, buildings and equipment	\$1,533,272	\$1,702,861
=====		

**NOTE 6--OTHER ASSETS**

The components of other assets are as follows:

	May 25, 1997	May 26, 1996
-----		
Prepaid pension	\$37,863	\$38,702
Prepaid interest and loan costs	27,170	29,337
Liquor licenses	17,677	17,744
Intangible assets	9,174	9,894
Miscellaneous	1,197	1,986
-----		
Total other assets	\$93,081	\$97,663
=====		

**NOTE 7--SHORT-TERM DEBT**

Short-term debt at May 25, 1997, and May 26, 1996, consisted of \$43,400 and \$72,600 of unsecured commercial paper borrowings with original maturities of one month or less, and interest rates ranging from 5.55 percent to 5.80 percent, and 5.30 percent to 5.53 percent, respectively.

**NOTE 8--LONG-TERM DEBT**

The components of long-term debt are as follows:

	May 25, 1997	May 26, 1996
-----		
10-year notes and 20-year debentures as described below	\$250,000	\$250,000
ESOP loan guarantee with variable rate of interest (4.51% at May 26, 1996), due December 31, 2007. Repaid during 1997		50,000
ESOP loan with variable rate of interest (6.04% at May 25, 1997), due December 31, 2018	64,700	
Other	28	2,882
-----		
Total long-term debt	314,728	302,882
Less issuance discount	(1,536)	(1,677)
-----		
Total long-term debt less issuance discount	313,192	301,205
Less current portion	(5)	(54)
-----		
Long-term debt, excluding current portion	\$313,187	\$301,151
=====		

In January 1996, the Company issued \$150,000 of 6.375 percent notes due in 2006, and \$100,000 of 7.125 percent debentures due in 2016. The proceeds from the issuance were used to refinance commercial paper borrowings. Concurrent with the issuance of the notes and debentures, the Company terminated, and settled for cash, interest-rate swap agreements with notional amounts totaling \$200,000, which hedged the movement of interest rates prior to the issuance of the notes and debentures. The cash paid in terminating the interest-rate swap agreements is being amortized to interest expense over the life of the notes and debentures. The effective annual interest rate is 7.57 percent for the notes and 7.82 percent for the debentures, after consideration of loan costs, issuance discounts, and interest rate swap termination costs.

The Company also maintains a revolving loan agreement expiring May 19, 2000, with a consortium of banks under which the Company can borrow up to \$250,000. The loan agreement allows the Company to borrow at interest rates that vary based on the prime rate, LIBOR or a competitively bid rate among the members of the lender consortium, at the option of the Company. The Company is required to pay a facility fee of 12.5 basis points per annum on the average daily amount of loan commitments by the consortium. The amount of interest and the annual facility fee are subject to change, based on the Company's achievement of certain financial ratios and debt ratings. Advances under the loan agreement are unsecured. At May 25, 1997, and May 26, 1996, no borrowings were outstanding under this agreement.

The aggregate maturities of long-term debt for each of the five years subsequent to May 25, 1997, and thereafter are \$5 in 1998, 1999, and 2000, \$6 in 2001, \$7 in 2002 and \$314,700 thereafter.

**NOTE 9--FINANCIAL INSTRUMENTS**

The Company has participated in the financial derivatives markets to manage its exposure to interest rate fluctuations. The Company had interest rate swaps with a notional amount of \$200,000, which it used to convert variable rates on its long-term debt to fixed rates effective May 30, 1995. The Company received the one-month commercial paper interest rate and paid fixed-rate interest ranging from 7.51 percent to 7.89 percent. The interest rate swaps were settled during January 1996 at a cost to the Company of \$27,670. This cost will be recognized as an adjustment to interest expense over the term of the Company's 10-year notes and 20-year debentures (see Note 8). The following methods were used in estimating fair value disclosures for significant financial instruments:

Cash equivalents approximate their carrying amount due to the short duration of those items. Short-term debt approximates its carrying amount. Long-term debt is based on quoted market prices or, if market prices are not available, the present value of the underlying cash flows discounted at the Company's incremental borrowing rates. The carrying amounts and fair values of the Company's significant financial instruments are as follows:

-----  
May 25, 1997

-----  
May 26, 1996

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 25,490	\$ 25,490	\$ 30,343	\$ 30,343
Short-term debt	\$ 43,400	\$ 43,400	\$ 72,600	\$ 72,600
Total long-term debt	\$313,192	\$301,399	\$301,205	\$282,810



## NOTE 10--STOCKHOLDERS' EQUITY

The following table summarizes the changes in the components of stockholders' equity:

(In thousands)	Common Stock and Surplus	Retained Earnings (Accumulated Deficit)	Treasury Stock	Cumulative Foreign Currency Adjustment	Total Unearned Compensation	Stockholders' Equity
Balance at May 29, 1994	\$1,417,593	\$ 0	\$ 0	\$(10,274)	\$ 0	\$1,407,319
Net earnings	52,406					52,406
Net advances to General Mills	(216,584)					(216,584)
Foreign currency adjustment				(7)		(7)
Transfer of unearned compensation from General Mills					(69,172)	(69,172)
Balance at May 28, 1995	1,253,415			(10,281)	(69,172)	1,173,962
Net earnings		74,355				74,355
Cash dividends declared (\$0.08 per share)		(12,647)				(12,647)
Stock option exercises (1,137 shares)	7,318					7,318
Issuance of restricted stock (304 shares)	2,909				(2,909)	
Earned compensation					1,086	1,086
ESOP note receivable repayments					1,100	1,100
Income tax benefit credited to equity	2,570					2,570
Purchases of common stock for treasury (1,908 shares)			(25,037)			(25,037)
Foreign currency adjustment				(70)		(70)
Balance at May 26, 1996	1,266,212	61,708	(25,037)	(10,351)	(69,895)	1,222,637
Net loss		(91,029)				(91,029)
Cash dividends declared (\$0.08 per share)		(12,385)				(12,385)
Stock option exercises (261 shares)	1,450					1,450
Issuance of restricted stock (25 shares)	123				(123)	
Earned compensation					1,302	1,302
ESOP note receivable repayments, net					2,200	2,200
Income tax benefit credited to equity	871					871
Purchases of common stock for treasury (5,043 shares)			(44,147)			(44,147)
Foreign currency adjustment				314		314
Balance at May 25, 1997	\$1,268,656	\$(41,706)	\$(69,184)	\$(10,037)	\$(66,516)	\$1,081,213

**NOTE 11--STOCKHOLDERS' RIGHTS PLAN**

The Company has a stockholders' rights plan that entitles each holder of Company common stock to purchase one one-hundredth of one share of Darden preferred stock for each common share owned at a purchase price of \$62.50 per share, subject to adjustment to prevent dilution. The rights are exercisable when, and are not transferable apart from the Company's common stock until, a person or group has acquired 20 percent or more, or makes a tender offer for 20 percent or more, of the Company's common stock. If the specified percentage of the Company's common stock is then acquired, each right will entitle the holder (other than the acquiring company) to receive, upon exercise, common stock of either the Company or the acquiring company having a value equal to two times the exercise price of the right. The rights are redeemable by the Company's Board in certain circumstances and expire on May 24, 2005.

**NOTE 12--INTEREST, NET**

As explained in Note 1-A, the interest expense appearing in the 1995 consolidated statement of earnings includes an allocation of a portion of General Mills' consolidated interest expense assuming a debt-to-capital ratio of approximately 25 percent for Darden. A long-term rate of 8.56 percent was used to calculate interest expense on non-ESOP debt averaging \$307,500 in 1995. This long-term rate approximates the prevailing cost of long-term debt for companies with financial characteristics similar to those of Darden during the fiscal period presented. Interest expense on average ESOP debt of \$65,850, \$67,075 and \$69,750 in 1997, 1996 and 1995, respectively, was included in compensation expense. Capitalized interest was computed using the Company's borrowing rate for 1997 and 1996 and General Mills' borrowing rate for 1995. The Company paid \$19,830 and \$14,657 for interest in 1997 and 1996, respectively.

The components of interest, net are as follows:

	1997	Fiscal Year 1996	1995
Interest expense	\$23,336	\$24,875	\$26,331
Capitalized interest	(739)	(2,007)	(4,327)
Interest income	(306)	(1,462)	(103)
Interest, net	\$22,291	\$21,406	\$21,901

**NOTE 13--LEASES**

An analysis of rent by property leased (all of which are accounted for as operating leases) is as follows:

	1997	Fiscal Year 1996	1995
Restaurant minimum rent	\$40,616	\$39,867	\$41,489
Restaurant percentage rent	1,649	1,713	1,911
Restaurant rent averaging expense	595	(275)	1,567
Transportation equipment	1,951	2,103	1,505
Office equipment	915	956	730
Office space	406	331	260
Warehouse space	235	207	180
Total rent expense	\$46,367	\$44,902	\$47,642

Minimum rental obligations are accounted for on a straight-line basis over the term of the lease. Some leases require payment of property taxes, insurance and maintenance costs in addition to the rent payments. The annual non-cancellable future lease commitments for each of the five years subsequent to May 25, 1997, and thereafter are: \$44,174 in 1998; \$42,364 in 1999; \$39,222 in 2000; \$35,541 in 2001; \$31,491 in 2002; and \$144,833 thereafter, for a cumulative total of \$337,625.

**NOTE 14--RETIREMENT PLANS**

The Company has a defined benefit plan covering most salaried employees and a group of hourly employees with a frozen level of benefits. Benefits for salaried employees are based on length of service and final average compensation. The hourly plan provides a monthly amount for each year of credited service. The Company's funding policy is consistent with the funding requirements of federal law and regulations. Plan assets consist principally of listed equity securities, corporate obligations and U.S. government securities.

Components of net pension expense (income) are as follows:

	Fiscal Year		
	1997	1996	1995
Service cost-benefits earned	\$ 3,250	\$ 2,427	\$ 2,725
Interest cost on projected benefit obligation	4,686	3,806	3,924
Actual return on plan assets	(10,955)	(16,965)	(8,564)
Net amortization and deferral	3,859	9,316	981
Net pension expense (income)	\$ 840	\$ (1,416)	\$ (934)

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the benefit obligations were 8.0 percent and 6.0 percent in 1997, 7.75 percent and 6.0 percent in 1996, and 8.0 percent and 5.9 percent in 1995, respectively. The expected long-term rate of return on plan assets was 10.4 percent.

The funded status of the plan and the amount recognized on the consolidated balance sheets are as follows:

	May 25, 1997		May 26, 1996	
	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of benefit obligations:				
Vested benefits	\$49,978	\$ 1,974	\$49,053	\$ 1,856
Non-vested benefits	1,741		4,571	
Accumulated benefit obligations	51,719	1,974	53,624	1,856
Projected benefit obligation	59,323	1,974	60,964	1,856
Plan assets at fair value	89,064	11	81,786	
Plan assets in excess of (less than) the projected benefit obligation	29,741	(1,963)	20,822	(1,856)
Unrecognized prior service costs	(3,674)			
Unrecognized net loss	15,005		21,730	
Unrecognized transition asset	(3,209)		(3,850)	
Prepaid (accrued) pension cost	\$37,863	\$(1,963)	\$38,702	\$(1,856)

The Company has a defined contribution plan covering most employees age 21 and older with at least one year of service. Employees classified as "highly compensated" under the Internal Revenue Code are ineligible to participate. The Company matches participant contributions up to six percent of compensation on the basis of \$0.50 for each dollar contributed by the participant. The plan had net assets of \$122,585 at May 25, 1997, and \$160,291 at May 26, 1996. Expense recognized in 1997, 1996 and 1995 was \$2,551, \$2,505 and \$1,562, respectively.

The defined contribution plan includes an Employee Stock Ownership Plan (ESOP). This ESOP originally borrowed \$50,000 from third parties guaranteed by the Company, and borrowed \$25,000 from the Company at a variable interest rate. These borrowings were refinanced during the current year by a commercial bank's loan to the Company and a corresponding loan from the Company to the ESOP. Compensation expense is recognized as contributions are accrued. Contributions to the plan, plus the dividends accumulated on the common stock 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 1997, 1996, and 1995, the ESOP incurred interest expense of \$3,815, \$3,431 and \$3,318 respectively, and used dividends received of \$5,127, \$1,735 and \$2,884 and contributions received from the Company of \$2,548, \$2,397 and \$2,098, respectively, to pay principal and interest on its debt.

Company shares owned by the ESOP are included in average common shares outstanding for purposes of calculating net earnings (loss) per share. At May 25, 1997, the ESOP's debt to the Company had a balance of \$64,700 with a variable rate of interest of 6.04 percent. \$47,800 of the principal balance is due to be repaid no later than December 2007, with the remaining \$16,900 due to be repaid no later than December 2014. The number of Company common shares within the ESOP at May 25, 1997, approximates 12,324,000 representing 10,025,000 unreleased shares, 74,000 shares committed to be released and 2,225,000 shares allocated to participants.

#### NOTE 15--OTHER POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS

The Company sponsors a plan that provides health-care benefits to its salaried retirees. The plan is contributory, with retiree contributions based on years of service.

Components of the post-retirement health-care expense are as follows:

	Fiscal Year		
	1997	1996	1995
Service cost-benefits earned	\$292	\$227	\$317
Interest cost on accumulated benefit obligation	366	364	422
Net amortization and deferral	67	76	85
Net post-retirement expense	\$725	\$667	\$824

The plan is not funded. The amounts included in the consolidated balance sheets are as follows:

	May 25, 1997	May 26, 1996
-----		
Accumulated benefit obligations:		
Retirees	\$ 785	\$ 662
Fully eligible active employees	370	255
Other active employees	3,580	3,843
-----		
Accumulated benefit obligations	4,735	4,760
Plan assets at fair value	0	0
-----		
Accumulated benefit obligations		
in excess of plan assets	4,735	4,760
Unrecognized prior service cost	(136)	(533)
Unrecognized net loss	(1)	(271)
-----		
Accrued post-retirement benefits	\$4,598	\$3,956
=====		

The discount rates used in determining the actuarial present value of the benefit obligations were 8.0 percent in 1997 and 8.75 percent in 1996.

The health-care cost trend rate increase in the per-capita charges for benefits ranged from 6.5 percent to 7.4 percent for 1998, depending on the medical service category. The rates gradually decrease to 4.6 percent to 5.5 percent for 2008 and remain at that level thereafter. If the health-care cost trend rate increased by one percentage point in each future year, the aggregate of the service and interest cost components of post-retirement expense for 1997 would increase by \$143, and the accumulated benefit obligation at May 25, 1997, would increase by \$826.

#### NOTE 16--STOCK PLANS

The Darden Restaurants Stock Option and Long-Term Incentive Plan of 1995 provides for the granting of stock options to key employees at a price equal to the fair market value of the shares at the date of the grant, and are for terms not exceeding ten years. 15,000,000 shares of common stock are authorized for issuance under the plan; 3,000,000 of these shares are available solely for issuance in connection with the granting of stock options in lieu of merit salary increases or other compensation or employee benefits. Such options vest at the discretion of the Compensation Committee. The plan also allows for grants of restricted stock and restricted stock units (RSUs) for up to ten percent of the shares under the plan.

No individual may receive in excess of two percent of the total number of shares authorized under the plan in restricted stock or RSUs. Restricted stock and RSUs granted under the plan vest no sooner than one year from the date of grant. No individual may receive awards covering in excess of ten percent of the total number of shares authorized for issuance under the plan.

The Darden Restaurants Stock Plan for Non-Employee Directors provides for a one-time grant upon election to each non-employee director of an option to purchase 12,500 shares of common stock and an additional option to purchase 3,000 shares of common stock upon election or re-election at a price equal to the fair market value of the shares at the date of grant. The plan also provides for an annual grant of 3,000 shares of restricted stock to each non-employee director as well as additional options to purchase shares of common stock in lieu of retainer and meeting fees. Up to 250,000 shares of common stock may be issued under this plan and all options have an exercise price equal to the fair market value of the shares at the date of grant. The Darden Restaurants Compensation Plan for Non-Employee Directors provides that non-employee directors may elect to receive their annual retainer and meeting fees in cash, deferred cash or shares of common stock. The common stock issuable under the plan shall have a fair market value equivalent to the value of the foregone retainer and meeting fees. 50,000 shares of common stock are available for issuance under the plan.

The per share weighted average fair value of stock options granted during 1997 and 1996 was \$2.88 and \$4.24, respectively. These amounts were determined using the Black Scholes option-pricing model which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, expected dividend payments, and the risk-free interest rate over the expected life of the option. The dividend yield was calculated by dividing the current annualized dividend by the option price for each grant. The expected volatility was determined considering stock prices for the fiscal year the grant occurred and prior fiscal years, as well as considering industry volatility data. The risk-free interest rate was the rate available on zero coupon U.S. government issues with a term equal to the remaining term for each grant. The expected life of the option was estimated based on the exercise history from previous grants.

The Company applies APB 25 in accounting for its stock option plans and, accordingly, no compensation cost has been recognized in the Company's financial statements for stock options granted under any of the stock plans. If, under SFAS 123, the Company determined compensation cost based on the fair value at the grant date for its stock options, net earnings (loss) and net earnings (loss) per share would have been the pro forma amounts indicated below:

	Fiscal Year	
	1997	1996
Net earnings (loss)		
As reported	\$ (91,029)	\$ 74,355
Pro forma	\$ (93,154)	\$ 72,261
Net earnings (loss) per share		
As reported	\$ (0.59)	\$ 0.47
Pro forma	\$ (0.60)	\$ 0.46

Under SFAS 123, stock options granted prior to 1996 are not required to be included as compensation in determining pro forma net earnings (loss). To determine pro forma net earnings (loss), reported net earnings (loss) have been adjusted for compensation costs associated with stock options granted during 1997 and 1996 that are expected to eventually vest.

Option transactions, commencing as of the distribution date, are as follows:

	Number of Shares	Per Share Option Price Range
-----		
Balance at May 28, 1995	15,199,136	\$ 2.37 to \$12.49
Options granted	5,599,308	\$10.56 to \$13.00
Options exercised	(1,136,998)	\$ 2.37 to \$11.11
Options cancelled	(1,855,253)	\$ 3.88 to \$12.49
-----		
Balance at May 26, 1996	17,806,193	\$ 3.88 to \$13.00
Options granted	120,123	\$ 6.88 to \$ 8.56
Options exercised	(261,227)	\$ 3.88 to \$11.11
Options cancelled	(1,603,796)	\$ 6.12 to \$12.49
-----		
Balance at May 25, 1997	16,061,293	\$ 4.03 to \$13.00
=====		
Options exercisable at May 25, 1997	6,832,479	\$ 4.03 to \$12.49
=====		

#### **NOTE 17--COMMITMENTS AND CONTINGENCIES**

Darden makes normal trade commitments in the course of regular operations and is subject to litigation incident to the conduct of its ongoing business. As of May 25, 1997, the Company was contingently liable for approximately \$68,000, primarily relating to outstanding letters of credit. In the opinion of management, there are no unusual commitments or contingencies at May 25, 1997, that would materially affect the financial position or operating results of Darden.

## NOTE 18--QUARTERLY DATA (UNAUDITED)

Summarized quarterly data for 1997 and 1996 are as follows:

	Fiscal 1997				
	Quarters Ended				
	Aug. 25	Nov. 24	Feb. 23	May 25	Total
Sales	\$ 805,555	\$ 748,757	\$ 800,846	\$ 816,652	\$3,171,810
Gross Profit	167,935	118,189	147,559	162,148	595,831
Earnings (Loss) before Interest and Taxes	33,826	(10,196)	27,247	(183,072)	(132,195)
Earnings (Loss) before Taxes	28,893	(15,819)	21,613	(189,173)	(154,486)
Net Earnings (Loss)	20,473	(11,169)	15,723	(116,056)	(91,029)
Net Earnings (Loss) per Share	\$ 0.13	\$ (0.07)	\$ 0.10	\$ (0.76)	\$ (0.59)
=====					
	Fiscal 1996				
	Quarters Ended				
	Aug. 27	Nov. 26	Feb. 25	May 26	Total
Sales	\$ 836,021	\$ 731,184	\$ 795,111	\$ 829,463	\$3,191,779
Gross Profit	188,279	153,868	188,832	187,664	718,643
Earnings (Loss) before Interest and Taxes	(17,630)	31,448	62,029	59,277	135,124
Earnings (Loss) before Taxes	(22,996)	26,000	56,497	54,217	113,718
Net Earnings (Loss)	(12,063)	16,328	35,608	34,482	74,355
Net Earnings (Loss) per Share	\$ (0.08)	\$ 0.10	\$ 0.22	\$ 0.22	\$ 0.47
=====					



**FIVE-YEAR FINANCIAL SUMMARY**  
 (DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Fiscal Year Ended				
	May 25, 1997	May 26, 1996	May 28, 1995	Pro Forma May 29, 1994	May 30, 1993
<b>OPERATION RESULTS</b>					
Sales	\$3,171,810	\$3,191,779	\$3,163,289	\$2,962,980	\$2,737,044
Costs and Expenses:					
Cost of Sales:					
Food and beverages	1,077,316	1,062,624	1,093,896	1,014,066	928,711
Restaurant labor	1,017,315	954,886	931,553	868,178	812,118
Restaurant expenses	481,348	455,626	470,194	442,769	406,524
Total Cost of Sales	\$2,575,979	\$2,473,136	\$2,495,643	\$2,325,013	\$2,147,353
Restaurant Operating Profit	595,831	718,643	667,646	637,967	589,691
Selling, General and Administrative	361,263	373,920	351,197	306,516	272,082
Depreciation and Amortization	136,876	134,599	135,472	124,732	115,684
Interest, Net	22,291	21,406	21,901	18,394	15,589
Total Costs and Expenses	\$3,096,409	\$3,003,061	\$3,004,213	\$2,774,655	\$2,550,708
Earnings before Restructuring and Asset Impairment Expenses and Income Taxes	75,401	188,718	159,076	188,325	186,336
Income Taxes before Restructuring and Asset Impairment Expenses	21,071	69,514	50,817	68,451	71,050
Earnings from Operations before Restructuring and Asset Impairment Expenses and Accounting Changes	54,330	119,204	108,259	119,874	115,286
Cumulative Effect of Accounting Changes				3,661	
Restructuring and Asset Impairment Expenses, Net of Income Taxes	145,359	44,849	59,085		26,900
Net Earnings (Loss)	\$ (91,029)	\$ 74,355	\$ 49,174	\$ 123,535	\$ 88,386
Earnings per Share from Operations before Restructuring and Asset Impairment Expenses and Accounting Changes	\$ 0.35	\$ 0.75	\$ 0.68	\$ 0.75	\$ 0.71
Net Earnings (Loss) per Share from Operations after Restructuring and Asset Impairment Expenses	\$ (0.59)	\$ 0.47	\$ 0.31	\$ 0.78	\$ 0.54
Average Number of Common Shares Outstanding, Net of Shares Held in Treasury (in 000's)	155,600	158,700	158,000	159,100	163,100
<b>FINANCIAL POSITION</b>					
Total Assets	\$1,963,722	\$2,088,504	\$2,113,381	\$1,859,124	\$1,611,956
Land, Buildings and Equipment	1,533,272	1,702,861	1,737,982	1,564,245	1,370,087
Working Capital (Deficit)	(143,211)	(157,326)	(209,609)	(152,926)	(105,339)
Long-term Debt	313,192	301,205	303,860	303,971	
Stockholders' Equity	1,081,213	1,222,637	1,173,962	1,057,319	
Stockholders' Equity per Share	7.07	7.70	7.43	6.65	
<b>OTHER STATISTICS</b>					
Cash Flow from Operations	\$ 189,203	\$ 294,032	\$ 273,978	\$ 262,018	\$ 237,663
Capital Expenditures	159,688	213,905	357,904	335,031	294,408
Dividends Paid	12,385	12,647			
Dividends Paid per Share	0.08	0.08			
Advertising Expense	\$ 204,321	\$ 239,526	\$ 211,904	\$ 173,053	\$ 154,052
Number of Employees	114,600	119,100	124,700	115,200	102,600
Number of Restaurants	1,182	1,217	1,243	1,158	1,043
Stock Price:					
High	\$ 12.125	\$ 14.000	\$ 10.875		

Low  
Close

6.750  
8.250

9.750  
11.750

9.375  
10.875

=====

## **SUBSIDIARIES OF DARDEN RESTAURANTS, INC.**

As of May 25, 1997, the Registrant had one "significant subsidiary", as defined in Regulation S-X, Rule 1-02(w), identified as follows:

GMRI, Inc., a Florida corporation, doing business as Red Lobster, The Olive Garden and Bahama Breeze.

In order to comply with certain state laws, the Registrant, either directly, or indirectly through GMRI, Inc., had 58 other subsidiaries as of May 25, 1997. If considered in the aggregate as a single subsidiary as of May 25, 1997, the 58 other subsidiaries would not constitute a "significant subsidiary" as defined in Regulation S-X, Rule 1-02(w).

## INDEPENDENT ACCOUNTANTS' CONSENT

The Board of Directors  
Darden Restaurants, Inc.:

We consent to incorporation by reference in the Registration Statement (No. 33-93854) on Form S-3 and Registration Statements (Nos. 33-92702 and 33-92704) on Form S-8 of Darden Restaurants, Inc. of our report dated June 17, 1997, relating to the consolidated balance sheets of Darden Restaurants, Inc. and subsidiaries as of May 25, 1997 and May 26, 1996 and the related consolidated statements of earnings (loss) and cash flows for each of the fiscal years in the three-year period ended May 25, 1997, which report is incorporated by reference to page 14 of the Registrant's 1997 Annual Report to Stockholders in the May 25, 1997 Annual Report on Form 10-K of Darden Restaurants, Inc.

*/s/KPMG Peat Marwick LLP*

*Orlando, Florida  
August 11, 1997*

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned constitutes and appoints C.L. Whitehill, Joe R. Lee and James D. Smith, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for and in his or her name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the fiscal year ended May 25, 1997, and any and all amendments thereto and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as might or could be done in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

*/s/ H. Brewster Atwater, Jr.*

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*H. Brewster Atwater, Jr.*

*Date: July 24, 1997*

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned constitutes and appoints C.L. Whitehill, Joe R. Lee and James D. Smith, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for and in his or her name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the fiscal year ended May 25, 1997, and any and all amendments thereto and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as might or could be done in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

*/s/ Daniel B. Burke*

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*Daniel B. Burke*

*Date: July 23, 1997*

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned constitutes and appoints C.L. Whitehill, Joe R. Lee and James D. Smith, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for and in his or her name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the fiscal year ended May 25, 1997, and any and all amendments thereto and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as might or could be done in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

*/s/ Betty Southard Murphy*

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*Betty Southard Murphy*

*Date: July 23, 1997*

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned constitutes and appoints C.L. Whitehill, Joe R. Lee and James D. Smith, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for and in his or her name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the fiscal year ended May 25, 1997, and any and all amendments thereto and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as might or could be done in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

*/s/ Jack A. Smith*

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*Jack A. Smith*

*Date: July 23, 1997*



**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned constitutes and appoints C.L. Whitehill, Joe R. Lee and James D. Smith, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for and in his or her name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the fiscal year ended May 25, 1997, and any and all amendments thereto and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as might or could be done in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

*/s/ Michael D. Rose*

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*Michael D. Rose*

*Date: July 25, 1997*

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned constitutes and appoints C.L. Whitehill, Joe R. Lee and James D. Smith, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for and in his or her name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the fiscal year ended May 25, 1997, and any and all amendments thereto and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as might or could be done in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

*/s/ Blaine Sweatt*

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*Blaine Sweatt*

*Date: July 25, 1997*

## ARTICLE 5

This schedule contains summary financial information extracted from the consolidated financial statements of Darden Restaurants, Inc. and subsidiaries and is qualified in its entirety by reference to such financial information.

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	MAY 25 1997
PERIOD END	MAY 25 1997
CASH	25,490
SECURITIES	0
RECEIVABLES	16,333
ALLOWANCES	249
INVENTORY	132,241
CURRENT ASSETS	337,369
PP&E	2,390,523
DEPRECIATION	(857,251)
TOTAL ASSETS	1,963,722
CURRENT LIABILITIES	480,580
BONDS	313,192
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	1,268,656
OTHER SE	(187,443)
TOTAL LIABILITY AND EQUITY	1,963,722
SALES	3,171,810
TOTAL REVENUES	3,171,810
CGS	1,077,316
TOTAL COSTS	2,575,979
OTHER EXPENSES	0
LOSS PROVISION	196
INTEREST EXPENSE	22,291
INCOME PRETAX	(154,486)
INCOME TAX	(63,457)
INCOME CONTINUING	(91,029)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(91,029)
EPS PRIMARY	(0.59)
EPS DILUTED	(0.59)

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