Darden Restaurants, Inc. **2001 Annual Report**

Know **a good place?**

DARDEN
RESTAURANTS

2001 ANNUAL REPORT

INDUSTRY OVERVIEW

Casual dining sales totaled $47 billion in 2000, or 18 percent of the $268 billion restaurant industry in the United States. Darden is the leading casual dining provider, with a market share of nearly 8.5 percent, almost twice as large as its closest competitor. The casual dining industry is supported by a number of compelling fundamentals and trends, including:

An Expanding Market

Casual dining sales are projected to grow between six and eight percent on a compound annual basis over the next decade. This compares favorably to other segments of the restaurant industry. For example, the mid-scale and fine dining segments are projected to grow less than three percent, and quick service is projected to grow between five and six percent.

Favorable Demographics

During the next decade, the number of casual diners is expected to grow significantly, as baby boomers enter their peak dining years of ages 45 to 65. The number of people in their fifties will increase 39 percent, while the number of people in their sixties will grow 31 percent.

Lifestyle Patterns

Casual dining is positioned to benefit from the continued increase in the number of women in the labor force, which boosts family incomes and reduces the time available for cooking. Busy lifestyles, regardless of family composition, are also driving casual dining demand. Consumers spend less time at home and have less free time, placing a premium on service, convenience, and an atmosphere that enhances social interaction, all of which casual dining offers.

Economic Resilience

Historically, the casual dining segment has weathered economic downturns remarkably well. During economic slowdowns, casual dining restaurants offer the most affluent diners an alternative to high-end restaurants. At the same time, value-conscious consumers continue to view casual dining as an affordable option for leisure dollars. In fact, sales continued to grow during the 1990-91 recession, and casual dining sales have been relatively strong during the slowdown that started in the second half of calendar 2000.

DARDEN
RESTAURANTS

BUSINESS DESCRIPTION

Darden Restaurants, Inc. is the largest publicly traded casual dining company in the world, serving almost 300,000,000 meals a year at 1,168 restaurants in 49 states across the United States and in Canada. The Company, which operates four distinct restaurant concepts, has annual sales of more than $4 billion. The flagship brands, *Red Lobster*® and *Olive Garden*,® are the market share leaders in their segments of casual dining, making Darden the only company in the industry to operate more than one restaurant concept with sales exceeding $1.7 billion. *Bahama Breeze*® and *Smokey Bones*® *BBQ Sports Bar* are Darden's two newest concepts, and both were developed internally. Darden employs more than 128,000 individuals and is headquartered in Orlando, Florida. The Company trades on the New York Stock Exchange under the symbol "DRI."

Founded in 1968, *Red Lobster* is America's most successful casual dining seafood restaurant company. It has led this segment of the industry since its inception by continually evolving with the casual dining consumer, and now boasts 14 consecutive quarters of positive same-restaurant sales results and record profits.

Red Lobster

Richard E. Rivera *President*

Number of Restaurants	661
Total Sales	$2.20 Billion
Average Restaurant Sales	$3.4 Million
Market Share of Casual Dining Seafood	46%
FY01 Same-Restaurant Sales Growth	+5.9%

Olive Garden is a family of local restaurants that is the leader in the highly competitive Italian segment of casual dining. As a result of its successful repositioning to remain relevant to today's consumer, the 19-year-old company has posted 27 quarters of consecutive same-restaurant sales growth and record profits.

Olive Garden
Italian Restaurant

Bradley D. Blum *President*

Number of Restaurants	477
Total Sales	$1.71 Billion
Average Restaurant Sales	$3.6 Million
Market Share of Casual Dining Italian	35%
FY01 Same-Restaurant Sales Growth	+7.2%

In six years of operation, *Bahama Breeze* has built an exciting brand based on its promise of a two-hour island vacation experience, with quality Caribbean cuisine, hand-crafted drinks, live music, and a relaxed atmosphere.

Bahama Breeze

Gary L. Heckel *President*

Number of Restaurants	21

Darden's newest concept, *Smokey Bones BBQ Sports Bar*, was introduced in September 1999. Having completed a second successful test phase, the restaurant will begin national expansion in fiscal 2002. *Smokey Bones BBQ Sports Bar* mixes mountain lodge comfort with great tasting barbecue and exciting sports action.

Smokey Bones
BBQ
Sports Bar

Robert W. Mock *President*

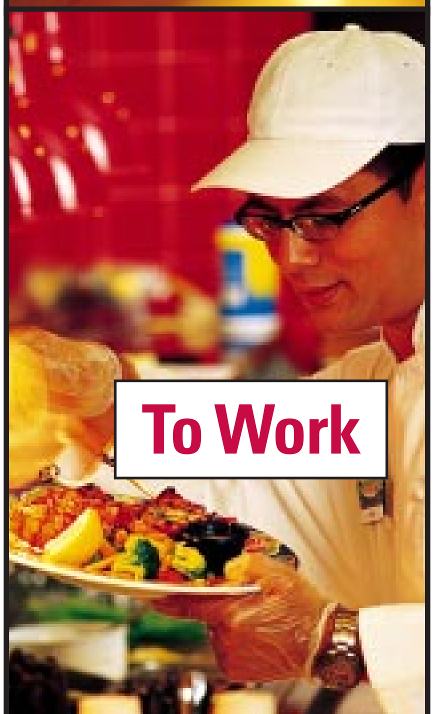
Number of Restaurants	9

We Know
A Great Place

Whether you're a customer, employee, neighbor, vendor partner, or shareholder, Darden Restaurants is filled with great places for you. And these places may not always be where you expect. So read on. Discover some far-flung and close-to-home places, some plainly visible and out-of-sight places, some physical locations and state-of-mind places – places that make our Company and our restaurants not just good, but *great*. After you learn what's happening at Darden, the next time someone asks you, "Know a good place?" you'll have a *great* answer.

DARDEN
RESTAURANTS

To Dine



To Work

To Invest

Joe R. Lee

Chairman and Chief Executive Officer

DARDEN RESTAURANTS

LETTER TO SHAREHOLDERS

To Our Shareholders, Employees, and Guests:

Fiscal 2001 was Darden's best year ever. Building on our record financial results in the prior year, this year's outstanding performance reflects wide-ranging and fundamental improvements in our businesses. It also reinforces our belief that we have the right strategies to achieve our ultimate goal – being the best company in casual dining, now and for generations.

• Revenues increased 9% to $4 billion. We combined continued same-restaurant sales growth with new restaurant growth at *Red Lobster* and *Olive Garden*, continued rollout of *Bahama Breeze*, and significantly accelerated our test of *Smokey Bones BBQ Sports Bar*.

• Earnings after tax increased 14%, excluding an unusual non-operating gain in the prior year, to $197 million, our highest level ever.

• Earnings per share on a diluted basis rose 21% before the prior year's unusual non-operating gain, to $1.59. This is above the 15% – 20% annual long-term EPS growth range we've targeted and was achieved despite the softness in the U.S. economy for much of the second half of the year.

• *Red Lobster's* annual sales were a record $2.20 billion and its average sales per restaurant reached a record $3.4 million. Same-restaurant sales increased 5.9% for the year, and *Red Lobster* ended the year with 14 consecutive quarters of same-restaurant sales growth.

• *Olive Garden* also delivered new sales records. Total annual sales were $1.71 billion, and average sales per restaurant climbed to $3.6 million. Same-restaurant sales grew 7.2%, matching its 7.2% increase for the prior year. With gains in each quarter of the year, *Olive Garden* has now posted 27 consecutive quarters of same-restaurant sales growth.

• *Bahama Breeze* continued to provide guests award-winning culinary and beverage offerings with exceptional levels of service and hospitality. It opened an additional seven restaurants, and there are now 21 *Bahama Breeze* restaurants in 16 markets.

• *Smokey Bones BBQ Sports Bar* accelerated its test, opening seven new restaurants to bring the total number in operation to nine. The combination of great tasting barbecue in a relaxed sports bar atmosphere is proving to be broadly appealing. Each of the restaurants opened strongly and sustained high sales levels. We are now poised to begin expansion in fiscal 2002.

• Our strong cash flow and balance sheet enabled us to purchase 8.4 million shares of common stock in fiscal 2001.

• We continued to move forward in our efforts to make our Company more diverse. *Red Lobster*, for example, was recognized as a top company for management diversity by People Report, a human resources firm that tracks casual dining restaurant workforce data. And for the third year in a row, Darden was named to *Fortune* magazine's list of the top 50 companies for minorities.

• As always, we were actively involved in the communities in which we do business, contributing more than $8 million to social service, environmental, educational and cultural efforts through corporate and restaurant donations, the Darden Restaurants Foundation, and the Darden Environmental Trust. Our employees also devoted hundreds of thousands of volunteer hours to community-based organizations and civic projects all over North America.

With the excellent operating and financial performance we've enjoyed, there's new excitement at Darden about the kind of future we can create. We're excited because the casual dining industry is poised for tremendous growth and because Darden is strongly positioned to become the best in casual dining, now and for generations.

We Have Reason to Be Excited

Casual dining is already a $47 billion industry, and its long-term prospects are excellent. I have written before about the powerful factors we believe will drive casual dining sales growth of six to eight percent a year over the next ten years. These growth drivers remain firmly in place and include (1) the significant increase in the coming decade in the number of people between 45 and 65, the peak years of casual dining usage; (2) the continued steady growth projected in the percentage of women in the workforce; and (3) the durability of lifestyle changes that place a premium on the timesaving and social connection benefits of dining out.

Darden is well prepared to capitalize on this growth opportunity because of the commitment we made four years ago to being "brilliant with the basics." The food and service in our restaurants are better. The quality of the support provided to our restaurants is better. Marketing, communications, finance, purchasing, technology, human resources – we're clearly better in virtually everything we do.

While we're proud of how much better the organization has become, our goal is to be the best in casual dining, now and for generations. With the platform of tremendous strength we now have, we are shifting our focus from a phase of "getting better" to one of "becoming the best" in a great and growing industry. That's what excites us.

From "Getting Better" to "Becoming the Best"

Our Strategy

For the journey from "getting better" to "becoming the best," Darden's strategy remains the same. We intend to:

• Keep *Red Lobster* and *Olive Garden* fresh and vibrant, enabling these well-established businesses to provide sustained same-restaurant sales growth and engage in steady new restaurant expansion.

• Expand *Bahama Breeze* and *Smokey Bones BBQ Sports Bar* significantly, while enhancing the unique characteristics guests find so appealing, to turn these exciting, emerging brands into core Darden businesses.

• Acquire or develop attractive new restaurant concepts that are responsive to enduring consumer demand and help Darden realize its growth objectives.

Our Strategic Building Blocks

The three strategic imperatives at the core of Darden's strategy also remain unchanged. Supported by our enduring values of trust, respect, integrity, and a commitment to diversity, we intend to create an organization that is continuously focused on:

• Leadership development as a competitive advantage.
• Service and hospitality excellence.
• Culinary and beverage excellence.

While we've accomplished a great deal during the past several years to strengthen each of these strategic building blocks, becoming the best requires that we accelerate our progress. To achieve the increased strategic momentum the Company needs, we must embrace *fundamental change.*

We must be more rigorous in identifying the critical things we do today and find ways to do them better. We must focus on identifying completely new things that must be done and ensure we do them with urgency. And, we must be more committed than ever to turning away from activities and approaches that have served us well in the past but may not be right for our future.

Fundamental change is our ticket to becoming the best – and we welcome it. We have a talented and experienced management team, the best I've had the pleasure of working with during my entire career. This team appreciates how fortunate we are to have the opportunity to create an organization that is the very best at what it does. Each of us is committed to raising the bar on how we think and act to capitalize on that opportunity.

***The* Essential Building Block: Leadership Development**

Leadership development, establishing and achieving the industry's very highest service and hospitality standards, and redefining culinary and beverage excellence in casual dining are the essential building blocks in our strategy to be the best. To make them a reality, we must have leaders who inspire in their teams a great passion and enthusiasm for people, restaurants, and dining.

We have dedicated significant resources to building the leadership skills we need to continue growing Darden. This includes specifically tailored leadership assessment and development processes for leaders throughout the organization. From the frontline employees and managers in our restaurants, to the executive teams and other officers, our efforts will intensify.

In addition to enhancing each team member's functional skills, we are deepening their strategic knowledge of service and hospitality, culinary and beverage, and leadership development. We are also reinforcing the long-held values we believe are necessary for success – trust, respect, integrity, and a commitment to mastering dynamic areas of opportunity. Two special areas of opportunity that will continue to be focal points are diversity and technology. No one can be a truly effective leader in today's environment, or in the world we'll face tomorrow, without extraordinary commitment to these areas.

Diversity Leadership

The business-building benefits of a deep and intuitive understanding of diversity are clear and compelling. We aim to create an environment that welcomes diversity, understands its implications, and translates that understanding into appropriate systematic practices at every level of the organization.

As we build our understanding of and commitment to diversity, we'll be able to better understand ourselves and our own leadership motivations, strengths, and opportunities. We'll be better able to select, develop, and lead our teams. We'll be able to speak to guests more effectively in our marketing. And, we'll be better able to deliver on the needs of individual guests in our restaurants across a wide range of groups – whether defined by racial, ethnic, gender, age, regional, cultural, or other differences.

Technology Leadership

It is also clear that technology offers tremendous opportunities to directly benefit the guest, employee, and supplier experiences we provide. Our leadership development objectives in this area are straightforward. We want leaders who have a sufficient understanding of technology to cut through the clutter and recognize the right new applications to pursue. We also want leaders who know how to use any new capabilities to our maximum advantage, so we fully leverage the significant investments being made.

Summary

"The greatest competitive edge our Company has is the quality of our employees, evidenced by the excellent job they do every day." Bill Darden, the founder of Darden Restaurants, recognized that decades ago, and it remains just as true today. I want to thank our more than 128,000 employees for accepting the challenge of being brilliant with the basics. I also want to thank them for accepting the new challenge of shifting from "getting better" to "becoming the best." I am fully confident we can be the best, now and for generations. Darden's operating success in fiscal 2001 is a testament to what we can do together when we make the commitment.

Sincerely,

Joe R. Lee
Chairman, Chief Executive Officer
Darden Restaurants

We Know
A Great Place

Melba Bassett's **50th Birthday Party**

Melba personifies one of the most compelling growth drivers for Darden and the casual dining industry – terrific demographics. Over the next decade, the industry's most frequent diners will be the fastest growing segments of the population. The number of people between the ages of 50 and 59, the most frequent casual diners, will increase by 39 percent. Those between 60 and 69 years old, the next most frequent casual diners, will grow by 31 percent. Other powerful growth drivers include the continued growth of women in the workplace, two-income households, and busy lifestyles.

A Great Place:
The Consumer Research Report **On Roger's Desk**

"What do you like?" We ask this incredibly basic question a lot. Understanding casual diners' desires and dislikes, researching individual needs and preferences, and identifying and responding to patterns across a wide range of groups, whether defined by age, gender, geography, race, ethnicity, or other meaningful descriptors – these are fundamental to how we run our business and how well we succeed. We translate what we learn directly to our performance. *Red Lobster* learned that Lobster Chops™ and Artichoke Lobster Dip would be big hits with its core customers, which helped make the annual Lobsterfest promotion one of the most successful in the Company's history. It's one reason *Red Lobster* had record sales in fiscal 2001 and achieved its 14th consecutive quarter of same-restaurant sales growth. Industry-leading restaurant concepts, fresh menus, and innovative recipes – it's a lot easier to accomplish when you start by asking questions and listening to the answers.

A Great Place:
The Test Kitchen **In The Culinary Center**

The pudding: Jerk chicken with fresh asparagus and mushrooms in a smooth cream herb sauce over bowtie pasta. The proof: Millions of dollars in sales and critical acclaim for *Bahama Breeze* from restaurant guides such as Zagat's. Culinary excellence is the bottom line in our business. It's what keeps customers coming back for their next meal. So the kitchen is where we start when developing new concepts such as *Bahama Breeze* and *Smokey Bones BBQ Sports Bar*. It's also where we return time and again to create new dishes that keep a concept like *Red Lobster* on top for 33 years and counting. Whether developing a new item or updating an existing one with more flavorful spices or a more attractive presentation, Darden's culinary centers are the R&D arms of our business that are ensuring continued growth.

A Great Place:

The Financial Resource **Behind "DRI" On The Tape**

Consistent earnings growth. Solid cash flow. Strong balance sheet. Darden has the financial strength to take advantage of a strong and growing industry. Our solid capital structure – which has earned us strong investment grade credit ratings and flexible access to capital – also enables us to invest in keeping *Red Lobster* and *Olive Garden* fresh and vibrant, expanding each of our existing companies, and developing new businesses to propel growth for years to come.

"Six years ago, DRI spun-out from General Mills ... Steadily over this time, the company has successfully accomplished what amounts to a strategic reinvention of itself, excelling operationally and recovering financially."

Peter Oakes – First Vice President,
Securities Research & Economics, Merrill Lynch
June 26, 2001

"The company is a well-positioned play on the growth of the casual dining sector."

Joe Buckley – Senior Managing Director,
Bear Stearns
June 25, 2001

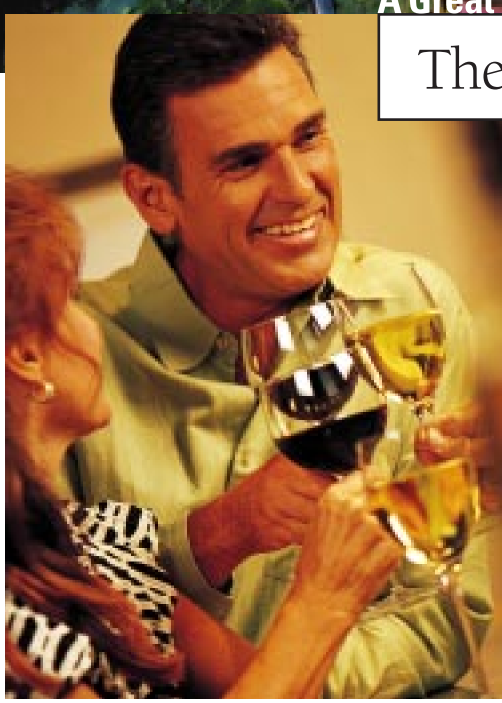
"We believe Darden's earnings growth story will continue to succeed ..."

John Ivankoe – Vice President, Equity Research Analyst,
JP Morgan
June 22, 2001

These remarks are excerpts from reports by independent third parties based on information available to the public as of the date of the report. The Company does not endorse any particular report in whole or in part and should not be considered to have reviewed or approved any such report or the basis thereof.

A Great Place:

The Vineyards **of Rocca delle Macie, Italy**



It takes a lot to serve hundreds of thousands of customers daily. We don't do it alone. Strong relationships with vendors and suppliers are critical, helping us get the freshest ingredients or refine how we operate to enhance the dining experiences we provide. The best of these relationships resemble a partnership more than a traditional client-vendor arrangement. Rocca delle Macie, for instance, is a family-owned winery in Tuscany that partnered with *Olive Garden* to establish the Culinary Institute of Tuscany, where many of the chefs from our restaurants train in an authentic Tuscan environment. Whether it's helping us enter a new seafood market through Thai Royal, improving our loss-prevention program with Liberty Mutual, or developing a new recipe alongside Kettle Cooked Foods, we have these and many other great partners by our side.

A Great Place:

A Training Room at 7101 Lake Ellenor Drive

It goes without saying that a great restaurant must have great service and hospitality. But what's the best way to achieve this goal? Simple. Create a great place to work; attract skilled employees by offering attractive compensation and benefits packages; invest in training so they can learn and excel; provide a clear path for advancement, such as our Manager-In-Training program; and treat them well to retain them, so they value you as much as you value them. The result? Not only satisfied customers and employees, but also satisfied shareholders. With employee turnover rates well below the industry average, Darden's most important asset isn't necessarily evident on the balance sheet, but you'll see it on 128,000 helpful faces. And that makes a huge impact on our top and bottom lines.

A Great Place:

The New Seaside Bar In Milwaukee, Wisconsin

Great people. Great product. When you add great places, what do you get? Magic. At *Red Lobster*, guests are responding enthusiastically to our bar remodels and a renewed focus on beverages. It's all paying off in the form of higher sales for cocktails and specialty drinks. In restaurants with new bars, drink sales increased 14 percent over the prior year. To date, the remodeled bar space is in 137 of 661 *Red Lobster* locations, which translates into a significant amount of continued upside for this proven performance enhancer.

A Great Place:

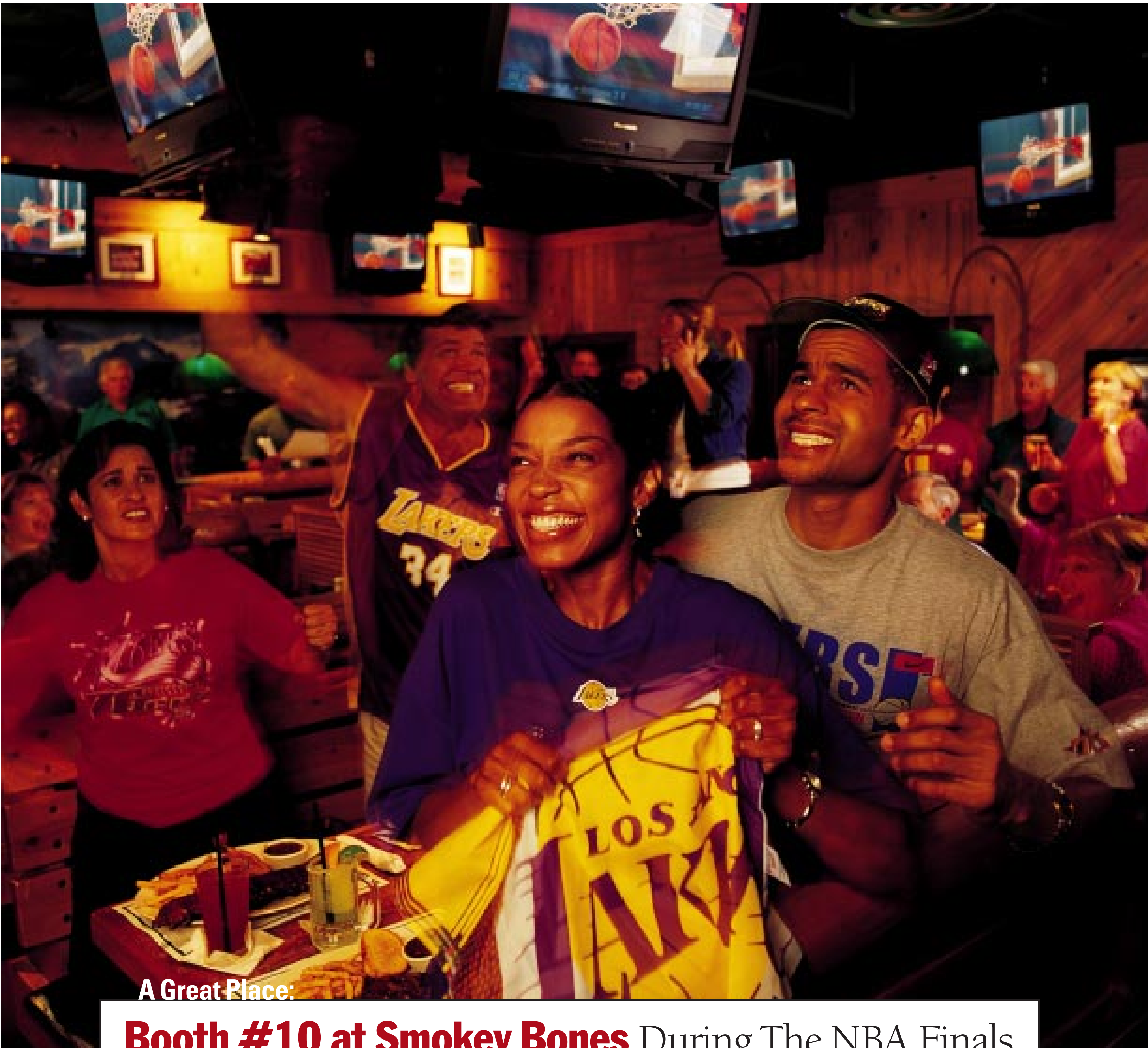
A Tuscan Farmhouse In Sanford, Florida

With the successful repositioning of the Company, *Olive Garden* is opening new restaurants in even more communities to further our already strong growth, and the centerpiece is an exciting new *Olive Garden* prototype. The new restaurants are the closest things you can find to a Tuscan farmhouse outside of Tuscany. Featuring imported Italian marble, fieldstone, and tile, the warm Tuscan ambiance of these restaurants is proving to be a winner. To date, the 18 farmhouse prototypes are generating higher sales than the *Olive Garden* average. Along with the RevItalia™ initiative to renovate existing restaurants, *Olive Garden's* not only delivering an authentic Italian experience, but it's also an authentic growth story.

A Great Place:

The Deck **At Bahama Breeze**

What's a win-win situation in the restaurant business? For the restaurant, a huge crowd waiting for tables. For the crowd, it's having a great time while they're waiting. Welcome to *Bahama Breeze*, where our goal is to provide every guest with a two-hour island vacation. The trip more than likely starts on the restaurant's deck with tropical drinks and live entertainment, transporting guests to a festive, yet relaxed, Caribbean setting. Inside, the great ambiance extends to great food consisting of critically acclaimed island dishes. *Bahama Breeze* had 21 locations at the end of fiscal 2001, and with every restaurant generating about double the sales of the average casual dining restaurant, it's positioned to be a major growth contributor.



A Great Place:

Booth #10 at Smokey Bones During The NBA Finals

A slam dunk? We think so! As our newest casual dining concept completed the second phase of testing and prepares for national expansion, we're feeling really good about it. *Smokey Bones BBQ Sports Bar* combines one of the nation's favorite foods, barbecue, with one of its favorite pastimes, sports, and brings them together in a comfortable mountain lodge setting to create a fun, high-energy dining experience that has broad appeal. With every one of the nine current restaurants exceeding our initial projections, look for *Smokey Bones BBQ Sports Bar* to expand rapidly over the next year.

A Great Place:

The Southwest **Boys & Girls Club**

Boys & Girls Clubs are safe, positive places where kids of all races, religions and cultures can go to have fun, learn, grow, and build life-long relationships. The idea is to nurture our youth, especially those from disadvantaged circumstances, and help them realize their full potential. It's an idea Darden Restaurants wholeheartedly endorses, and it's why we've made a major commitment to supporting Boys & Girls Clubs.

A Great Place:

The General Manager's Office **After A Record Night**

When you add it up – a compelling industry, disciplined consumer insight, and the financial strength to secure great products, develop talented people to prepare and serve them, and provide attractive places to do it in – Darden is a great place for everyone. A record level of revenue for the night demonstrates that, for our customers, it's a great place to dine. For our employees, the ability to advance in their careers, the opportunity to essentially manage their own business, and the satisfaction of measuring and being rewarded for their success makes it a great place to work. For our shareholders, strong restaurant-by-restaurant sales and profitability puts us closer to our long-term goals of increasing market share in a growing industry segment, expanding margins on incremental sales, and growing earnings 15 to 20 percent a year on a compound annual basis – all making it a great place to invest. Know some great places? We're convinced Darden offers many!

DARDEN
RESTAURANTS

The Best Place To Dine To Work To Invest

DARDEN RESTAURANTS

2001

Financial Review

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

As of May 27, 2001, Darden Restaurants, Inc. (Darden or the Company) operated 1,168 *Red Lobster*, *Olive Garden*, *Bahama Breeze,* and *Smokey Bones BBQ Sports Bar* restaurants in the U.S. and Canada and licensed 34 restaurants in Japan. All of the restaurants in the U.S. and Canada are owned and 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. Fiscal years ended 2001, 2000, and 1999 each consisted of 52 weeks of operation.

REVENUES

Total revenues in 2001 were $4.02 billion, an 8.6 percent increase from 2000. Total revenues in 2000 were $3.70 billion, a 7.0 percent increase from 1999.

COSTS AND EXPENSES

Food and beverage costs for both 2001 and 2000 were 32.4 percent of sales, a decrease of 0.4 percentage points from 1999. The comparability in 2001 and 2000 food and beverage costs, as a percentage of sales, is primarily a result of favorable menu-mix changes, pricing changes, and other efficiencies resulting from higher sales volumes, offset by higher product costs. The decrease in food and beverage costs in 2000 from 1999, as a percentage of sales, is primarily attributable to pricing, margin improving initiatives such as waste reduction, and a lower-margin promotion run by *Red Lobster* during the first quarter of 1999.

Restaurant labor decreased in 2001 to 31.4 percent of sales, compared to 31.9 percent of sales in 2000 and 32.3 percent of sales in 1999, primarily due to efficiencies resulting from higher sales volumes.

Restaurant expenses (primarily lease expenses, property taxes, credit card fees, utilities, and workers' compensation costs) amounted to 14.2 percent of sales in 2001, which was comparable to the 14.1 percent and 14.3 percent of sales levels in 2000 and 1999, respectively. The comparability is a result of higher sales volumes and the fixed component of these expenses which are not impacted by higher sales volumes, offset by higher utility costs.

Selling, general, and administrative expenses decreased in 2001 to 10.1 percent of sales, compared to 10.3 percent in 2000 and 10.4 percent in 1999. The decrease in 2001 is principally a result of reduced marketing expenses as a percent of sales, partially offset by additional labor costs associated with new concept expansion and development.

Depreciation and amortization expense of 3.7 percent of sales in 2001 increased from 3.5 percent in 2000 and 3.6 percent in 1999, primarily as a result of new restaurant and remodel activity, partially offset by the favorable impact of higher sales volumes. Interest expense increased to 0.8 percent of sales in 2001, compared to 0.6 percent of sales in 2000 and 1999. The increase is primarily due to higher debt levels in 2001.

INCOME FROM OPERATIONS

Pre-tax earnings increased by 12.4 percent in 2001 to $301.2 million, compared to $268.0 million (before net restructuring and asset impairment credit) in 2000 and $207.4 million (before net restructuring credit) in 1999. The increase in 2001 was primarily attributable to annual same-restaurant sales increases in the U.S. for both *Red Lobster* and *Olive Garden* totaling 5.9 percent and 7.2 percent, respectively. The increase in 2000 was mainly attributable to annual same-restaurant sales increases in the U.S. for both *Red Lobster* and *Olive Garden* totaling 7.6 percent and 7.2 percent, respectively. *Red Lobster* and *Olive Garden* have enjoyed 14 and 27 consecutive quarters of U.S. same-restaurant sales increases, respectively.

PROVISION FOR INCOME TAXES

The effective tax rate for 2001 was 34.6 percent, compared to 35.4 percent in 2000 (before net restructuring and asset impairment credit) and 34.8 percent in 1999 (before net restructuring credit). The decrease in the effective tax rate from 2000 to 2001 resulted primarily from increases in income tax credits and deductions that were not available in 2000. The increase in the effective tax rate from 1999 to 2000 is primarily a result of higher 2000 pre-tax earnings.

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

NET EARNINGS AND NET EARNINGS PER SHARE BEFORE NET RESTRUCTURING AND ASSET IMPAIRMENT CREDIT

Net earnings for 2001 of $197.0 million, or $1.59 per diluted share, increased 13.8 percent, compared to 2000 net earnings before net restructuring and asset impairment credit of $173.1 million, or $1.31 per diluted share. Net earnings before net restructuring and asset impairment credit for 2000 increased 27.9 percent, compared to net earnings before restructuring credit for 1999 of $135.3 million, or $0.96 per diluted share.

NET EARNINGS AND NET EARNINGS PER SHARE

Net earnings for 2001 of $197.0 million ($1.59 per diluted share) compared with net earnings after net restructuring and asset impairment credit for 2000 of $176.7 million ($1.34 per diluted share) and net earnings after restructuring credit of $140.5 million ($0.99 per diluted share).

During 1997, an after-tax restructuring and asset impairment charge of $145.4 million ($0.93 per diluted share) was taken 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 included 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.

After-tax restructuring credits of $5.2 million and $5.2 million were taken in the fourth quarter of 2000 and 1999, respectively, as the Company reversed portions of its 1997 restructuring liability. The 2000 reversal primarily resulted from favorable lease terminations. The 1999 reversal primarily resulted from the Company's decision to close fewer restaurants than identified for closure as part of the initial restructuring action. The credits had no effect on the Company's cash flow.

During 2000, an after-tax asset impairment charge of $1.6 million was taken in the fourth quarter related to additional write-downs of the value of properties held for disposition.

FINANCIAL CONDITION

Short-term debt totaled $12.0 million as of May 27, 2001, down from $115.0 million at May 28, 2000. The decrease resulted primarily from the Company's issuance of long-term debt, in which the proceeds were used to repay short-term debt.

LIQUIDITY AND CAPITAL RESOURCES

The Company intends to manage its business and its financial ratios to maintain an investment grade bond rating, which allows access to financing at reasonable costs. Currently, the Company's publicly issued long-term debt carries "Baa1" (Moody's Investors Service), "BBB+" (Standard & Poor's), and "BBB+" (Fitch) ratings. The Company's commercial paper has ratings of "P-2" (Moody's Investors Service), "A-2" (Standard & Poor's), and "F-2" (Fitch). Such ratings are only accurate as of the date of this report and have been obtained with the understanding that Moody's Investors Service, Standard & Poor's, and Fitch will continue to monitor the credit of the Company and make future adjustments to such ratings to the extent warranted. The ratings may be changed, superseded, or withdrawn at any time.

Darden's long-term debt includes $150 million of unsecured 6.375 percent notes due in February 2006 and $100 million of unsecured 7.125 percent debentures due in February 2016. In September 2000, the Company also issued $150 million of unsecured 8.375 percent senior notes due in September 2005. Proceeds of the issuance were used to repay short-term debt.

In November 2000, Darden filed a prospectus supplement with the Securities and Exchange Commission allowing the Company to offer up to $350 million of medium-term notes from time to time. The notes will be unsecured, may bear interest at either fixed or floating rates, and may have maturity dates of nine months or more after issuance. In April 2001, the Company issued $75 million of 7.45 percent fixed rate notes under this program with a maturity date of April 2011. Proceeds of the issuance were used to repay short-term debt.

As of May 27, 2001, Darden's long-term debt also includes a $44.5 million commercial bank loan that is used to support two loans from the Company to the Employee Stock Ownership Plan portion of the Darden Savings Plan.

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

The Company has a commercial paper program that serves as its primary source of short-term financing. As of May 27, 2001, there were $12 million of borrowings outstanding under the program. To support the program, the Company has a credit facility with a consortium of banks under which the Company can borrow up to $300 million. As of May 27, 2001, no amounts were outstanding under the credit facility. The credit facility expires in October 2004 and contains various restrictive covenants, such as maximum debt to capital ratios. None of these covenants is expected to impact the Company's liquidity or capital resources.

The Company's adjusted debt-to-adjusted-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 adjusted debt and adjusted total capital) was 44 percent and 42 percent at May 27, 2001, and May 28, 2000, 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 6.5 times and 7.1 times at May 27, 2001, and May 28, 2000, respectively. 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.

$ In Millions	**May 27, 2001**	May 28, 2000
CAPITAL STRUCTURE		
Short-term debt	**$ 12.0**	$ 115.0
Long-term debt	**520.6**	306.6
Total debt	**532.6**	421.6
Stockholders' equity	**1,035.2**	960.5
Total capital	**$1,567.8**	$1,382.1
ADJUSTMENTS TO CAPITAL		
Leases-debt equivalent	**$ 275.1**	$ 264.8
Adjusted total debt	**807.7**	686.4
Adjusted total capital	**$1,842.9**	$1,646.9
Debt-to-total capital ratio	**34%**	31%
Adjusted debt-to-adjusted total capital ratio	**44%**	42%

In 2001, 2000, and 1999, the Company declared 8 cents per share in annual dividends paid in two installments. In March 2000, 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 20.0 million additional shares of Darden common stock. This buy-back authorization is in addition to previously approved authorizations by the Board covering open market purchases of up to 44.6 million shares of Darden common stock. In 2001, 2000, and 1999, the Company purchased treasury stock totaling $177 million, $202 million, and $228 million, respectively. As of May 27, 2001, a total of 52.5 million shares have been purchased under the various stock buy-back plan authorizations.

The Company generated $421 million, $343 million, and $358 million in funds from operating activities during 2001, 2000, and 1999, respectively. The Company requires capital principally for building new restaurants, replacing equipment, and remodeling existing restaurants. Capital expenditures were $355 million in 2001, compared to $269 million in 2000 and $124 million in 1999. The increased expenditures in 2001 and 2000 resulted primarily from new restaurant growth as well as remodeling activity at *Olive Garden* and *Red Lobster* restaurants. The 2001, 2000, and 1999 capital expenditures, treasury stock purchases, and dividend requirements were financed primarily through internally generated funds and the issuance of commercial paper. This has resulted in the Company carrying current liabilities in excess of current assets. The Company estimates that its 2002 capital expenditures will be slightly more in amount to that of 2001.

The Company is not aware of any other trends or events that would materially affect its capital requirements or liquidity. The Company believes that its internal cash generating capabilities and short-term borrowings available through its commercial paper program should be sufficient to finance its capital expenditures and other operating activities through fiscal 2002.

IMPACT OF INFLATION

For 2001, 2000, and 1999, management does not believe that inflation has had a significant overall effect on the Company's operations. As operating expenses increase, management believes the Company has historically been able to pass on increased costs through menu price increases and other strategies.

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to a variety of market risks, including fluctuations in interest rates, foreign currency exchange rates, and commodity prices. To manage this exposure, Darden periodically enters into interest rate, foreign currency exchange, and commodity instruments for other than trading purposes.

The Company uses the variance/covariance method to measure value at risk, over time horizons ranging from one week to one year, at the 95 percent confidence level. As of May 27, 2001, the Company's potential losses in future net earnings resulting from changes in foreign currency exchange rates, commodity prices, and floating rate debt interest rate exposures were approximately $1 million over a period of one year. The Company issued $225 million of new long-term fixed rate debt during fiscal 2001. The value at risk from an increase in the fair value of all of the Company's long-term fixed rate debt, over a period of one year, was approximately $40 million. The fair value of the Company's long-term fixed rate debt during fiscal 2001 averaged $359 million, with a high of $472 million and a low of $229 million. The Company's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows by targeting an appropriate mix of variable and fixed rate debt.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Gains or losses resulting from changes in the fair values of those derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges will be recognized in earnings. In June 1999, the FASB issued SFAS 137, which deferred the effective date of adoption of SFAS 133 for one year. In June 2000, the FASB issued SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment of FASB Statement No. 133." SFAS 138, which amends the accounting and reporting standards of SFAS 133 for certain derivative instruments and hedging activities, must be adopted concurrently with SFAS 133. The Company adopted SFAS 133 and SFAS 138 in the first quarter of fiscal 2002. Adoption of SFAS 133 and SFAS 138 did not materially impact the Company's consolidated financial position, results of operations, or cash flows.

FORWARD-LOOKING STATEMENTS

Certain statements included in this report 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. Words or phrases such as "believe," "plan," "will," "expect," "intend," "is anticipated," "estimate," "project," and similar expressions are intended to identify forward-looking statements. All of these statements, and any other statements in this report that are not historical facts, are forward looking. Examples of forward-looking statements include, but are not limited to, projections regarding expected casual dining sales growth; the ability of the casual dining segment to weather economic downturns; demographic trends; the Company's expansion plans and business development activities; and the Company's long-term goals of increasing market share, expanding margins on incremental sales, and growing earnings 15 percent to 20 percent per year on a compound annual basis. Forward-looking statements are based on assumptions concerning important risks and uncertainties that could significantly affect anticipated results. These risks and uncertainties include, but are not limited to, (i) the highly competitive nature of the restaurant industry, especially pricing, service, location, personnel, and type and quality of food; (ii) economic, market, and other conditions, including changes in consumer preferences and demographic trends; (iii) changes in food and other costs and the general impact of inflation; (iv) the availability of desirable restaurant locations; (v) government regulations, including those relating to zoning, land use, environmental matters, and liquor licenses; and (vi) growth plans, including real estate development and construction activities, the issuance and renewal of licenses, and permits for restaurant development and the availability of funds to finance growth. If the Company's projections and estimates regarding these key factors differ materially from what actually occurs, the Company's actual results could vary significantly from the performance projected in its forward-looking statements.

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 set high standards of ethical conduct for 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

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 27, 2001, and May 28, 2000, and the related consolidated statements of earnings, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended May 27, 2001. 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 auditing standards generally accepted in the United States of America. 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 27, 2001, and May 28, 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended May 27, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Orlando, Florida
June 15, 2001

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)	Fiscal Year Ended May 27, 2001	May 28, 2000	May 30, 1999
Sales	**$ 4,021,157**	$3,701,256	$3,458,107
Costs and Expenses:			
Cost of sales:			
Food and beverage	**1,302,926**	1,199,709	1,133,705
Restaurant labor	**1,261,837**	1,181,156	1,117,401
Restaurant expenses	**569,963**	519,832	493,811
Total Cost of Sales	**$ 3,134,726**	$2,900,697	$2,744,917
Selling, general, and administrative	**407,685**	379,731	360,909
Depreciation and amortization	**146,864**	130,464	125,327
Interest, net	**30,664**	22,388	19,540
Restructuring and asset impairment credit, net		(5,931)	(8,461)
Total Costs and Expenses	**$ 3,719,939**	$3,427,349	$3,242,232
Earnings before income taxes	**$ 301,218**	$ 273,907	$ 215,875
Income taxes	**104,218**	97,202	75,337
Net Earnings	**$ 197,000**	$ 176,705	$ 140,538
Net Earnings per Share:			
Basic	**$ 1.64**	$ 1.38	$ 1.02
Diluted	**$ 1.59**	$ 1.34	$ 0.99
Average Number of Common Shares Outstanding:			
Basic	**119,800**	128,500	137,300
Diluted	**123,800**	131,900	141,400

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(In thousands)	**May 27, 2001**	May 28, 2000
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 61,814**	$ 26,102
Receivables	**32,870**	27,962
Inventories	**148,429**	142,187
Net assets held for disposal	**10,087**	19,614
Prepaid expenses and other current assets	**26,942**	26,525
Deferred income taxes	**48,000**	48,070
Total Current Assets	**$ 328,142**	$ 290,460
Land, buildings, and equipment	**1,779,515**	1,578,541
Other assets	**110,801**	102,422
Total Assets	**$2,218,458**	$1,971,423
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	**$ 156,859**	$ 140,487
Short-term debt	**12,000**	115,000
Current portion of long-term debt	**2,647**	2,513
Accrued payroll	**82,588**	77,805
Accrued income taxes	**47,698**	33,256
Other accrued taxes	**27,429**	25,524
Other current liabilities	**225,037**	212,302
Total Current Liabilities	**$ 554,258**	$ 606,887
Long-term debt	**517,927**	304,073
Deferred income taxes	**90,782**	79,102
Other liabilities	**20,249**	20,891
Total Liabilities	**$1,183,216**	$1,010,953
Stockholders' Equity:		
Common stock and surplus, no par value. Authorized 500,000 shares; issued 169,299 and 165,977 shares, respectively; outstanding 117,380 and 122,192 shares, respectively	**$1,405,799**	$1,351,707
Preferred stock, no par value. Authorized 25,000 shares; none issued and outstanding		
Retained earnings	**532,121**	344,579
Treasury stock, 51,919 and 43,785 shares, at cost	**(840,254)**	(666,837)
Accumulated other comprehensive income	**(13,102)**	(12,457)
Unearned compensation	**(49,322)**	(56,522)
Total Stockholders' Equity	**$1,035,242**	$ 960,470
Total Liabilities and Stockholders' Equity	**$2,218,458**	$1,971,423

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except per share data)	Common Stock and Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Unearned Compensation	Total Stockholders' Equity
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
Comprehensive income:						
Net earnings		176,705				176,705
Other comprehensive income, foreign currency adjustment				(342)		(342)
Total comprehensive income						176,363
Cash dividends declared ($0.08 per share)		(10,134)				(10,134)
Stock option exercises (1,153 shares)	10,212					10,212
Issuance of restricted stock (163 shares), net of forfeiture adjustments	3,638				(3,685)	(47)
Earned compensation					3,314	3,314
ESOP note receivable repayments					7,600	7,600
Income tax benefit credited to equity	5,506					5,506
Proceeds from issuance of equity put options	1,814					1,814
Purchases of common stock for treasury (11,487 shares)			(202,105)			(202,105)
Issuance of treasury stock under Employee Stock Purchase Plan (243 shares)	1,741		2,170			3,911
Balance at May 28, 2000	1,351,707	344,579	(666,837)	(12,457)	(56,522)	960,470
Comprehensive income:						
Net earnings		197,000				197,000
Other comprehensive income, foreign currency adjustment				(645)		(645)
Total comprehensive income						196,355
Cash dividends declared ($0.08 per share)		(9,458)				(9,458)
Stock option exercises (3,113 shares)	33,158					33,158
Issuance of restricted stock (295 shares), net of forfeiture adjustments	3,986		1,035		(5,109)	(88)
Earned compensation					4,164	4,164
ESOP note receivable repayments					8,145	8,145
Income tax benefit credited to equity	15,287					15,287
Purchases of common stock for treasury (8,440 shares)			(176,511)			(176,511)
Issuance of treasury stock under Employee Stock Purchase and other plans (224 shares)	1,661		2,059			3,720
Balance at May 27, 2001	**$1,405,799**	**$532,121**	**$(840,254)**	**$(13,102)**	**$(49,322)**	**$1,035,242**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	May 27, 2001	Fiscal Year Ended May 28, 2000	May 30, 1999
Cash Flows – Operating Activities			
Net Earnings	**$ 197,000**	$ 176,705	$ 140,538
Adjustments to reconcile net earnings to cash flow:			
Depreciation and amortization	**146,864**	130,464	125,327
Amortization of unearned compensation and loan costs	**7,031**	5,895	4,879
Change in current assets and liabilities	**41,740**	2,472	70,924
Change in other liabilities	**(642)**	(371)	2,682
(Gain) loss on disposal of land, buildings, and equipment	**1,559**	2,683	(1,798)
Deferred income taxes	**11,750**	24,609	13,967
Income tax benefit credited to equity	**15,287**	5,506	9,722
Non-cash restructuring and asset impairment credit, net		(5,931)	(8,461)
Other, net	**(19)**	594	162
Net Cash Provided by Operating Activities	**$ 420,570**	$ 342,626	$ 357,942
Cash Flows – Investing Activities			
Purchases of land, buildings, and equipment	**(355,139)**	(268,946)	(123,673)
Purchases of intangibles	**(11,215)**	(2,431)	(2,203)
(Increase) decrease in other assets	**485**	611	(8,794)
Proceeds from disposal of land, buildings and equipment (including net assets held for disposal)	**13,492**	20,998	38,134
Net Cash Used in Investing Activities	**$(352,377)**	$(249,768)	$ (96,536)
Cash Flows – Financing Activities			
Proceeds from issuance of common stock	**36,701**	13,944	26,310
Dividends paid	**(9,458)**	(10,134)	(10,857)
Purchases of treasury stock	**(176,511)**	(202,105)	(227,510)
ESOP note receivable repayments	**8,145**	7,600	1,800
Increase (decrease) in short-term debt	**(103,000)**	91,500	(51,600)
Proceeds from issuance of long-term debt	**224,454**		9,848
Repayment of long-term debt	**(10,658)**	(9,986)	(4,126)
Payment of loan costs	**(2,154)**	(349)	
Proceeds from issuance of equity put options		1,814	2,184
Net Cash Used in Financing Activities	**$ (32,481)**	$(107,716)	$(253,951)
Increase (Decrease) in Cash and Cash Equivalents	**35,712**	(14,858)	7,455
Cash and Cash Equivalents – Beginning of Year	**26,102**	40,960	33,505
Cash and Cash Equivalents – End of Year	**$ 61,814**	$ 26,102	$ 40,960
Cash Flow from Changes in Current Assets and Liabilities			
Receivables	**(4,908)**	(7,706)	7,056
Inventories	**(6,242)**	(1,485)	41,697
Prepaid expenses and other current assets	**(289)**	(4,184)	(1,310)
Accounts payable	**16,372**	(4,238)	11,787
Accrued payroll	**4,783**	3,540	1,025
Accrued income taxes	**14,442**	16,712	15,477
Other accrued taxes	**1,905**	(441)	1,793
Other current liabilities	**15,677**	274	(6,601)
Change in Current Assets and Liabilities	**$ 41,740**	$ 2,472	$ 70,924

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

NOTE 1
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying 2001, 2000, and 1999 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.

FISCAL YEAR

Darden's fiscal year ends on the last Sunday in May. Fiscal years 2001, 2000, and 1999 each consisted of 52 weeks.

INVENTORIES

Inventories are valued at the lower of weighted average cost or market.

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.

INTANGIBLE ASSETS

The cost of intangible assets at May 27, 2001, and May 28, 2000, amounted to $26,818 and $16,412, respectively. Intangibles are amortized using the straight-line method over their estimated useful lives ranging from three to 40 years. Costs capitalized principally represent software and related development costs and the purchase costs of leases with favorable rent terms. Accumulated amortization on intangible assets as of May 27, 2001, and May 28, 2000, amounted to $6,199 and $5,201, respectively.

IMPAIRMENT OF LONG-LIVED ASSETS

Restaurant sites and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of 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 exceeds their fair value. Restaurant sites and certain identifiable intangibles to be disposed of are reported at the lower of their carrying amount or fair value, less estimated costs to sell.

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 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.

FOREIGN CURRENCY TRANSLATION

The Canadian dollar is the functional currency for Darden's Canadian restaurant operations. Assets and liabilities denominated in Canadian dollars are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates prevailing throughout the period. Translation gains and losses are reported as a separate component of accumulated other comprehensive income in stockholders' equity. Gains and losses from foreign currency transactions are included in the consolidated statements of earnings for each period.

PRE-OPENING COSTS

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

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 $196,314, $182,220, and $180,563, in 2001, 2000, and 1999, respectively.

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 versus tax purposes. Federal income tax credits are recorded as a reduction of income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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.

NET EARNINGS PER SHARE

Basic earnings per share is computed by dividing income available to common stockholders 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. Outstanding stock options issued by the Company represent the only dilutive effect reflected in diluted weighted average shares.

Options to purchase 2,412,600, 3,586,200, and 120,200 shares of common stock were excluded from the calculation of diluted earnings per share for the years ended May 27, 2001, May 28, 2000, and May 30, 1999, respectively, because their exercise prices exceeded the average market price of common shares for the period.

DERIVATIVE FINANCIAL AND COMMODITY INSTRUMENTS

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 natural gas. 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 consolidated statements of earnings 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.

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.

STOCK-BASED COMPENSATION

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," encourages the use of a fair-value 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. As allowed by SFAS 123, the Company has elected to account for its stock-based compensation plans under the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." Under APB 25, compensation expense is recorded on the date of grant if the current market price of the underlying stock exceeds the exercise price. The Company has adopted the disclosure requirements of SFAS 123.

COMPREHENSIVE INCOME

Comprehensive income includes net earnings and other comprehensive income items that are excluded from net earnings under generally accepted accounting principles, 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.

SEGMENT REPORTING

As of May 27, 2001, the Company operated 1,168 *Red Lobster*, *Olive Garden*, *Bahama Breeze,* and *Smokey Bones BBQ Sports Bar* restaurants in North America as part of a single operating segment. The restaurants operate principally in the United States 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. Management believes that the Company meets the criteria for aggregating its operating segments into a single reporting segment.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year amounts to conform with current year presentation.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Gains or losses resulting from changes in the fair values of those derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges will be recognized in earnings. In June 1999, the FASB issued SFAS 137, which deferred the effective date of adoption of SFAS 133 for one year. In June 2000, the FASB issued SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities – an Amendment of FASB Statement No. 133." SFAS 138, which amends the accounting and reporting standards of SFAS 133 for certain derivative instruments and hedging activities, must be adopted concurrently with SFAS 133. The Company adopted SFAS 133 and SFAS 138 in the first quarter of fiscal 2002. Adoption of SFAS 133 and SFAS 138 did not materially impact the Company's consolidated financial position, results of operations, or cash flows.

NOTE 2
ACCOUNTS RECEIVABLE

Darden contracts with national storage and distribution companies 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 these companies at a predetermined price when they are shipped to their storage facilities. These items are repurchased at the same price by Darden when the inventory is subsequently delivered to company restaurants. These transactions do not impact the consolidated statements of earnings. Receivables from national storage and distribution companies amounted to $24,996 and $24,692 at May 27, 2001, and May 28, 2000, respectively.

NOTE 3
RESTRUCTURING AND ASSET IMPAIRMENT CREDIT, NET

Darden recorded asset impairment charges of $2,629 and $158,987 in 2000 and 1997, respectively, representing the difference between fair value and carrying value of impaired assets. The asset impairment charges relate to low-performing restaurant properties and other long-lived assets, including 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. The liability was established to accrue for estimated carrying costs of buildings and equipment prior to disposal, employee severance costs, lease buy-out provisions, and other costs associated with the restructuring action. All restaurant closings under this restructuring action have been completed. The remaining restructuring 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 2002.

During 2000 and 1999, the Company reversed portions of its 1997 restructuring liability totaling $8,560 and $8,461, respectively. The 2000 reversal primarily resulted from favorable lease terminations. The 1999 reversal primarily resulted from the Company's decision to close fewer restaurants than identified for closure as part of the initial restructuring action. No restructuring or asset impairment expense or credit was charged to operating results during 2001.

The components of the restructuring and asset impairment credit, net, and the after-tax and earnings per share effects of these items for 2000 and 1999 are as follows:

	Fiscal Year	
	2000	1999
Carrying costs of buildings and equipment prior to disposal and employee severance costs	$	$(3,907)
Lease buy-out provisions	(8,560)	(4,554)
Subtotal	(8,560)	(8,461)
Impairment of restaurant properties	2,629	
Total restructuring and asset impairment credit, net	(5,931)	(8,461)
Less related income tax effect	$ 2,308	$ 3,236
Restructuring and asset impairment credit, net, net of income taxes	$ (3,623)	$ (5,225)
Earnings per share effect – basic and diluted	$ (0.03)	$ (0.04)

The restructuring liability is included in other current liabilities in the accompanying consolidated balance sheets. As of May 27, 2001, approximately $42,600 of carrying, employee severance, and lease buy-out costs associated with the 1997 restructuring action had been paid and charged against the restructuring liability. A summary of restructuring liability activity for 2001 and 2000 is as follows:

	Fiscal Year	
	2001	2000
Beginning balance	**$ 8,564**	$ 37,139
Non-cash Adjustments:		
Restructuring credit		(8,560)
Reclassification of asset impairment (described below)		(12,000)
Cash Payments:		
Carrying costs and employee severance payments	**(1,364)**	(2,744)
Lease payments including lease buy-outs, net	**(1,402)**	(5,271)
Ending Balance	**$ 5,798**	$ 8,564

Asset impairment charges of $12,000 included in the beginning 2000 restructuring liability have been reclassified to reduce the carrying value of land for all periods presented. This reclassification related to asset impairment charges recorded in 1997 for long-lived assets associated with Canadian restaurants.

NOTE 4
INCOME TAXES

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

	Fiscal Year 2001	2000	1999
Earnings before income taxes:			
U.S.	**$296,160**	$269,802	$212,585
Canada	**5,058**	4,105	3,290
Earnings before income taxes	**$301,218**	$273,907	$215,875
Income taxes:			
Current:			
Federal	**$ 79,285**	$ 61,528	$ 53,621
State and local	**13,049**	10,861	7,577
Canada	**134**	204	172
Total current	**92,468**	72,593	61,370
Deferred (principally U.S.)	**11,750**	24,609	13,967
Total income taxes	**$104,218**	$ 97,202	$ 75,337

During 2001, 2000, and 1999, Darden paid income taxes of $63,893, $53,688, and $34,790, 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:

	Fiscal Year 2001	2000	1999
U.S. statutory rate	**35.0%**	35.0%	35.0%
State and local income taxes, net of federal tax benefits	**3.1**	3.3	3.3
Benefit of federal income tax credits	**(4.1)**	(3.9)	(4.5)
Other, net	**0.6**	1.1	1.1
Effective income tax rate	**34.6%**	35.5%	34.9%

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

	May 27, 2001	May 28, 2000
Accrued liabilities	**$ 14,899**	$ 15,836
Compensation and employee benefits	**50,902**	48,310
Asset disposition and restructuring liabilities	**5,306**	7,616
Net assets held for disposal	**937**	1,837
Other	**2,436**	2,210
Gross deferred tax assets	**74,480**	75,809
Buildings and equipment	**(73,578)**	(64,071)
Prepaid pension asset	**(17,376)**	(16,406)
Prepaid interest	**(3,812)**	(4,161)
Deferred rent and interest income	**(13,474)**	(14,560)
Intangibles	**(5,840)**	(4,497)
Other	**(3,182)**	(3,146)
Gross deferred tax liabilities	**(117,262)**	(106,841)
Net deferred tax liabilities	**$ (42,782)**	$ (31,032)

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 27, 2001, and May 28, 2000, 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 27, 2001	May 28, 2000
Land	**$ 426,171**	$ 409,069
Buildings	**1,562,107**	1,425,557
Equipment	**759,812**	680,178
Construction in progress	**128,976**	75,027
Total land, buildings, and equipment	**2,877,066**	2,589,831
Less accumulated depreciation	**(1,097,551)**	(1,011,290)
Net land, buildings, and equipment	**$ 1,779,515**	$ 1,578,541

NOTE 6
OTHER ASSETS

The components of other assets are as follows:

	May 27, 2001	May 28, 2000
Prepaid pension	**$ 45,624**	$ 42,893
Prepaid interest and loan costs	**19,768**	20,312
Liquor licenses	**18,642**	17,599
Intangible assets	**20,619**	11,211
Prepaid equipment maintenance	**1,641**	4,103
Miscellaneous	**4,507**	6,304
Total other assets	**$110,801**	$102,422

NOTE 7
SHORT-TERM DEBT

Short-term debt at May 27, 2001, and May 28, 2000, consisted of $12,000 and $115,000, respectively, of unsecured commercial paper borrowings with original maturities of one month or less. The debt bore interest rates of 4.3 percent at May 27, 2001, and 6.36 to 6.75 percent at May 28, 2000.

NOTE 8
LONG-TERM DEBT

The components of long-term debt are as follows:

	May 27, 2001	May 28, 2000
8.375% senior notes due September 2005	**$150,000**	$
6.375% notes due February 2006	**150,000**	150,000
7.45% medium-term notes due April 2011	**75,000**	
7.125% debentures due February 2016	**100,000**	100,000
ESOP loan with variable rate of interest (4.45% at May 27, 2001) due December 2018	**44,455**	52,600
Other	**2,647**	5,160
Total long-term debt	**522,102**	307,760
Less issuance discount	**(1,528)**	(1,174)
Total long-term debt, less issuance discount	**520,574**	306,586
Less current portion	**(2,647)**	(2,513)
Long-term debt, excluding current portion	**$517,927**	$304,073

In July 2000, the Company registered $500,000 of debt securities with the Securities and Exchange Commission (SEC) using a shelf registration process. Under this process, the Company may offer, from time to time, up to $500,000 of debt securities. In September 2000, the Company issued $150,000 of unsecured 8.375 percent senior notes due in September 2005. The senior notes rank equally with all of the Company's other unsecured and unsubordinated debt and are senior in right of payment to all of the Company's future subordinated debt.

In November 2000, Darden filed a prospectus supplement with the SEC to offer up to $350,000 of medium-term notes from time to time as part of the shelf registration process referred to above. In April 2001, under this program, the Company issued $75,000 of unsecured 7.45 percent medium-term notes due in April 2011.

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 credit facility which expires in October 2004 with a consortium of banks under which the Company can borrow up to $300,000. The credit facility 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 credit facility is available to support the Company's commercial paper borrowing program, if necessary. The Company is required to pay a facility fee of 15 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 debt ratings and financial ratios, such as maximum debt-to-capital ratios. Advances under the credit facility are unsecured. At May 27, 2001, and May 28, 2000, no borrowings were outstanding under this credit facility.

The aggregate maturities of long-term debt for each of the five years subsequent to May 27, 2001, and thereafter are $2,647 in 2002, $0 in 2003 through 2005, $300,000 in 2006, and $219,455 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, 6.375 percent notes and 20-year, 7.125 percent 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 27, 2001		May 28, 2000	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents	**$ 61,814**	**$ 61,814**	$ 26,102	$ 26,102
Short-term debt	**12,000**	**12,000**	115,000	115,000
Total long-term debt	**520,574**	**513,392**	306,586	284,835

NOTE 10
STOCKHOLDERS' EQUITY

The Company's Board of Directors has approved a stock repurchase program that authorizes the Company to repurchase up to 64.6 million shares of the Company's common stock. In 2001, 2000, and 1999, the Company purchased treasury stock totaling $176,511, $202,105, and $227,510, respectively. As of May 27, 2001, 52.5 million shares have been purchased under the program.

As a part of its stock repurchase program, the Company issues equity put options from time to time that entitle the holder to sell shares of the Company's common stock to the Company, at a specified price, if the holder exercises the option. In 2000, the Company issued put options for 1,750,000 shares for $1,814 in premiums. At May 28, 2000, put options for 250,000 shares were outstanding. No put options were issued in 2001 or outstanding at May 27, 2001.

NOTE 11
STOCKHOLDERS' RIGHTS PLAN

The Company has a stockholders' rights plan that entitles each holder of the Company's 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

The components of interest, net, are as follows:

		Fiscal Year	
	2001	2000	1999
Interest expense	**$35,196**	$24,999	$21,015
Capitalized interest	**(3,671)**	(1,910)	(593)
Interest income	**(861)**	(701)	(882)
Interest, net	**$30,664**	$22,388	$19,540

Capitalized interest was computed using the Company's borrowing rate. The Company paid $24,281, $19,834, and $16,356 for interest (net of amounts capitalized) in 2001, 2000, and 1999, respectively.

NOTE 13
LEASES

An analysis of rent expense incurred under operating leases is as follows:

		Fiscal Year	
	2001	2000	1999
Restaurant minimum rent	**$40,007**	$38,818	$38,866
Restaurant percentage rent	**3,163**	2,183	1,853
Restaurant equipment minimum rent	**8,388**	8,267	8,511
Restaurant rent averaging expense	**(510)**	(473)	13
Transportation equipment	**2,320**	1,946	1,856
Office equipment	**1,323**	1,090	1,012
Office space	**1,020**	597	505
Warehouse space	**227**	227	215
Total rent expense	**$55,938**	$52,655	$52,831

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 noncancelable future lease commitments for each of the five years subsequent to May 27, 2001, and thereafter are $51,787 in 2002, $45,890 in 2003, $34,233 in 2004, $28,746 in 2005, $23,074 in 2006, and $69,817 thereafter, for a cumulative total of $253,547.

NOTE 14
RETIREMENT PLANS

Substantially all of the Company's employees are eligible to participate in a retirement plan. The Company's salaried employees are eligible to participate in a post-retirement benefit plan.

DEFINED BENEFIT PLANS AND POST-RETIREMENT BENEFIT PLAN

The Company sponsors defined benefit pension plans for salaried employees with various benefit formulas and a group of hourly employees with a frozen level of benefits. The Company also sponsors a contributory plan that provides health care benefits to its salaried retirees.

The following provides a reconciliation of the changes in the plan benefit obligation, fair value of plan assets, and the funded status of the plans as of February 28, 2001, and February 29, 2000:

	Defined Benefit Plans (1)		Post-Retirement Benefit Plan	
	2001	2000	**2001**	2000
Change in Benefit Obligation:				
Benefit obligation at the beginning of period	**$ 82,634**	$ 83,205	**$ 5,663**	$ 5,718
Service cost	**3,488**	3,091	**246**	260
Interest cost	**6,450**	5,683	**448**	396
Participant contributions			**96**	89
Benefits paid	**(3,765)**	(4,204)	**(159)**	(206)
Actuarial (gain) loss	**8,532**	(5,141)	**445**	(594)
Benefit obligation at the end of period	**$ 97,339**	$ 82,634	**$ 6,739**	$ 5,663
Change in Plan Assets:				
Fair value of plan assets at the beginning of period	**$115,872**	$102,550	**$**	$
Actual return on plan assets	**7,894**	17,495		
Employer contributions	**41**	31	**63**	117
Participant contributions			**96**	89
Benefits paid	**(3,765)**	(4,204)	**(159)**	(206)
Fair value of plan assets at the end of period	**$120,042**	$115,872	**$**	$
Reconciliation of Funded Status of the Plan:				
Funded status at end of year	**$ 22,703**	$ 33,238	**$(6,739)**	$(5,663)
Unrecognized transition asset	**(642)**	(1,284)		
Unrecognized prior service cost	**(1,849)**	(2,305)	**65**	83
Unrecognized actuarial (gain) loss	**22,857**	10,843	**(371)**	(835)
Contributions for March to May	**10**	10	**28**	38
Prepaid (accrued) benefit costs	**$ 43,079**	$ 40,502	**$(7,017)**	$(6,377)
Components of the Consolidated Balance Sheets:				
Prepaid benefit costs	**$ 45,624**	$ 42,893	**$**	$
Accrued benefit costs	**(2,545)**	(2,391)	**(7,017)**	(6,377)
Net asset (liability) recognized	**$ 43,079**	$ 40,502	**$(7,017)**	$(6,377)

(1) For plans with accumulated benefit obligations in excess of plan assets, the accumulated benefit obligation and plan assets were $2,781 and zero, respectively, as of February 28, 2001, and $2,460 and zero, respectively, as of February 29, 2000.

The following presents the weighted-average assumptions used to determine the actuarial present value of the defined benefit plans and the post-retirement benefit plan obligations:

	Defined Benefit Plans		Post-Retirement Benefit Plan	
	2001	2000	**2001**	2000
Discount rate	**7.5%**	8.0%	**7.5%**	8.0%
Expected long-term rate of return on plan assets	**10.4%**	10.4%	**N/A**	N/A
Rate of future compensation increases	**4.0%**	4.5%	**N/A**	N/A

The assumed health care cost trend rate increase in the per-capita charges for benefits ranged from 6.0 percent to 4.7 percent for 2002, depending on the medical service category. The rates gradually decrease to a range of 5.5 percent to 4.6 percent through 2006 and 2004, respectively, and remain at that level thereafter.

The assumed health care cost trend rate has a significant effect on amounts reported for retiree health care plans. A one-percentage-point variance 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 $146 and $111, respectively, and would increase or decrease the accumulated post-retirement benefit obligation by $1,298 and $1,036, respectively.

Components of net periodic benefit cost (income) are as follows:

	Defined Benefit Plans			Post-Retirement Benefit Plan		
	2001	2000	1999	**2001**	2000	1999
Service cost	**$ 3,488**	$ 3,091	$ 3,251	**$246**	$260	$267
Interest cost	**6,255**	5,509	5,243	**447**	396	408
Expected return on plan assets	**(11,589)**	(10,652)	(10,247)			
Amortization of unrecognized transition asset	**(642)**	(642)	(642)			
Amortization of unrecognized prior service cost	**(456)**	(456)	(456)	**18**	18	18
Recognized net actuarial loss (gain)	**213**	1,405	1,088	**(18)**		
Net periodic benefit cost (income)	**$ (2,731)**	$ (1,745)	$ (1,763)	**$693**	$674	$693

DEFINED CONTRIBUTION PLAN

The Company has a defined contribution plan covering most employees age 21 and older. The Company matches participant contributions with at least one year of service up to six percent of compensation on the basis of the Company's performance with the match ranging from a minimum of $0.25 up to $1.00 for each dollar contributed by the participant. The plan had net assets of $363,610 at May 27, 2001, and $264,127 at May 28, 2000. Expense recognized in 2001, 2000, and 1999 was $3,358, $3,729, and $5,054, 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 $53,763 and $44,150 as of May 27, 2001, and May 28, 2000, 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 2001, 2000, and 1999, the ESOP incurred interest expense of $3,086, $3,436, and $3,203, respectively, and used dividends received of $415, $941, and $647, respectively, and contributions received from the Company of $9,224, $9,385, and $4,368, 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 per share. At May 27, 2001, the ESOP's debt to the Company had a balance of $44,455 with a variable rate of interest of 4.45 percent; $27,555 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 27, 2001, approximates 9,810,000, representing 6,740,000 unreleased shares and 3,070,000 shares allocated to participants.

NOTE 15
STOCK PLANS

The Company maintains three principal stock option and stock grant plans: the Amended and Restated Stock Option and Long-Term Incentive Plan of 1995 (1995 Plan); the Restaurant Management and Employee Stock Plan of 2000 (2000 Plan); and the Stock Plan for Directors, adopted in 2000 (Director Plan). All of the plans are administered by the Compensation Committee of the Board of Directors. The 1995 Plan provides for the issuance of up to 22,200,000 common shares in connection with the granting of non-qualified stock options, and restricted stock or restricted stock units (RSUs), to key employees. Restricted stock and RSUs may be granted under the plan for up to 1,500,000 shares. The 2000 Plan provides for the issuance of up to 3,600,000 common shares out of the Company's treasury in connection with the granting of non-qualified stock options and restricted stock or RSUs to key employees, excluding directors and Section 16 reporting officers. Restricted stock and RSUs may be granted under the plan for up to five percent of the shares authorized under the plan. The Director Plan provides for the issuance of up to 250,000 common shares out of the Company's treasury in connection with the granting of non-qualified stock options and restricted stock and RSUs to non-employee directors. Under all of the plans, stock options are granted at a price equal to the fair market value of the shares at the date of grant, for terms not exceeding ten years, and have various vesting periods at the discretion of the Compensation Committee. Restricted stock and RSUs granted under the 1995 and the 2000 Plans generally vest no sooner than one year from the date of grant, although the restricted period may be accelerated based on performance goals established by the Committee.

The Company also maintains the Compensation Plan for Non-Employee Directors that was adopted in 2000. This plan provides that non-employee directors may elect to receive their annual retainer and meeting fees in any combination of cash, deferred cash, or Company common shares, and authorizes the issuance of up to 50,000 common shares out of the Company's treasury for this purpose. The common shares issuable under the plan shall have a fair market value equivalent to the value of the foregone retainer and meeting fees.

The per share weighted average fair value of stock options granted during 2001, 2000, and 1999 was $17.54, $6.47, and $10.21, respectively. These amounts were determined using the Black-Scholes option pricing model which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, expected dividend payments, and the risk-free interest rate over the expected life of the option. The dividend yield was calculated by dividing the current annualized dividend by the option price for each grant. The expected volatility was determined considering stock prices for the fiscal year the grant occurred and prior fiscal years, as well as considering industry volatility data. The risk-free interest rate was the rate available on zero coupon U.S. government obligations 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 weighted-average assumptions used in the Black-Scholes model were as follows:

	Stock Options Granted in Fiscal Year		
	2001	2000	1999
Risk-free interest rate	**7.00%**	6.50%	5.60%
Expected volatility of stock	**30.0%**	30.0%	30.0%
Dividend yield	**0.1%**	0.1%	0.1%
Expected option life	**6.0 years**	6.0 years	6.0 years

The Company applies APB 25 in accounting for its stock option plans and, accordingly, no compensation cost has been recognized in the Company's consolidated 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 as prescribed under SFAS 123, the Company's net earnings and net earnings per share would have been reduced to the pro forma amounts indicated below:

	Fiscal Year		
	2001	2000	1999
Net earnings			
As reported	**$197,000**	$176,705	$140,538
Pro forma	**$184,542**	$168,171	$134,527
Basic net earnings per share			
As reported	**$ 1.64**	$ 1.38	$ 1.02
Pro forma	**$ 1.54**	$ 1.31	$ 0.98
Diluted net earnings per share			
As reported	**$ 1.59**	$ 1.34	$ 0.99
Pro forma	**$ 1.49**	$ 1.27	$ 0.95

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

Stock option activity during the periods indicated was as follows:

	Options Exercisable	Weighted Average Exercise Price Per Share	Options Outstanding	Weighted Average Exercise Price Per Share
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
Options granted			3,727,496	$ 20.91
Options exercised			(1,152,922)	$ 9.18
Options cancelled			(505,618)	$ 13.07
Balance at May 28, 2000	6,712,259	$ 10.68	17,568,507	$ 13.47
Options granted			3,583,818	$ 16.48
Options exercised			(3,113,400)	$ 10.50
Options cancelled			(617,400)	$ 16.23
Balance at May 27, 2001	**8,148,226**	**$ 11.43**	**17,421,525**	**$ 14.52**

The following table provides information regarding exercisable and outstanding options as of May 27, 2001:

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	2,256,397	$ 9.40	3,064,520	$ 9.29	4.76
$10.01 - $15.00	4,970,681	$11.29	5,083,099	$11.31	3.63
$15.01 - $20.00	847,806	$16.75	6,712,503	$16.48	8.32
Over $20.00	73,342	$21.34	2,561,403	$22.03	8.13
	8,148,226	$11.43	17,421,525	$14.52	6.30

NOTE 16
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 2001, 2000, and 1999, employees purchased shares of common stock under the plan totaling 219,000, 243,000, and 55,000, respectively. An additional 883,000 shares are available for issuance as of May 27, 2001.

The Company applies APB 25 in accounting for its Employee Stock Purchase Plan, so 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 accordance with the fair value method specified in SFAS 123 is less than $200 and has no impact on reported basic or diluted net earnings per share.

NOTE 17
COMMITMENTS AND CONTINGENCIES

The Company makes trade commitments in the course of its normal operations. As of May 27, 2001, the Company was contingently liable for approximately $10,889 under outstanding letters of credit issued in connection with purchase commitments. As of May 27, 2001, the Company also has guaranteed approximately $6,922 of third-party sub-lease obligations.

The Company is involved in litigation arising from the normal course of business. In the opinion of management, this litigation is not expected to materially impact the Company's consolidated financial position, results of operations, or cash flows.

NOTE 18
QUARTERLY DATA (UNAUDITED)

Summarized quarterly data for 2001 and 2000 are as follows:

	Fiscal 2001 – Quarters Ended				
	Aug. 27	**Nov. 26**	**Feb. 25**	**May 27**	**Total**
Sales	**$1,018,205**	**$931,958**	**$988,635**	**$1,082,359**	**$4,021,157**
Gross Profit	**229,093**	**194,832**	**219,566**	**242,940**	**886,431**
Earnings before Interest and Taxes	**94,112**	**53,088**	**84,019**	**100,663**	**331,882**
Earnings before Taxes	**87,838**	**45,311**	**75,491**	**92,578**	**301,218**
Net Earnings	**56,921**	**29,541**	**49,527**	**61,011**	**197,000**
Net Earnings per Share:					
Basic	**0.47**	**0.25**	**0.41**	**0.52**	**1.64**
Diluted	**0.46**	**0.24**	**0.40**	**0.50**	**1.59**
Dividends Paid per Share		**0.04**		**0.04**	**0.08**
Stock Price:					
High	**18.875**	**26.250**	**27.000**	**29.490**	**N/A**
Low	**15.438**	**16.625**	**19.000**	**20.660**	**N/A**

	Fiscal 2000 – Quarters Ended				
	Aug. 29	Nov. 28	Feb. 27	May 28	Total
Sales	$929,391	$848,231	$917,505	$1,006,129	$3,701,256
Gross Profit	203,381	169,282	203,353	224,543	800,559
Earnings before Interest and Taxes	77,803	43,230	79,361	95,901	296,295
Earnings before Taxes	73,227	37,965	72,715	90,000	273,907
Net Earnings	47,313	24,454	46,892	58,046	176,705
Net Earnings per Share:					
Basic	0.36	0.19	0.37	0.47	1.38
Diluted	0.35	0.18	0.36	0.46	1.34
Dividends Paid per Share		0.04		0.04	0.08
Stock Price:					
High	23.063	20.625	19.000	19.438	N/A
Low	17.625	15.625	13.500	12.438	N/A

Five Year Financial Summary

(Dollar amounts in thousands, except per share data)

	Fiscal Year Ended				
Operating Results	**May 27, 2001**	May 28, 2000	May 30, 1999	May 31, 1998	May 25, 1997
Sales	**$ 4,021,157**	$ 3,701,256	$ 3,458,107	$ 3,287,017	$ 3,171,810
Costs and Expenses:					
Cost of Sales:					
Food and beverage	**1,302,926**	1,199,709	1,133,705	1,083,629	1,077,316
Restaurant labor	**1,261,837**	1,181,156	1,117,401	1,062,490	1,017,315
Restaurant expenses	**569,963**	519,832	493,811	482,311	481,348
Total Cost of Sales	**$ 3,134,726**	$ 2,900,697	$ 2,744,917	$ 2,628,430	$ 2,575,979
Restaurant Operating Profit	**886,431**	800,559	713,190	658,587	595,831
Selling, general, and administrative	**407,685**	379,731	360,909	358,542	361,263
Depreciation and amortization	**146,864**	130,464	125,327	126,289	136,876
Interest, net	**30,664**	22,388	19,540	20,084	22,291
Restructuring and asset impairment expense or (credit), net		(5,931)	(8,461)		229,887
Total Costs and Expenses	**$ 3,719,939**	$ 3,427,349	$ 3,242,232	$ 3,133,345	$ 3,326,296
Earnings (loss) before income taxes	**301,218**	273,907	215,875	153,672	(154,486)
Income taxes	**104,218**	97,202	75,337	51,958	(63,457)
Net Earnings (Loss)	**$ 197,000**	$ 176,705	$ 140,538	$ 101,714	$ (91,029)
Net Earnings (Loss) per Share:					
Basic	**$ 1.64**	$ 1.38	$ 1.02	$ 0.69	$ (0.59)
Diluted	**$ 1.59**	$ 1.34	$ 0.99	$ 0.67	$ (0.59)
Average Number of Common Shares Outstanding, Net of Shares Held in Treasury (in 000's):					
Basic	**119,800**	128,500	137,300	148,300	155,600
Diluted	**123,800**	131,900	141,400	151,400	155,600
Excluding Restructuring and Asset Impairment Expense or (Credit), Net					
Earnings	**$ 197,000**	$ 173,082	$ 135,313	$ 101,714	$ 54,330
Earnings per share:					
Basic	**$ 1.64**	$ 1.35	$ 0.99	$ 0.69	$ 0.35
Diluted	**$ 1.59**	$ 1.31	$ 0.96	$ 0.67	$ 0.35
Financial Position					
Total assets	**$ 2,218,458**	$ 1,971,423	$ 1,890,247	$ 1,984,742	$ 1,963,722
Land, buildings, and equipment	**1,779,515**	1,578,541	1,461,535	1,490,348	1,533,272
Working capital (deficit)	**(226,116)**	(316,427)	(194,478)	(161,123)	(143,211)
Long-term debt	**520,574**	306,586	316,451	310,608	313,192
Stockholders' equity	**1,035,242**	960,470	964,036	1,019,845	1,081,213
Stockholders' equity per share	**8.82**	7.86	7.30	7.23	7.07
Other Statistics					
Cash flow from operations	**$ 420,570**	$ 342,626	$ 357,942	$ 239,933	$ 190,074
Capital expenditures	**355,139**	268,946	123,673	112,168	159,688
Dividends paid	**9,458**	10,134	10,857	11,681	12,385
Dividends paid per share	**0.08**	0.08	0.08	0.08	0.08
Advertising expense	**$ 196,314**	$ 182,220	$ 180,563	$ 186,261	$ 204,321
Number of employees	**128,900**	122,300	116,700	114,800	114,600
Number of restaurants	**1,168**	1,139	1,139	1,151	1,182
Stock price:					
High	**$ 29.490**	$ 23.063	$ 23.375	$ 18.125	$ 12.125
Low	**15.438**	12.438	14.188	8.125	6.750
Close	**28.900**	18.875	21.313	15.438	8.250

DARDEN RESTAURANTS

2001

Corporate Responsibility

Creating vibrant, thriving communities requires a team effort, with private citizens, civic and charitable organizations and businesses working together to resolve all the complex social challenges we face today.

At Darden Restaurants Inc., we consider our role in these efforts a business imperative, and as much a part of who we are as a company as our focus on providing guests with extraordinary dining experiences. It is an essential ingredient in achieving our goal of being the best casual dining restaurant company, now and for generations.

The communities in which we operate represent much more to us than restaurant locations. We live and work in these communities and raise our families there. We're neighbors who take an active part in community life and a hands-on approach to making our communities better places in which to live.

Through corporate and restaurant donations, the Darden Restaurants Foundation, and the Darden Environmental Trust, we contributed more than $8 million to community-based organizations and programs in fiscal 2001, focusing on four key areas: 1) social services and nutrition, 2) environmental and natural resources, 3) education, and 4) arts and culture. We're particularly interested in supporting programs that foster diversity and inclusiveness in our communities.

These investments in a better quality of life are an extension of our employees' volunteer efforts. Many of the organizations and projects we support benefit from an effective combination of financial and hands-on involvement.

This strong sense of corporate responsibility is part of the legacy of our late founder, Bill Darden, and it's a heritage we're proud to continue today, as represented by some key projects we supported in fiscal 2001:

INVESTING IN COMMUNITY

SHARE OUR STRENGTH

One of the nation's leading anti-hunger, anti-poverty organizations, Share Our Strength, partners with the foodservice industry to organize events, host dinners, teach cooking and nutrition classes to low-income families, and serve as anti-hunger advocates. Every year the organization holds "Taste of the Nation" fundraisers in more than 70 cities across the United States and Canada, where chefs and restaurants host food and wine tastings, dinners, brunches, and barbecues. Every penny raised through ticket sales goes to support the fight against hunger. Darden is proud to be an annual participant in the Central Florida "Taste of the Nation," helping contribute to the nearly $5 million the events raised in 2001.

Top and Above: **Darden and each of our restaurant companies, like this Red Lobster team, are annual participants in the Central Florida "Taste of the Nation," which raises money to fight hunger through Share Our Strength, a leading anti-hunger, anti-poverty organization.**

The annual golf and tennis tournaments organized by Women Playing for T.I.M.E. and supported by Darden through volunteer involvement and corporate donations help raise awareness about and fund the fight against breast cancer, including $500,000 to help establish a breast diagnostic center at Orlando's M.D. Anderson Cancer Center.

CELEBRATING DIVERSITY

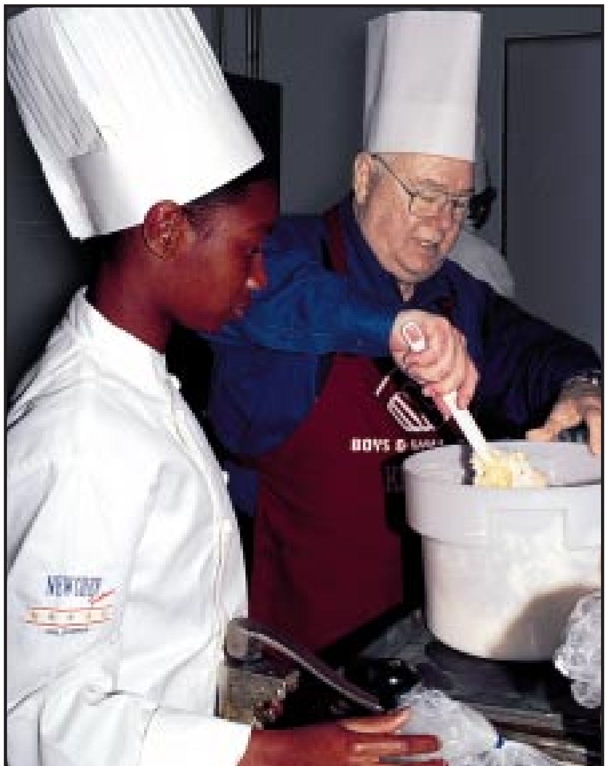
NATIONAL CONFERENCE FOR COMMUNITY AND JUSTICE (NCCJ)

Fiscal 2001 was the third year of a three-year, $250,000 commitment to this terrific organization. Darden was once again the national sponsor of the NCCJ's "Walk As One" walk-a-thon for diversity, a series of fundraisers held around the country to benefit programs that promote racial harmony, understanding, and justice. We were the national founding sponsor of the event in 1999, and it's been extremely gratifying to watch it grow every year. Tens-of-thousands of young people will participate in this year's walk-a-thon in 25 major cities across the nation.

WOMEN PLAYING FOR T.I.M.E.

The fight against breast cancer takes **T**echnology, **I**mmediate diagnosis, **M**ammography and **E**ducation. An Orlando, FL-based organization called Women Playing for T.I.M.E. is committed to promoting these "weapons" against the disease by raising funds and awareness, and volunteers from Darden's Restaurant Support Center and our restaurants are on the "front lines" with it. In addition to hands-on support, we've also provided thousands of dollars through employee-based fundraisers and corporate donations, adding to the more than $3 million Women Playing for T.I.M.E. has raised through its annual golf and tennis events. Among other things, the money has helped establish a state-of-the-art breast diagnostic center at the M.D. Anderson Cancer Center in Orlando.

Above: Darden volunteers all over the United States participate in annual "Walk As One" walk-a-thons, like this one in Central Florida. Darden is the founding national sponsor of these annual events held in major metropolitan areas throughout the U.S. to raise money for programs that promote racial harmony, understanding, and justice. *Top:* Orlando Mayor Glenda Hood (left) and Darden CEO Joe Lee (right) cut the ribbon to start the 2000 Central Florida "Walk As One."



Darden CEO Joe Lee works with one of the participants in the culinary training program at the Boys & Girls Club of Central Florida. Sponsored by Darden, the unique program teaches at-risk kids the culinary arts in a state-of-the-art kitchen made possible by Darden donations.

SUPPORTING KIDS

BOYS & GIRLS CLUBS

Recognizing that the youth of our communities are the future of our communities, Darden has made a major commitment to supporting Boys & Girls Clubs. This national program's mission is to inspire and help young people, especially those from disadvantaged backgrounds, realize their full potential as productive, responsible and caring citizens. In addition to hands-on volunteer support, we funded a new, fully equipped commercial kitchen at the Southwest Boys & Girls Club campus in Orlando. The Club uses the kitchen to prepare and serve meals to about 120 children four nights a week through the nationally recognized "Kids Café" program.

In addition, Darden is partnering with Boys & Girls Club of Central Florida on a culinary training program for teens. The program gives at-risk kids the opportunity to learn culinary arts in the state-of-the-art Darden Kitchen at the Southwest Club, then graduates can participate in summer internships at *Red Lobster* restaurants.

PROTECTING THE ENVIRONMENT

UNIVERSITY OF SOUTHERN MISSISSIPPI
INSTITUTE OF MARINE SCIENCES

With the Earth's population expected to grow to more than 8 billion by 2010, finding a balance between the need to feed people *and* preserve nature has never been more important. We created the Darden Environmental Trust to support efforts to protect and preserve the environment and develop sustainable resources to meet the needs of a growing world population.

One such effort is the work of the University of Southern Mississippi's Institute of Marine Sciences. A grant from the Darden Restaurants Foundation is helping fund the Institute's efforts to develop sustainable supplies of tripletail, cobia, and wahoo – three commercially important finfish species. Students and scientists at the Institute's Gulf Coast Research Lab are studying the species to determine their viability as farm-raised fish through aquaculture.

Researchers at the Gulf Coast Research Lab, run by the University of Southern Mississippi's Institute of Marine Sciences, measure a yearling tripletail – one of three finfish species the Institute is studying to determine their commercial viability as farm-raised fish. A Darden Restaurants Foundation grant is helping fund the project.

The goal is not only to build a sustainable, profitable supply of these species, but also to reduce reliance on wild stocks and one day even help replenish the populations of these species in the wild. If it proves to be biologically and commercially viable, the project could also lead to building tripletail, cobia, and wahoo aquaculture farms in underdeveloped countries, creating new job opportunities and an improved quality of life there.

BOARD OF DIRECTORS

Back row, standing
(left to right)

Connie Mack, III
Senior Policy Advisor, Shaw, Pittman, Potts & Trowbridge, a law firm, and former U.S. Senator

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

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

Jack A. Smith
Retired Chairman of the Board, The Sports Authority, Inc., a national sporting goods chain

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

Rita P. Wilson
Retired President, Allstate Indemnity Company, a subsidiary of Allstate Insurance Company

Hector de J. Ruiz, Ph.D.
President, Chief Operating Officer, Advanced Micro Devices, a semiconductor manufacturer

Front row, seated
(left to right)

Maria A. Sastre
Vice President, Total Guest Satisfaction Services, Royal Caribbean International, a unit of Royal Caribbean Cruises, Ltd., a global cruise line company

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

Julius Erving, II
Vice President, RDV Sports and Executive Vice President, Orlando Magic, an NBA basketball team

Daniel B. Burke
President Emeritus and Director, Capital Cities/ABC, Inc., which operates the ABC Television Network

Odie C. Donald
Consultant to and former President of DIRECTV, Inc., a satellite television service

Michael D. Rose
Chairman Gaylord Entertainment Company, a diversified entertainment company

CORPORATE OFFICERS

Back row, standing
(left to right)

Robert W. Mock
President, Smokey Bones

Richard J. Walsh
Senior Vice President, Corporate Relations

Daniel M. Lyons
Senior Vice President, Human Resources

Linda J. Dimopoulos
Senior Vice President, Chief Information Officer

Gary L. Heckel
President, Bahama Breeze

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

Front row, seated
(left to right)

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

Stephen E. Helsel
Senior Vice President, Corporate Controller

Laurie Burns
Senior Vice President, Development

Clarence Otis, Jr.
Senior Vice President, Chief Financial Officer

Shareholder Information DARDEN RESTAURANTS

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Stock Transfers
Shareholder Services

Independent Auditors

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Phone: (407) 423-3426

Form 10-K Report

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Shareholder Reports/Investor Inquiries

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Markets

New York Stock Exchange
Stock Exchange Symbol: DRI

Web Site Addresses

www.darden.com
www.redlobster.com
www.olivegarden.com
tuscany.olivegarden.com
www.bahamabreeze.com
www.smokeybones.com

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Red Lobster

Olive Garden
ITALIAN RESTAURANT

Bahama Breeze

Smokey Bones BBQ
Sports Bar

DARDEN
RESTAURANTS

Darden Restaurants, Inc.
5900 Lake Ellenor Drive
Orlando, FL 32809
(407) 245-4000
www.darden.com

INDUSTRY OVERVIEW

Casual dining sales totaled $47 billion in 2000, or 18 percent of the $268 billion restaurant industry in the United States. Darden is the leading casual dining provider, with a market share of nearly 8.5 percent, almost twice as large as its closest competitor. The casual dining industry is supported by a number of compelling fundamentals and trends, including:

An Expanding Market
Casual dining sales are projected to grow between six and eight percent on a compound annual basis over the next decade. This compares favorably to other segments of the restaurant industry. For example, the mid-scale and fine dining segments are projected to grow less than three percent, and quick service is projected to grow between five and six percent.

Favorable Demographics
During the next decade, the number of casual diners is expected to grow significantly, as baby boomers enter their peak dining years of ages 45 to 65. The number of people in their fifties will increase 39 percent, while the number of people in their sixties will grow 31 percent.

Lifestyle Patterns
Casual dining is positioned to benefit from the continued increase in the number of women in the labor force, which boosts family incomes and reduces the time available for cooking. Busy lifestyles, regardless of family composition, are also driving casual dining demand. Consumers spend less time at home and have less free time, placing a premium on service, convenience, and an atmosphere that enhances social interaction, all of which casual dining offers.

Economic Resilience
Historically, the casual dining segment has weathered economic downturns remarkably well. During economic slowdowns, casual dining restaurants offer the most affluent diners an alternative to high-end restaurants. At the same time, value-conscious consumers continue to view casual dining as an affordable option for leisure dollars. In fact, sales continued to grow during the 1990-91 recession, and casual dining sales have been relatively strong during the slowdown that started in the second half of calendar 2000.

DARDEN
RESTAURANTS

BUSINESS DESCRIPTION

Darden Restaurants, Inc. is the largest publicly traded casual dining company in the world, serving almost 300,000,000 meals a year at 1,168 restaurants in 49 states across the United States and in Canada. The Company, which operates four distinct restaurant concepts, has annual sales of more than $4 billion. The flagship brands, *Red Lobster*® and *Olive Garden,*® are the market share leaders in their segments of casual dining, making Darden the only company in the industry to operate more than one restaurant concept with sales exceeding $1.7 billion. *Bahama Breeze*® and *Smokey Bones*® *BBQ Sports Bar* are Darden's two newest concepts, and both were developed internally. Darden employs more than 128,000 individuals and is headquartered in Orlando, Florida. The Company trades on the New York Stock Exchange under the symbol "DRI."

Founded in 1968, *Red Lobster* is America's most successful casual dining seafood restaurant company. It has led this segment of the industry since its inception by continually evolving with the casual dining consumer, and now boasts 14 consecutive quarters of positive same-restaurant sales results and record profits.

Red Lobster

Richard E. Rivera *President*

Number of Restaurants	661
Total Sales	$2.20 Billion
Average Restaurant Sales	$3.4 Million
Market Share of Casual Dining Seafood	46%
FY01 Same-Restaurant Sales Growth	+5.9%

Olive Garden is a family of local restaurants that is the leader in the highly competitive Italian segment of casual dining. As a result of its successful repositioning to remain relevant to today's consumer, the 19-year-old company has posted 27 quarters of consecutive same-restaurant sales growth and record profits.

Bradley D. Blum *President*

Number of Restaurants	477
Total Sales	$1.71 Billion
Average Restaurant Sales	$3.6 Million
Market Share of Casual Dining Italian	35%
FY01 Same-Restaurant Sales Growth	+7.2%

In six years of operation, *Bahama Breeze* has built an exciting brand based on its promise of a two-hour island vacation experience, with quality Caribbean cuisine, hand-crafted drinks, live music, and a relaxed atmosphere.

Gary L. Heckel *President*

Number of Restaurants	21

Darden's newest concept, *Smokey Bones BBQ Sports Bar*, was introduced in September 1999. Having completed a second successful test phase, the restaurant will begin national expansion in fiscal 2002. *Smokey Bones BBQ Sports Bar* mixes mountain lodge comfort with great tasting barbecue and exciting sports action.

Robert W. Mock *President*

Number of Restaurants	9

Shareholder Information DARDEN RESTAURANTS

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