Management's Discussion

of Results of Operations and Financial Condition

Darden Restaurants, Inc. (Darden or the Company) 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 1,139 *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. Darden's fiscal year ends on the last Sunday in May.

REVENUES

Total revenues in 1999 (52 weeks) were $3.46 billion, a five percent increase from 1998 (53 weeks). Total revenues in 1998 were $3.29 billion, a four percent increase from 1997.

COSTS AND EXPENSES

Food and beverage costs for 1999 were 32.8 percent of sales, a decrease of 0.2 percentage points from 1998 and a decrease of 1.2 percentage points from 1997. The higher level of food and beverage costs for 1997, as a percentage of sales, primarily resulted from the repositioning strategy at *Red Lobster*, initiated in 1997's second quarter, that lowered check averages and improved food by providing larger portions and enhancing food quality and presentation. Profit margins increased during 1999 and 1998 primarily as a result of increased sales, higher margin food items and favorable food costs.

Restaurant labor was comparable year to year at 32.3 percent of sales in 1999 against 32.3 percent in 1998 and 32.1 percent in 1997.

Restaurant expenses (primarily lease expenses, property taxes, utilities and workers' compensation costs) decreased in 1999 to 14.3 percent of sales compared to 14.7 percent in 1998 and 15.2 percent in 1997. The 1999 and 1998 decreases resulted primarily from increased sales levels.

Selling, general and administrative expenses declined in 1999 to 10.4 percent of sales compared to 10.9 percent in 1998 and 11.4 percent in 1997. The 1999 and 1998 declines resulted from an overall decrease in marketing costs each year and increased sales levels.

Depreciation and amortization expense of 3.6 percent of sales in 1999 decreased from 3.8 percent in 1998 and 4.3 percent in 1997. The 1999 and 1998 decreases resulted from increased sales levels, restaurant closings and asset impairment write-downs that occurred during 1997's fourth quarter. Interest expense of 0.6 percent of sales in 1999 and 1998 decreased from 0.7 percent in 1997.

INCOME FROM OPERATIONS

Pre-tax earnings before restructuring credit increased by 35 percent in 1999 to $207.4 million, compared to $153.7 million in 1998 and $75.4 million before restructuring and asset impairment charges in 1997. The increase in 1999 was mainly attributable to annual same-restaurant sales increases in the U.S. for both *Red Lobster* and *Olive Garden* totaling 7.4 percent and 9.0 percent, respectively. *Red Lobster* and *Olive Garden* have enjoyed six and 19 consecutive quarters of same-restaurant sales increases, respectively. The increase in 1998 was mainly attributable to substantially higher earnings at *Red Lobster* resulting from actions beginning in the second quarter of 1997 intended to enhance long-term performance through new menu items, bolder flavors, more choices at lower prices and service improvements. *Olive Garden* also posted a solid increase in earnings in 1998. Fiscal 1998 same-restaurant sales increases in the U.S. for *Red Lobster* and *Olive Garden* totaled 2.5 percent and 8.3 percent, respectively.

PROVISION FOR INCOME TAXES

The effective tax rate for 1999 before restructuring credit was 34.8 percent compared to 33.8 percent in 1998 and 27.9 percent before restructuring and asset impairment charges in 1997. The higher effective tax rate in 1999 resulted from higher pre-tax earnings. The 34.9 percent rate in 1999, after restructuring credit, compared to 1998's 33.8 percent rate and to 1997's 41.1 percent benefit after restructuring and asset impairment charges. The unusual effective rate in 1997 resulted from operating losses combined with federal income tax credits, both of which created an income tax benefit.

NET EARNINGS AND NET EARNINGS PER SHARE BEFORE RESTRUCTURING AND ASSET IMPAIRMENT EXPENSE OR (CREDIT)

Net earnings before restructuring credit for 1999 of $135.3 million or 96 cents per diluted share increased 33 percent, compared to 1998 net earnings of $101.7 million or 67 cents per diluted share. 1998 net earnings increased 87 percent, compared to net earnings before restructuring and asset impairment charges for 1997 of $54.3 million or 35 cents per diluted share.

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

Net earnings after restructuring credit for 1999 of $140.5 million (99 cents per diluted share) compared with 1998's net earnings of $101.7 million (67 cents per diluted share) and 1997's net loss after restructuring and asset impairment charges of $(91.0) million (59 cents per diluted share).

During 1997, an after-tax restructuring and asset impairment charge of $145.4 million (93 cents per diluted 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 is being provided by operations and the sale of closed properties (see Note 3 of Notes to Consolidated Financial Statements).

During 1999, an after-tax restructuring credit of $5.2 million (four cents per diluted share) was taken in the fourth quarter as the Company reversed a portion of its 1997 restructuring liability. The reversal resulted from the Company's decision to close fewer restaurants than identified for closure as part of the restructuring action. The credit has no effect on the Company's cash flow. (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 Investor Services, Inc.), "BBB" (Standard & Poor's Corporation) and "BBB+" (Duff & Phelps Corporation) ratings. The Company's 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 costs to terminate an interest-rate swap agreement that was established prior to the distribution from General Mills.

Darden's long-term debt also includes a $66.9 million commercial bank loan to the Company, with an outstanding principal balance of $60.2 million as of May 30, 1999, that is used to support two loans from the Company to the Employee Stock Ownership Plan portion of the Darden Savings Plan (the ESOP). During the fiscal year ended May 25, 1997, the ESOP refinanced $50 million in existing debt which was previously guaranteed by the Company. The refinancing was accomplished by the commercial bank's loan to the Company and a corresponding loan from the Company to the ESOP.

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. Available fee-paid credit lines, all of which are unused at May 30, 1999, total $250 million.

The Company's adjusted debt-to-total capital ratio (which includes 6.25 times the total annual restaurant minimum rent and 3.00 times the total annual restaurant equipment minimum rent as a component of debt and total capital) was 39 percent and 38 percent at May 30, 1999, and May 31, 1998, 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 6.2 times at May 30, 1999, and 5.0 times at May 31, 1998. Based on these ratios, the Company believes its financial condition remains strong. The composition of the Company's capital structure is shown in the following table.

CAPITAL STRUCTURE	MAY 30, 1999 *$ In millions*	MAY 31, 1998 *$ In millions*
Short-term debt	$ 23.5	$ 75.1
Long-term debt	316.5	310.6
Total debt	340.0	385.7
Stockholders' equity	964.0	1,019.8
Total capital	$ 1,304.0	$ 1,405.5
ADJUSTMENTS TO CAPITAL		
Leases-debt equivalent	266.0	250.0
Adjusted total debt	606.0	635.7
Adjusted total capital	$ 1,570.0	$ 1,655.5
Debt-to-total capital ratio	26%	27%
Adjusted debt-to-total capital ratio	39%	38%

Management's Discussion

of Results of Operations and Financial Condition

In 1999, the Company declared eight cents per share in annual dividends paid in two installments. In December 1998, the Company's Board approved an additional authorization for the ongoing stock buy-back plan whereby the Company may purchase on the open market up to 13.8 million additional shares of Darden common stock. This buy-back authorization is in addition to three previously approved authorizations by the Board in December 1997, September 1996 and December 1995 covering open market purchases of up to 15.0 million, 9.3 million and 6.5 million shares, respectively, of Darden common stock. As of May 30, 1999, 32.6 million shares were purchased under these programs.

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 $10 million to $50 million range.

The Company requires capital principally for building new restaurants, replacing equipment and remodeling existing units. Capital expenditures were $124 million in 1999, compared to $112 million in 1998, and $160 million in 1997 because of decisions to temporarily slow the growth in new *Olive Garden* and *Red Lobster* units. The 1999, 1998 and 1997 capital expenditures and dividend requirements were financed primarily through internally generated funds. The Company generated $348 million, $236 million and $189 million in funds from operating activities during 1999, 1998 and 1997, respectively.

IMPACT OF YEAR 2000

Background

In the past, many computers, software programs other information technology (IT systems), as well as other equipment relying on microprocessors or similar circuitry (non-IT systems), were written or designed using two digits, rather than four, to define the applicable year. As a result, date-sensitive systems (both IT systems and non-IT systems) might recognize a date identified with "00" as the year 1900 rather than the year 2000. This is generally described as the Year 2000 issue. If this situation occurs, the potential exists for system failures or miscalculations, which could negatively impact business operations.

The Securities and Exchange Commission (SEC) has asked public companies to disclose four general types of information related to Year 2000 preparedness: the company's state of readiness, costs (historical and prospective), risks and contingency plans. Accordingly, the Company has included the following discussion in this report, in addition to the Year 2000 disclosures previously filed with the SEC.

State of Readiness

The Company began a concerted effort and established a dedicated project team to address its Year 2000 issues in fiscal year 1997. In fiscal year 1998, the Company formalized a task force (the Year 2000 Project Office) to coordinate the Company's response to Year 2000 issues. The Year 2000 Project Office reports to the Chief Executive Officer, his executive team and the Audit Committee of the Company's Board of Directors.

Under the auspices of the Year 2000 Project Office, the Company believes that it has identified all significant IT systems and non-IT systems that require modification in connection with Year 2000 issues. Internal and external resources were used to make the required modifications and test Year 2000 readiness. The required modifications and testing of all significant systems have been completed.

In addition, through its Year 2000 Project Office, the Company has communicated with suppliers, banks, vendors and others with whom it does significant business (collectively, its business partners) to determine their Year 2000 readiness and the extent to which the Company is vulnerable to any other organization's Year 2000 issues. Based on these communications and related responses, the Company is monitoring the Year 2000 preparations and state of readiness of its business partners. Although the Company is not aware of any significant Year 2000 problems with its business partners, there can be no guarantee that the systems of other organizations on which the Company's systems rely will be converted in a timely manner, or that a failure to convert by another organization, or a conversion that is incompatible with the Company's systems, would not have a material adverse effect on the Company.

Costs

The total costs to the Company of Year 2000 activities have not been and are not anticipated to be material to its financial position or results of operations in any given year. As of the end of 1999, the Company had spent approximately $3.2 million on Year 2000 issues. This amount does not include the costs incurred to develop and install new systems resulting from the Company's seafood inventory accounting system project, which was already contemplated for replacement. The total costs to the Company of addressing Year 2000 issues are estimated to be less than $5 million. These total costs are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third-party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved, and actual results could differ from those estimates.

Risks

The Company utilizes IT systems and non-IT systems in many aspects of its business. Year 2000 problems in some of the Company's systems could possibly disrupt operations at some restaurants, but the Company does not expect that any such disruption would have a material adverse impact on the Company's operating results.

The Company is also exposed to the risk that one or more of its suppliers or vendors could experience Year 2000 problems that could impact the ability of such suppliers or vendors to provide goods and services. Although this risk is lessened by the availability of alternative suppliers, the disruption of certain services, such as utilities, could, depending upon the extent of the disruption, potentially have a material adverse impact on the Company's operations.

Contingency Plans

The Year 2000 Project Office is in the final stages of developing contingency plans for the Company's significant IT systems and non-IT systems requiring Year 2000 modification. In addition, the Company has developed contingency plans to deal with the possibility that some suppliers or vendors might fail to provide goods and services on a timely basis as a result of Year 2000 problems. These contingency plans include the identification, acquisition and/or preparation of backup systems, suppliers and vendors.

FORWARD-LOOKING STATEMENTS

Certain information included in this report and other materials filed or to be filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or written statements made or to be made by the Company) may contain statements that are forward-looking within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include information relating to current expansion plans, business development activities and Year 2000 compliance. Such forward-looking information is based on assumptions concerning important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. These risks and uncertainties include, but are not limited to, those relating to real estate development and construction activities, the issuance and renewal of licenses and permits for restaurant development and operation, economic conditions, changes in federal or state laws or the administration of such laws, and the Year 2000 readiness of suppliers, banks, vendors and others having a direct or indirect business relationship with the Company.

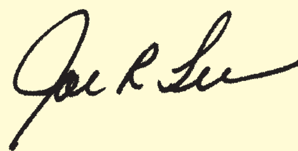
Report
of Management Responsibilities

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

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

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

KPMG LLP, independent certified public accountants, are retained to audit the consolidated financial statements. Their report follows.



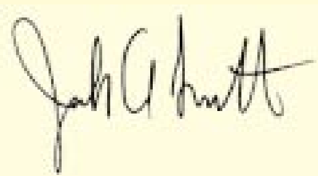
Joe R. Lee
Chairman of the Board and Chief Executive Officer

Report
of the Audit Committee

The Audit Committee of the Board of Directors is composed of four outside directors. Its primary function is to oversee the Company's system of internal controls, financial reporting practices and audits to ensure that their quality, integrity and objectivity are sufficient to protect stockholder assets.

The Audit Committee met twice during 1999 to review the overall audit scope, plans and results of the internal auditors and independent auditors, the Company's internal controls, emerging accounting issues, Year 2000 preparedness, audit fees and intangible asset values. The Committee met separately with the independent auditors without management present to discuss the audit. Acting with the other Board members, the Committee reviewed the Company's annual financial statements and approved them before their issuance. The Audit Committee recommended to the Board that KPMG LLP be reappointed for 2000, subject to the approval of stockholders at the annual meeting. The Committee also met with management to discuss the report and recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees.

The Audit Committee is satisfied that the internal control system is adequate and that the stockholders of Darden Restaurants, Inc. are protected by appropriate accounting and auditing procedures.



Jack A. Smith
Chairman, Audit Committee

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 30, 1999, and May 31, 1998, and the related consolidated statements of earnings (loss), changes in stockholders' equity, and cash flows for each of the years in the three-year period ended May 30, 1999. 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 30, 1999, and May 31, 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended May 30, 1999, in conformity with generally accepted accounting principles.

Orlando, Florida
June 18, 1999

Consolidated Statements
of Earnings (Loss)

	Fiscal Year Ended		
(In thousands, except per share data)	May 30, 1999	May 31, 1998	May 25, 1997
Sales	$ 3,458,107	$ 3,287,017	$ 3,171,810
Costs and Expenses:			
Cost of sales:			
Food and beverages	1,133,705	1,083,629	1,077,316
Restaurant labor	1,117,401	1,062,490	1,017,315
Restaurant expenses	493,811	482,311	481,348
Total Cost of Sales	$ 2,744,917	$ 2,628,430	$ 2,575,979
Selling, general and administrative	360,909	358,542	361,263
Depreciation and amortization	125,327	126,289	136,876
Interest, net	19,540	20,084	22,291
Restructuring and asset impairment expense or (credit)	(8,461)		229,887
Total Costs and Expenses	$ 3,242,232	$ 3,133,345	$ 3,326,296
Earnings (Loss) before Income Taxes	215,875	153,672	(154,486)
Income Taxes	75,337	51,958	(63,457)
Net Earnings (Loss)	$ 140,538	$ 101,714	$ (91,029)
Net Earnings (Loss) per Share:			
Basic	$ 1.02	$ 0.69	$ (0.59)
Diluted	$ 0.99	$ 0.67	$ (0.59)
Average Number of Common Shares Outstanding:			
Basic	137,300	148,300	155,600
Diluted	141,400	151,400	155,600

See accompanying notes to consolidated financial statements.

Consolidated
Balance Sheets

(In thousands)	May 30, 1999	May 31, 1998
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 40,960	$ 33,505
Receivables	20,256	27,312
Inventories	144,115	182,399
Net assets held for disposal	35,269	49,230
Prepaid expenses and other current assets	21,475	20,498
Deferred income taxes	65,662	84,597
Total Current Assets	$ 327,737	$ 397,541
Land, Buildings and Equipment	1,473,535	1,490,348
Other Assets	104,388	96,853
Total Assets	$ 1,905,660	$ 1,984,742
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 144,725	$ 132,938
Short-term debt	23,500	75,100
Current portion of long-term debt	2,386	5
Accrued payroll	74,265	73,240
Accrued income taxes	16,544	1,067
Other accrued taxes	25,965	24,172
Other current liabilities	246,830	252,142
Total Current Liabilities	$ 534,215	$ 558,664
Long-term Debt	314,065	310,603
Deferred Income Taxes	72,086	77,054
Other Liabilities	21,258	18,576
Total Liabilities	$ 941,624	$ 964,897
Stockholders' Equity:		
Common stock and surplus, no par value. Authorized 500,000 shares; issued and outstanding 164,661 and 161,580 shares, respectively	$ 1,328,796	$ 1,286,191
Preferred stock, no par value. Authorized 25,000 shares; none issued and outstanding		
Retained earnings	178,008	48,327
Treasury stock, 32,541 and 20,434 shares, at cost	(466,902)	(239,876)
Accumulated other comprehensive income	(12,115)	(11,749)
Unearned compensation	(63,751)	(63,048)
Total Stockholders' Equity	$ 964,036	$ 1,019,845
Total Liabilities and Stockholders' Equity	$ 1,905,660	$ 1,984,742

See accompanying notes to consolidated financial statements.

Consolidated Statements

of Changes in Stockholders' Equity

(In thousands)	Common Stock and Surplus	Retained Earnings (Accumulated Deficit)	Treasury Stock	Accumulated Other Comprehensive Income	Unearned Compensation	Total Stockholders' Equity
Balance at May 26, 1996	$1,266,212	$ 61,708	$ (25,037)	$ (10,351)	$ (69,895)	$ 1,222,637
Comprehensive income:						
Net loss		(91,029)				(91,029)
Other comprehensive income, foreign currency adjustment				314		314
Total comprehensive income						(90,715)
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)
Balance at May 25, 1997	1,268,656	(41,706)	(69,184)	(10,037)	(66,516)	1,081,213
Comprehensive income:						
Net earnings		101,714				101,714
Other comprehensive income, foreign currency adjustment				(1,712)		(1,712)
Total comprehensive income						100,002
Cash dividends declared ($0.08 per share)		(11,681)				(11,681)
Stock option exercises (1,464 shares)	10,606					10,606
Issuance of restricted stock (238 shares), net of forfeiture adjustments	1,384				(1,404)	(20)
Earned compensation					2,172	2,172
ESOP note receivable repayments					2,700	2,700
Income tax benefit credited to equity	3,808					3,808
Proceeds from issuance of equity put options	1,737					1,737
Purchases of common stock for treasury (13,483 shares)			(170,692)			(170,692)
Balance at May 31, 1998	1,286,191	48,327	(239,876)	(11,749)	(63,048)	1,019,845
Comprehensive income:						
Net earnings		140,538				140,538
Other comprehensive income, foreign currency adjustment				(366)		(366)
Total comprehensive income						140,172
Cash dividends declared ($0.08 per share)		(10,857)				(10,857)
Stock option exercises (2,789 shares)	25,437					25,437
Issuance of restricted stock (370 shares), net of forfeiture adjustments	4,873				(4,844)	29
Earned compensation					2,341	2,341
ESOP note receivable repayments					1,800	1,800
Income tax benefit credited to equity	9,722					9,722
Proceeds from issuance of equity put options	2,184					2,184
Purchases of common stock for treasury (12,162 shares)			(227,510)			(227,510)
Issuance of treasury stock under Employee Stock Purchase Plan (55 shares)	389		484			873
Balance at May 30, 1999	$1,328,796	$ 178,008	$ (466,902)	$ (12,115)	$ (63,751)	$ 964,036

See accompanying notes to consolidated financial statements.

Consolidated Statements
of Cash Flows

	Fiscal Year Ended		
(In thousands)	May 30, 1999	May 31, 1998	May 25, 1997
Cash Flows – Operating Activities			
Net Earnings (loss)	$ 140,538	$ 101,714	$ (91,029)
Adjustments to reconcile net earnings (loss) to cash flow:			
Depreciation and amortization	125,327	126,289	136,876
Amortization of unearned compensation and loan costs	4,879	4,682	3,824
Change in current assets and liabilities	70,924	(6,791)	(41,401)
Change in other liabilities	2,682	(48)	323
(Gain) loss on disposal of land, buildings and equipment	(1,798)	3,132	6,358
Deferred income taxes	13,967	6,496	(52,068)
Non-cash restructuring and asset impairment expense or (credit)	(8,461)		226,342
Other, net	162	651	(22)
Net Cash Provided by Operating Activities	$ 348,220	$ 236,125	$ 189,203
Cash Flows – Investing Activities			
Purchases of land, buildings and equipment	(123,673)	(112,168)	(159,688)
Purchases of intangibles	(2,203)	(1,798)	(651)
(Increase) decrease in other assets	(8,794)	(4,112)	1,844
Proceeds from disposal of land, buildings and equipment (including net assets held for disposal)	38,134	24,494	34,017
Net Cash Used by Investing Activities	$ (96,536)	$ (93,584)	$ (124,478)
Cash Flows – Financing Activities			
Proceeds from issuance of common stock	26,310	10,606	1,450
Income tax benefit credited to equity	9,722	3,808	871
Dividends paid	(10,857)	(11,681)	(12,385)
Purchases of treasury stock	(227,510)	(170,692)	(44,147)
Loan to ESOP			(66,900)
ESOP note receivable repayments	1,800	2,700	19,100
Increase (decrease) in short-term debt	(51,600)	31,700	(29,200)
Proceeds from issuance of long-term debt	9,848		66,900
Repayment of long-term debt	(4,126)	(2,704)	(5,054)
Payment of loan costs			(213)
Proceeds from issuance of equity put options	2,184	1,737	
Net Cash Used by Financing Activities	$ (244,229)	$ (134,526)	$ (69,578)
Increase (Decrease) in Cash and Cash Equivalents	7,455	8,015	(4,853)
Cash and Cash Equivalents – Beginning of Year	33,505	25,490	30,343
Cash and Cash Equivalents – End of Year	$ 40,960	$ 33,505	$ 25,490
Cash Flow from Changes in Current Assets and Liabilities			
Receivables	7,056	(10,979)	8,439
Refundable income taxes, net		16,968	(16,968)
Inventories	38,284	(50,158)	(11,516)
Prepaid expenses and other current assets	(1,310)	1,236	2,589
Accounts payable	11,787	19,851	(15,109)
Accrued payroll	1,025	14,928	4,635
Accrued income taxes	15,477	1,067	(12,522)
Other accrued taxes	1,793	1,992	3,259
Other current liabilities	(3,188)	(1,696)	(4,208)
Change in Current Assets and Liabilities	$ 70,924	$ (6,791)	$ (41,401)

See accompanying 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 1999, 1998 and 1997 consolidated financial statements include the operations of Darden Restaurants, Inc. and its wholly owned subsidiaries (Darden or the Company). All significant intercompany balances and transactions have been eliminated in consolidation. Prior to 1996, the Company was a wholly-owned subsidiary of General Mills, Inc. (General Mills). The common shares of Darden were distributed by General Mills to its stockholders as of May 28, 1995.

Darden's fiscal year ends on the last Sunday in May. Fiscal years 1999 and 1997 each consisted of 52 weeks. Fiscal year 1998 consisted of 53 weeks.

B. Inventories

Inventories are valued at the lower of cost or market value, using the "weighted average cost" method.

C. 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. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Restaurant sites and certain identifiable intangibles to be disposed of are reported at the lower of the carrying amount or fair value, less estimated costs to sell.

D. Intangible Assets

The cost of intangible assets at May 30, 1999, and May 31, 1998, amounted to $14,851 and $14,594, respectively. These costs are being amortized using the straight-line method over their estimated useful lives ranging from five to 40 years. Costs capitalized principally represent the purchase costs of leases with favorable rent terms. Accumulated amortization on intangible assets as of May 30, 1999, and May 31, 1998, amounted to $4,347 and $5,135, respectively. The Audit Committee of the Board of Directors annually reviews intangible assets. At its meeting on June 21, 1999, the Board of Directors affirmed that the carrying 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 within other comprehensive income 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

Prior to 1998, the Company capitalized the direct and incremental costs associated with the opening of new restaurants. These costs were amortized over a one-year period from the restaurant opening date. During 1998, the Company adopted the accounting practice of expensing these costs as incurred. This change in accounting method did not have a significant impact on the Company's financial position or results of operations.

H. Advertising

Production costs of commercials and programming are charged to operations in the year the advertising is first aired. The costs of other advertising, promotion and marketing programs are charged to operations in the year incurred. Advertising expense was $180,563, $186,261 and $204,321, in 1999, 1998 and 1997, respectively.

I. Income Taxes

The Company provides for federal and state income taxes currently payable, as well as for those deferred because of temporary differences between reporting income and expenses for financial statement purposes 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 on deferred tax assets and liabilities of a change in tax rates is recognized in income 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

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 (SFAS 128), *"Earnings Per Share,"* which requires presentation of basic and diluted earnings per share. Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. As required, the Company adopted the provisions of SFAS 128 during 1998. All prior year weighted-average and per share information has been restated in accordance with SFAS 128. Outstanding stock options issued by the Company represent the only dilutive effect reflected in diluted weighted-average shares.

Options to purchase 120,200 and 868,300 shares of common stock were excluded from the calculation of diluted earnings per share for the years ended May 30, 1999, and May 31, 1998, respectively, because their exercise prices exceeded the average market price of common shares for the period. All options were excluded from the calculation of diluted earnings per share for the year ended May 25, 1997, because their inclusion would have been anti-dilutive.

L. Derivative Financial and Commodity Instruments

On January 31, 1997, the Securities and Exchange Commission (SEC) issued amended disclosure rules for derivatives and exposures to market risk from derivative and other financial and certain commodity instruments. Enhanced accounting policy disclosures in accordance with this SEC release follow.

The Company may, from time to time, use financial and commodities derivatives in the management of interest rate and commodities pricing risks that are inherent in its business operations. The Company may also use financial derivatives as part of its stock repurchase program as described in Note 10. Such instruments are not held or issued for trading or speculative purposes. The Company may, from time to time, use interest-rate swap and cap agreements in the management of interest rate exposure. The interest rate differential to be paid or received is normally accrued as interest rates change, and is recognized as a component of interest expense over the life of the agreements. If an agreement is terminated prior to the maturity date and is characterized as a hedge, any accrued rate differential would be deferred and recognized as interest expense over the life of the hedged item. The Company uses commodities hedging instruments, including forwards, futures and options, to reduce the risk of price fluctuations related to future raw materials requirements for commodities such as coffee, soybean oil and shrimp. The terms of such instruments generally do not exceed 12 months, and depend on the commodity and other market factors. Deferred gains and losses are subsequently recorded as cost of products sold in the statements of earnings (loss) when the inventory is sold. If the inventory is not acquired and the hedge is disposed of, the deferred gain or loss is recognized immediately in cost of products sold. The Company believes that it does not have material risk from any of the above financial instruments, and the Company does not anticipate any material losses from the use of such instruments.

M. 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 estimates.

N. Accounting for Stock Options
During 1997, the Company adopted Statement of Financial Accounting Standards No. 123 (SFAS 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 defined in SFAS 123 had been applied. The Company has elected to continue to account for such plans under the provisions of APB 25 and provide the pro forma disclosure provisions of SFAS 123.

O. Employee Benefit Plans
During 1999, the Company adopted Statement of Financial Accounting Standards No. 132 (SFAS 132), *"Employers' Disclosures about Pensions and Other Postretirement Benefits."* SFAS 132 revises employers' disclosures related to pension and other postretirement plans by requiring, among other things, standardization of disclosures among such plans as well as additional information on the changes in benefit obligations and fair values of plan assets. SFAS 132 had no effect on the Company's financial position or results of operations, as it did not change the measurement or recognition criteria for such plans.

P. Accumulated Other Comprehensive Income
During 1999, the Company adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), *"Reporting Comprehensive Income,"* which was effective for fiscal years beginning after December 15,1997. SFAS 130 requires that all items required to be recognized as components of comprehensive income be reported in a financial statement with equal prominence to the other financial statements. Comprehensive income includes net earnings (loss) and other comprehensive income items such as foreign currency translation adjustments and unrealized gains and losses on investments. The Company's only item of other comprehensive income is foreign currency translation adjustments which have been reported separately within stockholders' equity.

Q. Operating Segment
During 1999, the Company adopted Statement of Financial Accounting Standards No. 131 (SFAS 131), *"Disclosures about Segments of an Enterprise and Related Information,"* which was effective for fiscal years beginning after December 15, 1997. SFAS 131 establishes standards for reporting information about a company's operating segments. It also establishes standards for related disclosures about products and services, geographic areas and major customers.

As of May 30, 1999, the Company operated 1,139 *Red Lobster*, *Olive Garden* and *Bahama Breeze* restaurants in North America as part of a single operating segment. The restaurants operate principally in the U. S. within the casual dining industry, providing similar products to similar customers. The restaurants also possess similar pricing structures resulting in similar long-term expected financial performance characteristics. Revenues from external customers are derived principally from food and beverage sales. The Company does not rely on any major customers as a source of revenue.

R. Future Application of Accounting Standards
In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS 133), *"Accounting for Derivative Instruments and Hedging Activities."* SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. SFAS 133 is effective for interim and annual periods beginning after June 15, 2000. Adoption of SFAS 133 is not expected to materially impact the Company's financial position or results of operations.

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 $12,022 and $24,476 at May 30, 1999, and May 31, 1998, respectively.

NOTE 3 – RESTRUCTURING AND ASSET IMPAIRMENT EXPENSE OR (CREDIT)

Darden recorded asset impairment charges of $158,987 in 1997, 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 in 1997.

During 1999, the Company reversed a portion of its 1997 restructuring liability totaling $8,461. The reversal resulted from the Company's decision to close fewer restaurants than identified for closure as part of the restructuring action. No restructuring or asset impairment expense or (credit) was charged to operating results during 1998.

The components of the restructuring expense or (credit) and the after-tax and earnings per share effects of the restructuring and asset impairment expense or (credit) for 1999 and 1997 are as follows:

	Fiscal Year	
	1999	1997
Carrying costs of buildings and equipment prior to disposal and employee severance costs	$ (3,907)	$ 27,500
Lease buy-out provisions	(4,554)	30,000
Other		13,400
Subtotal	(8,461)	70,900
Impairment of restaurant properties and other long-lived assets		158,987
Total restructuring and asset impairment expense or (credit)	(8,461)	229,887
Less related income tax effect	3,236	(84,528)
Restructuring and asset impairment expense or (credit), net of income taxes	$ (5,225)	$145,359
Earnings per share effect – basic and diluted	$ (0.04)	$ 0.93

As of May 30, 1999, approximately $31,800 of carrying, employee severance and lease buy-out costs associated with the 1997 restructuring had been paid and charged against the restructuring liability. The total restructuring liability included in other current liabilities was $37,139 and $58,265 as of May 30, 1999, and May 31, 1998, respectively. The remaining restaurant closings under this restructuring action will occur during early 2000. All other actions, including disposal of the closed owned properties and the lease buy-outs related to the closed leased properties, are expected to be substantially completed during 2001.

NOTE 4 – INCOME TAXES

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

	Fiscal Year		
	1999	1998	1997
Earnings (loss) before income taxes:			
U.S.	$ 212,585	$ 149,096	$(108,687)
Canada	3,290	4,576	(45,799)
Earnings (loss) before income taxes	$ 215,875	$ 153,672	$(154,486)
Income taxes:			
Current:			
Federal	$ 53,621	$ 38,730	$ (13,285)
State and local	7,577	6,349	1,529
Canada	172	383	367
Total current	61,370	45,462	(11,389)
Deferred (principally U.S.)	13,967	6,496	(52,068)
Total income taxes	$ 75,337	$ 51,958	$ (63,457)

During 1999, 1998 and 1997, Darden paid income taxes of $34,790, $24,630 and $15,900, respectively.

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):

	Fiscal Year		
	1999	1998	1997
U.S. statutory rate	35.0%	35.0%	(35.0)%
State and local income taxes, net of federal tax benefits (expense)	3.3	3.3	(3.3)
Benefit of U.S. federal income tax credits	(4.5)	(5.8)	(5.7)
Other, net	1.1	1.3	2.9
Effective income tax rate	34.9%	33.8%	(41.1)%

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

	May 30, 1999	May 31, 1998
Accrued liabilities	$ 14,042	$ 14,004
Compensation and employee benefits	43,784	39,575
Asset disposition liabilities	24,701	32,104
Operating loss and tax credit carryforwards	1,900	8,461
Net assets held for disposal	1,339	2,074
Other	1,989	2,090
Gross deferred tax assets	87,755	98,308
Buildings and equipment	(58,026)	(68,405)
Prepaid pension asset	(15,779)	(14,979)
Prepaid interest	(4,379)	(4,696)
Deferred rent and interest income	(10,194)	
Other	(5,801)	(2,685)
Gross deferred tax liabilities	(94,179)	(90,765)
Net deferred tax asset (liability)	$ (6,424)	$ 7,543

A valuation allowance for deferred tax assets is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Realization is dependent upon the generation of future taxable income or the reversal of deferred tax liabilities during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. As of May 30, 1999, and May 31, 1998, no valuation allowance has been recognized in the accompanying consolidated financial statements for the deferred tax assets because the Company believes that sufficient projected future taxable income will be generated to fully utilize the benefits of these deductible amounts.

NOTE 5 – LAND, BUILDINGS AND EQUIPMENT

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

	May 30, 1999	May 31, 1998
Land	$ 387,050	$ 382,999
Buildings	1,344,625	1,320,388
Equipment	647,687	634,626
Construction in progress	38,859	30,418
Total land, buildings and equipment	2,418,221	2,368,431
Less accumulated depreciation	(944,686)	(878,083)
Net land, buildings and equipment	$1,473,535	$1,490,348

NOTE 6 – OTHER ASSETS

The components of other assets are as follows:

	May 30, 1999	May 31, 1998
Prepaid pension	$ 41,253	$ 39,160
Prepaid interest and loan costs	22,391	24,781
Liquor licenses	17,657	18,140
Intangible assets	10,504	9,459
Prepaid equipment maintenance	6,565	
Miscellaneous	6,018	5,313
Total other assets	$104,388	$ 96,853

NOTE 7 – SHORT-TERM DEBT

Short-term debt at May 30, 1999, and May 31, 1998, consisted of $23,500 and $75,100 of unsecured commercial paper borrowings with original maturities of one month or less, and interest rates ranging from 5.05 percent to 5.80 percent, and 5.65 percent to 5.81 percent, respectively.

NOTE 8 – LONG-TERM DEBT

The components of long-term debt are as follows:

	May 30, 1999	May 31, 1998
10-year notes and 20-year debentures as described below	$250,000	$250,000
ESOP loan with variable rate of interest (5.31 percent at May 30, 1999), due December 31, 2018	60,200	62,000
Other	7,546	24
Total long-term debt	317,746	312,024
Less issuance discount	(1,295)	(1,416)
Total long-term debt less issuance discount	316,451	310,608
Less current portion	(2,386)	(5)
Long-term debt, excluding current portion	$314,065	$310,603

In January 1996, the Company issued $150,000 of unsecured 6.375 percent notes due in February 2006 and $100,000 of unsecured 7.125 percent debentures due in February 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 loan agreement is available to support our commercial paper borrowing arrangements, if necessary. The Company is required to pay a facility fee of nine 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 30, 1999, and May 31, 1998, no borrowings were outstanding under this agreement.

The aggregate maturities of long-term debt for each of the five years subsequent to May 30, 1999, and thereafter are $2,386 in 2000; $2,513 in 2001; $2,647 in 2002; $0 in 2003 and 2004; and $310,200 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 is being 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 and short-term debt approximate their carrying amount due to the short duration of those items. 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 30, 1999		May 31, 1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 40,960	$ 40,960	$ 33,505	$ 33,505
Short-term debt	23,500	23,500	75,100	75,100
Total long-term debt	$316,451	$306,806	$310,608	$314,502

NOTE 10 – EQUITY PUT OPTIONS

As a part of its stock repurchase program, the Company issued equity put options that entitle the holder to sell shares of Company common stock to the Company, at a specified price, if the holder exercises the option. In 1999 the Company issued put options for 2,000,000 shares for $2,184 in premiums. At May 30, 1999, no equity put options were outstanding.

NOTE 11 – STOCKHOLDERS' RIGHTS PLAN

The Company has a stockholders' rights plan that entitles each holder of Company common stock to purchase 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

Interest expense on average ESOP debt of $61,270, $62,688 and $65,850, in 1999, 1998 and 1997, respectively, was included in compensation expense. Capitalized interest was computed using the Company's borrowing rate. The Company paid $16,356 and $17,235 for interest (net of amount capitalized) in 1999 and 1998, respectively.

The components of interest, net are as follows:

	Fiscal Year		
	1999	1998	1997
Interest expense	$ 21,015	$ 21,527	$ 23,336
Capitalized interest	(593)	(1,018)	(739)
Interest income	(882)	(425)	(306)
Interest, net	$ 19,540	$ 20,084	$ 22,291

NOTE 13 – LEASES

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

	Fiscal Year		
	1999	1998	1997
Restaurant minimum rent	$ 38,866	$ 39,140	$ 40,616
Restaurant percentage rent	1,853	1,707	1,649
Restaurant equipment minimum rent	8,511	3,465	
Restaurant rent averaging expense	13	(121)	595
Transportation equipment	1,856	2,169	1,951
Office equipment	1,012	990	915
Office space	505	436	406
Warehouse space	215	217	235
Total rent expense	$ 52,831	$ 48,003	$ 46,367

Minimum rental obligations are accounted for on a straight-line basis over the term of the lease. Percentage rent expense is generally based on sales levels or changes in the Consumer Price Index. Most leases require payment of property taxes, insurance and maintenance costs in addition to the rent payments. The annual non-cancelable future lease commitments for each of the five years subsequent to May 30, 1999, and thereafter are: $51,035 in 2000; $47,518 in 2001; $43,940 in 2002; $36,981 in 2003; $24,729 in 2004; and $89,869 thereafter, for a cumulative total of $294,072.

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 periodic benefit cost (income) are as follows:

	Fiscal Year		
	1999	1998	1997
Service cost	$ 3,251	$ 2,576	$ 3,250
Interest cost	5,243	4,699	4,686
Expected return on plan assets	(10,247)	(8,865)	(8,318)
Amortization of unrecognized transition asset	(642)	(642)	(642)
Amortization of unrecognized prior service cost	(456)	(456)	
Recognized net actuarial loss	1,088	1,164	1,864
Net periodic benefit cost (income)	$ (1,763)	$ (1,524)	$ 840

Notes

to Consolidated Financial Statements

The following provides a reconciliation of the changes in the plan benefit obligation and fair value of plan assets for 1999 and 1998, and a statement of the funded status at May 30, 1999, and May 31, 1998, respectively:

	1999		1998	
	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Change in Benefit Obligation:				
Projected benefit obligation at beginning of year	$ 73,112	$ 2,286	$ 59,323	$ 1,974
Service cost	3,251		2,576	
Interest cost	5,243	187	4,699	172
Employer contributions		51		61
Actuarial (gain) loss	4,462	(387)	10,282	130
Benefits paid	(4,959)	(41)	(3,768)	(51)
Projected benefit obligation at end of year	$ 81,109	$ 2,096	$ 73,112	$ 2,286
Change in Plan Assets:				
Fair value of plan assets at beginning of year	$ 105,010		$ 89,064	
Actual return on plan assets	2,489		19,714	
Employer contributions		51		61
Benefits paid	(4,959)	(41)	(3,768)	(51)
Fair value of plan assets at end of year	$ 102,540	$ 10	$ 105,010	$ 10
Funded Status of the Plan:				
Funded status at end of year	21,431	(2,086)	31,898	(2,276)
Unrecognized transition asset	(1,926)		(2,567)	
Unrecognized net actuarial loss	24,509		13,047	
Unrecognized prior service cost	(2,761)		(3,218)	
Prepaid (accrued) benefit cost	$ 41,253	$ (2,086)	$ 39,160	$ (2,276)

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 7.0 percent and 4.5 percent in 1999, 7.25 percent and 4.5 percent in 1998, and 8.0 percent and 6.0 percent in 1997, respectively. The expected long-term rate of return on plan assets was 10.4 percent.

The Company has a defined contribution plan covering most employees age 21 and older with at least one year of service. The Company matches participant contributions up to six percent of compensation on the basis of up to $1.00 for each dollar contributed by the participant. The plan had net assets of $316,846 at May 30, 1999 and $231,220 at May 31, 1998. Expense recognized in 1999, 1998 and 1997 was $5,054, $3,038 and $2,551, respectively. Employees classified as “highly compensated” under the Internal Revenue Code are ineligible to participate in this plan. Amounts due to highly compensated employees under a separate, nonqualified deferred compensation plan totaled $32,471 and $21,230 as of May 30, 1999, and May 31, 1998, 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. The $50,000 third-party loan was refinanced in 1997 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 1999, 1998, and 1997, the ESOP incurred interest expense of $3,203, $3,882 and $3,815, respectively, and used dividends received of $647, $1,339 and $5,127 and contributions received from the Company of $4,368, $4,538 and $2,548, 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 30, 1999, the ESOP's debt to the Company had a balance of $60,200 with a variable rate of interest of 5.31 percent; $43,300 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 30, 1999, approximates 12,217,000, representing 9,103,000 unreleased shares and 3,114,000 shares allocated to participants.

NOTE 15 – OTHER POST-RETIREMENT 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 net periodic post-retirement benefit cost are as follows:

	Fiscal Year		
	1999	1998	1997
Service cost	$ 267	$ 225	$ 292
Interest cost	408	375	366
Amortization of unrecognized prior service cost	18	18	67
Net periodic post-retirement benefit cost	$ 693	$ 618	$ 725

The plan is not funded and therefore there are no plan assets. The following provides a reconciliation of the change in the plan benefit obligation for 1999 and 1998, and a statement of amounts included in the consolidated balance sheets as of May 30, 1999, and May 31, 1998:

	Fiscal Year	
	1999	1998
Change in Benefit Obligation:		
Accumulated benefit obligation at beginning of year	$ 5,823	$ 4,735
Service cost	267	225
Interest cost	408	375
Employer contributions	22	28
Actuarial (gain) loss	(780)	488
Benefits paid	(22)	(28)
Accumulated benefit obligation at end of year	$ 5,718	$ 5,823
Reconciliation to Balance Sheets:		
Unrecognized net actuarial gain (loss)	235	(376)
Unrecognized prior service cost	(100)	(118)
Accrued post-retirement benefits	$ 5,853	$ 5,329

The discount rates used in determining the actuarial present value of the benefit obligations were 7.0 percent in 1999 and 7.25 percent in 1998.

The health-care cost-trend rate increase in the per-capita charges for benefits ranged from 5.4 to 6.7 percent for 2000, depending on the medical service category. The rates gradually decrease to a range of 4.6 to 5.5 percent for 2010 and remain at that level thereafter.

A one percentage-point increase or decrease in the assumed health-care cost-trend rate would increase or decrease the total of the service and interest cost components of net periodic post-retirement benefit cost by $140 and $110, respectively, and would increase or decrease the accumulated post-retirement benefit obligation by $1,099 and $875, respectively.

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. Fifteen million shares of common stock are authorized for issuance under the plan; 3,000,000 of these shares are authorized 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 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. The terms of these grants do not exceed ten years. 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. Fifty thousand shares of common stock are authorized for issuance under the plan.

The per share weighted-average fair value of stock options granted during 1999, 1998 and 1997 was $10.21, $8.03 and $2.88, respectively. These amounts were determined using the Black Scholes option-pricing mode,l 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 assumptions used in the Black Scholes model were as follows:

	Stock Options Granted in Fiscal Year		
	1999	1998	1997
Risk-free interest rate	5.60%	6.25%	6.70%
Expected volatility of stock	30.0%	25.0%	22.5%
Dividend yield	0.1%	0.1%	0.1%
Expected option life	6.0 years	5.0 years	6.5 years

The expected option-life decrease from 1997 to 1998 resulted principally from a change in the vesting period of Company options from five years to four years. The expected option-life increase from 1998 to 1999 resulted principally from the expectation that employees will hold their options longer because of a recent history of consistent Company stock price increases. Since the Company is a relatively new public company, the expected option life may continue to vary as the Company builds a history of employee exercise habits.

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

	Fiscal Year		
	1999	1998	1997
Net earnings (loss)			
As reported	$ 140,538	$ 101,714	$ (91,029)
Pro forma	$ 134,527	$ 98,047	$ (93,154)
Basic net earnings (loss) per share			
As reported	$ 1.02	$ 0.69	$ (0.59)
Pro forma	$ 0.98	$ 0.66	$ (0.60)
Diluted net earnings (loss) per share			
As reported	$ 0.99	$ 0.67	$ (0.59)
Pro forma	$ 0.95	$ 0.65	$ (0.60)

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 1999, 1998 and 1997 that are expected to eventually vest.

Stock option activity during the periods indicated is as follows:

	Options Exercisable	Weighted Average Exercise Price Per Share	Options Outstanding	Weighted Average Exercise Price Per Share
Balance at May 26, 1996	6,177,151	$ 8.23	17,806,193	$ 10.01
Options granted			120,123	$ 8.15
Options exercised			(261,227)	$ 5.69
Options cancelled			(1,603,796)	$ 10.67
Balance at May 25, 1997	6,832,479	$ 8.81	16,061,293	$ 10.00
Options granted			3,335,711	$ 9.83
Options exercised			(1,463,788)	$ 7.26
Options cancelled			(1,570,316)	$ 10.48
Balance at May 31, 1998	6,286,678	$ 9.55	16,362,900	$ 10.16
Options granted			2,888,554	$ 15.37
Options exercised			(2,789,237)	$ 9.12
Options cancelled			(962,666)	$ 9.36
Balance at May 30, 1999	5,883,774	$ 10.53	15,499,551	$ 11.35

The following table provides information regarding exercisable and outstanding options as of May 30,1999:

Range of Exercise Price Per Share	Options Exercisable	Weighted Average Exercise Price Per Share	Options Outstanding	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)
$ 5.00 - $10.00	2,121,916	$ 8.69	5,606,613	$ 9.04	5.54
$ 10.01 - $15.00	3,534,524	$ 11.39	6,938,761	$ 11.29	5.32
$ 15.01 - $20.00	177,334	$ 15.61	2,778,361	$ 15.75	8.47
Over $20.00			175,816	$ 21.82	9.90
	5,833,774	$ 10.53	15,499,551	$ 11.35	6.00

NOTE 17 – EMPLOYEE STOCK PURCHASE PLAN

Effective January 1, 1999, the Company adopted the Darden Restaurants Employee Stock Purchase Plan to provide eligible employees who have completed one year of service an opportunity to purchase shares of its common stock, subject to certain limitations. Under the plan, employees may elect to purchase shares at the lower of 85 percent of the fair market value of the Company's common stock as of the first or last trading days of each quarterly participation period. During 1999, employees purchased 55,000 shares of common stock. An additional 1,345,000 shares are available for issuance as of May 30, 1999.

As the Company applies APB 25 in accounting for its Employee Stock Purchase Plan, no compensation cost has been recognized for shares issued under the plan. The impact of recognizing compensation expense for purchases made under the plan in 1999 in accordance with the fair value method specified in SFAS 123 is not significant to the Company's financial statement disclosures.

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Darden makes trade commitments in the course of its normal operations and is subject to litigation incident to the conduct of its ongoing business. As of May 30, 1999, the Company was contingently liable for approximately $26,963, primarily relating to outstanding letters of credit. In the opinion of management, there are no unusual commitments or contingencies at May 30, 1999, that would materially affect the financial position or operating results of Darden.

NOTE 19 – QUARTERLY DATA (UNAUDITED)

Summarized quarterly data for 1999 and 1998 are as follows:

	Fiscal 1999 — Quarters Ended				
	Aug. 30	Nov. 29	Feb. 28	May 30	Total
Sales	$ 886,057	$ 791,168	$ 866,907	$ 913,975	$ 3,458,107
Gross Profit	175,105	147,111	182,510	208,464	713,190
Earnings before Interest and Taxes	59,306	29,443	62,939	83,727	235,415
Earnings before Taxes	53,871	24,657	58,517	78,830	215,875
Net Earnings	35,179	15,919	38,353	51,087	140,538
Net Earnings per Share:					
Basic	$ 0.25	$ 0.11	$ 0.28	$ 0.38	$ 1.02
Diluted	$ 0.24	$ 0.11	$ 0.27	$ 0.37	$ 0.99

	Fiscal 1998 — Quarters Ended				
	Aug. 24	Nov. 23	Feb. 22	May 31	Total
Sales	$ 809,331	$ 745,263	$ 811,261	$ 921,162	$ 3,287,017
Gross Profit	161,620	132,534	165,650	198,783	658,587
Earnings before Interest and Taxes	40,943	16,509	50,307	65,997	173,756
Earnings before Taxes	36,250	11,786	45,228	60,408	153,672
Net Earnings	24,408	7,530	29,758	40,018	101,714
Net Earnings per Share:					
Basic	$ 0.16	$ 0.05	$ 0.20	$ 0.28	$ 0.69
Diluted	$ 0.16	$ 0.05	$ 0.20	$ 0.27	$ 0.67

Five Year Financial Summary

(In thousands, except per share data)

	Fiscal Year Ended				
Operating Results	May 30, 1999	May 31, 1998	May 25, 1997	May 26, 1996	Pro Forma May 28, 1995
Sales	$3,458,107	$3,287,017	$3,171,810	$3,191,779	$3,163,289
Costs and Expenses:					
Cost of Sales:					
Food and beverages	1,133,705	1,083,629	1,077,316	1,062,624	1,093,896
Restaurant labor	1,117,401	1,062,490	1,017,315	954,886	931,553
Restaurant expenses	493,811	482,311	481,348	455,626	470,194
Total Cost of Sales	$2,744,917	$2,628,430	$2,575,979	$2,473,136	$2,495,643
Restaurant Operating Profit	713,190	658,587	595,831	718,643	667,646
Selling, General and Administrative	360,909	358,542	361,263	373,920	351,197
Depreciation and Amortization	125,327	126,289	136,876	134,599	135,472
Interest, Net	19,540	20,084	22,291	21,406	21,901
Restructuring and asset impairment expense or (credit)	(8,461)		229,887	75,000	99,302
Total Costs and Expenses	$3,242,232	$3,133,345	$3,326,296	$3,078,061	$3,103,515
Earnings (Loss) before Income Taxes	215,875	153,672	(154,486)	113,718	59,774
Income Taxes	75,337	51,958	(63,457)	39,363	10,600
Net Earnings (Loss)	$ 140,538	$ 101,714	$ (91,029)	$ 74,355	$ 49,174
Net Earnings (Loss) per Share:					
Basic	$ 1.02	$ 0.69	$ (0.59)	$ 0.47	$ 0.31
Diluted	$ 0.99	$ 0.67	$ (0.59)	$ 0.46	
Average Number of Common Shares Outstanding, Net of Shares Held in Treasury (in 000's):					
Basic	137,300	148,300	155,600	158,700	158,000
Diluted	141,400	151,400	155,600	161,300	
Excluding Restructuring and Asset Impairment Expense or (Credit)					
Earnings	$ 135,313	$ 101,714	$ 54,330	$ 119,204	$ 108,259
Earnings per Share:					
Basic	$ 0.99	$ 0.69	$ 0.35	$ 0.75	$ 0.68
Diluted	$ 0.96	$ 0.67	$ 0.35	$ 0.74	
Financial Position					
Total Assets	$1,905,660	$1,984,742	$1,963,722	$2,088,504	$2,113,381
Land, Buildings and Equipment	1,473,535	1,490,348	1,533,272	1,702,861	1,737,982
Working Capital (deficit)	(206,478)	(161,123)	(143,211)	(157,326)	(209,609)
Long-term Debt	316,451	310,608	313,192	301,205	303,860
Stockholders' Equity	964,036	1,019,845	1,081,213	1,222,637	1,173,962
Stockholders' Equity per Share	7.30	7.23	7.07	7.70	7.43
Other Statistics					
Cash Flow from Operations	$ 348,220	$ 236,125	$ 189,203	$ 294,032	$ 273,978
Capital Expenditures	123,673	112,168	159,688	213,905	357,904
Dividends Paid	10,857	11,681	12,385	12,647	
Dividends Paid per Share	0.08	0.08	0.08	0.08	
Advertising Expense	$ 180,563	$ 186,261	$ 204,321	$ 239,526	$ 211,904
Number of Employees	116,700	114,800	114,600	119,100	124,700
Number of Restaurants	1,139	1,151	1,182	1,217	1,243
Stock Price:					
High	$ 23.250	$ 18.125	$ 12.125	$ 14.000	$ 10.875
Low	14.313	8.125	6.750	9.750	9.375
Close	21.313	15.438	8.250	11.750	10.875

Corporate Responsibility

Community involvement is a hallmark of our Company's heritage and culture. We've positioned this information here — next to the "numbers" — because we know it's equally important to our investors. When guests dine in our restaurants, they buy more than a great meal; they also "buy" our corporate ethics. As we see it, it's our responsibility to enhance the quality of life in the communities where we do business, by working to practice and celebrate diversity and by supporting and funding programs that promote arts and culture, education, social services, nutrition and the environment.

Historically, we've discovered that economies of scale are greatly heightened whenever community involvement efforts extend from the hands-on "sweat equity" of our employees. For that reason, many projects benefit from a combination of contributions from Darden Restaurants Foundation, Darden Environmental Trust, corporate giving, restaurant giving and employee volunteerism. The result is more philanthropic "bang for the buck," and a greater, lasting impact. Our philosophy is clear: targeted, innovative philanthropic and community involvement is good for business. And to that end, we've made a long-term commitment to fulfill that mission — for our guests, employees, investors and communities.

Because this philosophy is such an important part of how we do business, we want to introduce you to some key projects that illustrate that philosophy in action:

Investing in the Community

Orlando Science Center

This state-of-the-art facility offers affordable science-oriented educational programs and wholesome activities for families and children. This year, the Darden Restaurants Foundation contributed the last payment on our $1 million contribution toward the completion of the Orlando Science Center's 250-seat Darden Adventure Theater — our largest commitment ever. The theater provides a dramatic setting for big-bang, interactive science demonstrations, and is the home of OSC's Einstein Players. Full theatrical techniques, scenery, special effects and large-scale props are used to engage visitors in the exploration of science. The theater will serve as a gem in the community for years to come.

A $1 million contribution to the Orlando Science Center helped create the Darden Adventure Theater, a 250-seat auditorium where the Center holds interactive science demonstrations and other entertaining educational programs.

United Arts of Central Florida

Our long-standing commitment to this innovative umbrella agency, which provides core support to several arts and cultural organizations, nurtures a thriving local arts community. Darden contributed $100,000 to UA, whose beneficiaries include the Orlando Opera, the Orlando-UCF Shakespeare Festival, The Southern Ballet Theatre and the Florida Children's Repertory Theatre.

ABC TV – 9 Family Connection

In partnership with the ABC affiliate in Central Florida, WFTV Channel 9 and three additional locally based companies, Darden Restaurants sponsors the *9 Family Connection* — a series of community-based promotions and activities. Thanks to concerted efforts and prominent exposure, successful events such as blood drives, Toys for Tots and Taste of the Nation have provided support to the Central Florida community.

CITE — The Center for Independence, Technology and Education

A unique organization catering to the needs of multi-handicapped children and newly blind adults, CITE programs teach the skills required to meet the challenges of everyday life and to enhance and maximize individual performance. The Darden Restaurants Foundation helped provide $25,000 in essential operating support for the center.

Pasta for Pennies

Through *Olive Garden's* Pasta for Pennies program, school children across the United States helped collect pennies — totaling more than $3 million — for the Leukemia Society of America.

Drive Against Hunger

Olive Garden kicked off its "Drive Against Hunger" program in 1999. This innovative effort supports U.S. food banks, such as the Second Harvest Food Bank network. The program is linked to *Olive Garden's* sponsorship of Doyle-Risi Racing, the 1996 World Sports Car Championship Team that enters its two Ferrari 333SP sports cars in American LeMans Series Championship races around the nation. When the series held a race in Atlanta this spring, for instance, *Olive Garden* donated a 24-foot refrigerated truck and 500 cases of food to the Atlanta Community Food Bank, and provided more than 200 meals to needy families in the area. The new truck will allow the food bank to collect and distribute much-needed fresh foods within the Atlanta community.

Disaster Relief

We try to provide aid and support whenever disaster strikes and a community needs us most. Through a combination of employee contributions and volunteerism, gifts in kind, and supplier and corporate donations, we work to help communities, providing relief for victims of recent hurricanes, tornadoes, fires and floods.

Supporting Kids

National Center for Fathering

In response to the dramatic trend toward fatherlessness in America, the National Center for Fathering, based in Shawnee Mission, Kansas, was founded to conduct research on fathering and to inspire and equip men to be better fathers. Darden Restaurants Foundation's multi-year contribution supported the organization's essential operations and also helped develop and expand its web site, which now includes a chat room and online information-ordering capabilities.

PACE Center

An early-intervention, educational program for at-risk teens, Orlando's PACE Center provides a remarkable alternative to institutionalization or incarceration (in 1998, the Florida Department of Juvenile Justice, for the second year in a row, rated PACE number one out of 491 such agencies in Florida). Darden Restaurants Foundation has been a long-time supporter of this uniquely successful program.

Citizens Caring for Children, Inc.

Spearheaded by *Red Lobster* Director of Operations Tony Morales, and based in Oklahoma City, Oklahoma, the Company's support of CCC illustrates the value of our multi-layered approach. With the help of Tony's board membership, active volunteerism on the part of employees, and solid corporate and foundation support, this foster care organization provides needed care and services to orphaned children, as well as those removed or separated from their parents.

Dennis Franz (second from right), Emmy-award winning actor and star of ABC-TV's NYPD Blue *and Red Lobster's EVP of Marketing Wyman Roberts, present the million-dollar Cops & Lobsters check to L.A. police officer Dan Mastro and Willie Myles, a 15-year-old Special Olympics athlete.*

Cops & Lobsters

Law enforcement officials around the country and in Canada spend an evening in our restaurants as celebrity servers as part of *Red Lobster's* uniquely successful Cops & Lobsters fundraising program, which this year raised more than $1 million to benefit the Special Olympics.

Left: Drew Madsen (third from right), Olive Garden's Executive Vice President of Marketing and Charlie Wilkinson (far right), a Director of Operations for Olive Garden's Atlanta Division, present a 24-foot refrigerated truck to the Atlanta Community Food Bank.

Left: The Doyle-Risi Ferrari 333SP is not only a symbol of Italian quality and innovation — like Olive Garden itself — it's also Olive Garden's ambassador for the "Drive Against Hunger" program that supports local food banks.

Celebrating Diversity

Association to Preserve the Eatonville Community (PEC)
The nation's oldest incorporated African-American community, Eatonville, Florida, is located near Darden's Restaurant Support Center in Orlando. To help preserve and promote the area's rich heritage, both the Foundation and Corporation support the Association to Preserve the Eatonville Community (PEC), which organizes the widely recognized annual Zora Neale Hurston Festival and provides educational and cultural activities for Eatonville kids and their families.

National Conference for Community and Justice (NCCJ)
Darden is the national founding sponsor of the NCCJ Walk As One walk-a-thon, and this year the Darden Restaurants Foundation made a three-year $250,000 commitment to benefit this unique program focused on promoting racial harmony. Through a series of organized walks for young people held in 11 major metropolitan areas around the country (with large contingencies of restaurants), the NCCJ promotes racial harmony, understanding and justice.

In Roads
In an effort to encourage entrepreneurial endeavors on the part of minorities, the Company has implemented the In Roads program, which provides minority students with summer employment, scholarships, mentoring and basic business skills.

Beyond the Veil
This collection of high-end, African-American masterpieces was exhibited at the Cornell Fine Arts Institute of Rollins College, in Winter Park, Florida, in conjunction with the annual Zora Neale Hurston festival, and provided the community with a rare opportunity for viewing works by nationally recognized African-American artists.

Community Alliance Project
Through our Community Alliance Project, Darden's Diversity Management Department has partnered with local and national not-for-profit organizations — including the Urban League, the NAACP, the National Council for Community and Justice, and the African-American, Asian-American and Hispanic-American Chambers of Commerce — to provide opportunities for employees throughout the U.S. to support diversity efforts at the local level.

Protecting the Environment

Through the Darden Environmental Trust, the Darden Restaurants Foundation supports organizations dedicated to protecting and preserving the natural environment so it can be enjoyed by communities today and long into the future. Foundation grants focus on programs that enhance and reclaim fragile environments, preserve natural areas and habitats, and build public awareness of the importance of environmental stewardship.

University of Rhode Island Sea Grant
In collaboration with the National Marine Fishery Service, the Trust contributed funds to this project, designed to enhance the lobster populations at Narragansett Bay, Rhode Island, in the wake of damage caused by a 1989 tanker grounding. The restoration project aimed to recreate the area's marine life environment and its pre-disaster economic health.

The Darden Environmental Trust is helping fund and support the Nature Conservancy's habitat restoration project at Blowing Rocks Preserve along the Indian River Lagoon on Florida's east coast.

Nature Conservancy
Through the Conservancy, the Trust funded the Blowing Rocks Preserve project, which restored a significant portion of Jupiter Island's (Florida) remaining natural habitat, directly benefiting the adjacent Indian River Lagoon. The project also served as a premier example of the benefits and techniques of the restoration process to other organizations, including state and federal agencies.

Florida Audubon Society
Through the Florida Audubon Society, the Center for Birds of Prey in Central Florida provides a unique rehab/way station for recovering species of birds of prey. The Darden Environmental Trust is building a new teaching gazebo that extends onto Lake Sybelia, from which visitors can get a panoramic view of the center and its inhabitants.

Board of Directors

H.B. Atwater, Jr.*
Past Chairman and Chief Executive Officer, General Mills, Inc.

Bradley D. Blum
President, Olive Garden and Executive Vice President, Darden Restaurants, Inc.

Daniel B. Burke
President Emeritus and Director Capital Cities/ABC, Inc.

Odie C. Donald
Chief Executive Officer, Cable and Wireless (West Indies) Ltd.

Julius Erving, III
Executive Vice President, RDV Sports and Vice President, Orlando Magic

Joe R. Lee
Chairman and Chief Executive Officer, Darden Restaurants, Inc.

Richard E. Rivera
President, Red Lobster and Executive Vice President, Darden Restaurants, Inc.

Michael D. Rose
Chairman, Midaro Investments, Inc.

Hector de J. Ruiz, Ph.D.**
Executive Vice President, Motorola, Inc. and President, Semiconductor Products Sector

Maria A. Sastre
Vice President, Miami & Latin America, United Airlines, Inc.

Jack A. Smith
Past Chairman of the Board, The Sports Authority, Inc.

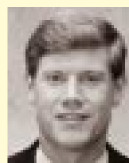
Blaine Sweatt, III
President, New Business Development and Executive Vice President, Darden Restaurants, Inc.

*Retiring 9/23/99 ** Effective 6/21/99

Corporate Officers

Linda J. Dimopoulos
Senior Vice President, Corporate Controller and Business Information Systems

Gary L. Heckel†
President, Bahama Breeze



Daniel M. Lyons
Senior Vice President, Human Resources

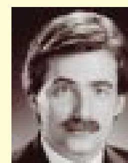
Robert W. Mock
Executive Vice President, Operations, Olive Garden

Barry Moullet†
Senior Vice President, Purchasing, Distribution and Food Safety

Clarence Otis, Jr.
Senior Vice President, Finance and Treasurer

Paula J. Shives†
Senior Vice President, General Counsel and Secretary

James D. Smith
Senior Vice President, Real Estate, Design and Construction



Richard J. Walsh
Senior Vice President, Corporate Relations

Clifford L. Whitehill-Yarza††
Senior Vice President, General Counsel and Secretary

† Effective 6/21/99 †† Retired 6/21/99

Shareholder Information

TRANSFER AGENT, REGISTRAR AND DIVIDEND PAYMENTS

First Union National Bank
1525 West W.T. Harris Blvd, 3c3
Charlotte, NC 28288-1153
Phone: (800) 829-8432

Address correspondence as appropriate to the attention of:
Address Changes
Stock Transfers
Shareholder Services

INDEPENDENT AUDITORS

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

FORM 10-K REPORT

Company management believes that the financial statements in this Annual Report to Shareholders include all significant financial data required in annual reports filed on Form 10-K with the Securities and Exchange Commission.

Shareholders may request a free copy of the Company's Form 10-K and attached schedules by writing to Secretary, Darden Restaurants, Inc., P.O. Box 593330, Orlando, FL 32859-3330.

SHAREHOLDER REPORTS / INVESTOR INQUIRIES

Shareholders seeking information about Darden Restaurants are invited to contact the Investor Relations Department at (800) 832-7336. Recorded summaries of quarterly earnings announcements and other Company news are available on the toll-free line. Shareholders may also request to receive, free of charge, copies of the quarterly earnings releases.

Information may also be obtained by visiting the web site at www.darden.com. Annual reports, SEC filings, press releases and other Company news are readily available on the web site.

AUDIO CASSETTES

The narrative portion of this Annual Report is available on audio tape, free of charge. To receive a cassette, call the Investor Relations Department at (800) 832-7336.

DARDEN RESTAURANTS FOUNDATION ANNUAL REPORT

To receive a copy of the 1999 Darden Restaurants Foundation Annual Report, mail a request to the Foundation Administrator, Darden Restaurants, P.O. Box 593330, Orlando, FL 32859-3330.

NOTICE OF ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 4 p.m. Eastern Daylight Time, Thursday, September 23, 1999, at the Orlando Science Center's Darden Adventure Theater, 777 East Princeton Street, Orlando, Florida.

MARKETS

New York Stock Exchange
Stock Exchange Symbol: DRI

WEB SITE ADDRESSES

www.darden.com
www.redlobster.com
www.olivegarden.com
www.bahamabreeze.com

COMPANY ADDRESS

Darden Restaurants, Inc.
5900 Lake Ellenor Drive
Orlando, FL 32809
Phone: (407) 245-4000

MAILING ADDRESS

P.O. Box 593330
Orlando, FL 32859-3330