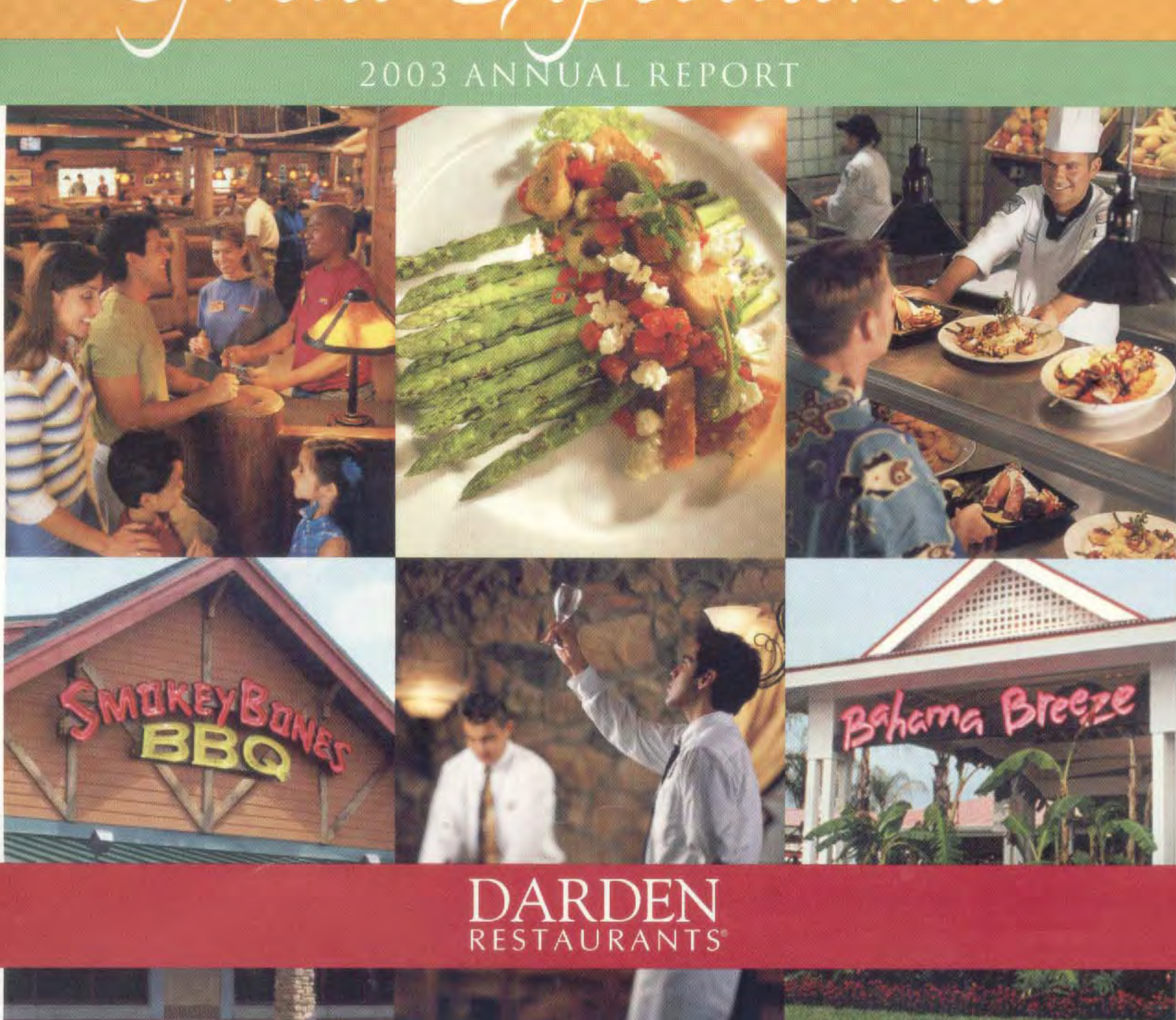
Great Expectations

2003 ANNUAL REPORT



DARDEN
RESTAURANTS®

Business Description

Darden Restaurants, Inc. is the largest publicly traded casual dining company in the world, serving more than 300 million meals a year at 1,271 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 $4.6 billion. The flagship brands, Red Lobster® and Olive Garden®, are the market share leaders in their casual dining segments, making Darden the only company in the industry to operate two restaurant companies each near or above $2 billion in sales. Bahama Breeze® and Smokey Bones® BBQ are Darden's emerging concepts, and Seasons 52SM is a new upscale casual test restaurant, all developed internally. Darden employs more than 140,000 individuals and is based in Orlando, Florida. The Company trades on the New York Stock Exchange under the symbol DRI.

2003 Financial Highlights

Darden Restaurants Fiscal Year Ended (In millions, except per share amounts)	May 25, 2003	May 26, 2002	May 27, 2001
Sales	$ 4,655.0	$ 4,366.9	$ 3,992.4
Net Earnings	$ 232.3	$ 237.8	$ 197.0
Net Earnings per Share:			
Basic	$ 1.36	$ 1.36	$ 1.10
Diluted	$ 1.31	$ 1.30	$ 1.06
Dividends Paid per Share	$ 0.080	$ 0.053	$ 0.053
Average Shares Outstanding:			
Basic	170.3	174.7	179.6
Diluted	177.4	183.5	185.6

Operating Company Overviews

Red Lobster

Founded in 1968, *Red Lobster* is the market share leader in the seafood segment of casual dining. It has led this segment of the industry since its inception by continually evolving with the casual dining consumer, achieving 22 consecutive quarters of year-over-year same-restaurant sales increases.

Edna Morris
Senior Vice President and President, Red Lobster

Number of Restaurants	**673**
Total Sales	**$2.43 Billion**
Average Restaurant Sales	**$3.7 Million**
Market Share of Casual Dining Seafood	**49%**
FY03 U.S. Same-Restaurant Sales Growth	**2.7%**

Olive Garden

Olive Garden is a family of local restaurants and the market share 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 more than 20-year-old company has posted record profits and 35 consecutive quarters of year-over-year same-restaurant sales growth.

Drew Madsen
Senior Vice President and President, Olive Garden

Number of Restaurants	**524**
Total Sales	**$1.99 Billion**
Average Restaurant Sales	**$3.9 Million**
Market Share of Casual Dining Italian	**31%**
FY03 U.S. Same-Restaurant Sales Growth	**2.2%**

Bahama Breeze

Bahama Breeze has built an exciting brand based on its promise of a refreshing island escape, featuring welcoming hospitality, innovative cuisine, and a tropical atmosphere.

Laurie B. Burns
Senior Vice President and President, Bahama Breeze

Number of Restaurants	**34**
Total Sales	**$138 Million**

Smokey Bones

Smokey Bones BBQ, which began its national expansion in fiscal 2002, mixes award-winning barbecue with mountain lodge comfort, warm friendly service, and features sports viewing and other televised entertainment.

Clarence Otis, Jr.
Executive Vice President and President, Smokey Bones

Number of Restaurants	**39**
Total Sales	**$93 Million**

New Business Development

Darden's innovative New Business Development team created and launched *Olive Garden, Bahama Breeze* and *Smokey Bones BBQ.* In February 2003, the team opened *Seasons 52,* a new test restaurant offering guests a casually sophisticated fresh grill and wine bar with seasonally inspired, nutritionally balanced menus and an extensive international wine list.

Blaine Sweatt, III
Executive Vice President and President, New Business Development

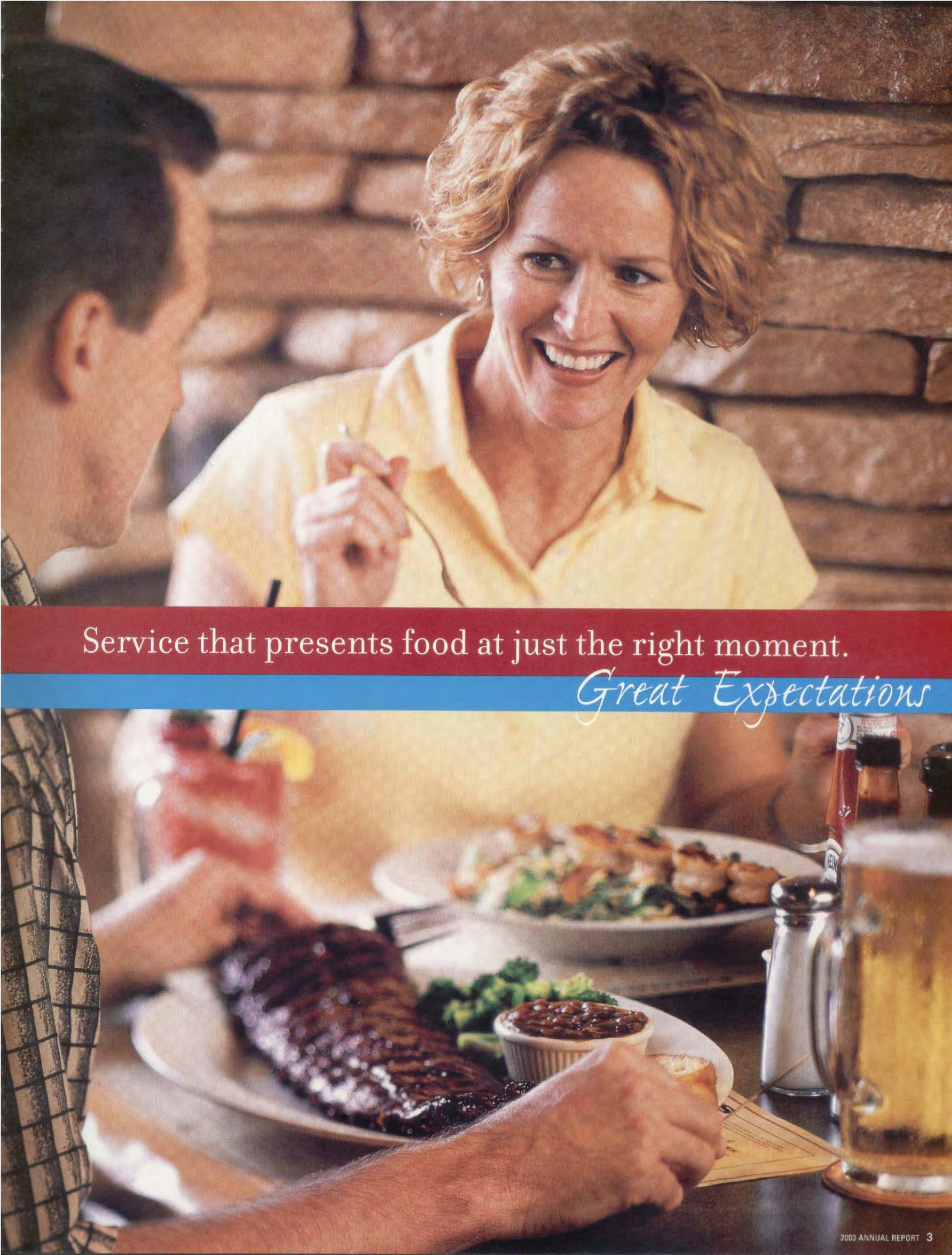
Great Expectations

Every time guests walk through our doors,
we aspire to greatness...

DARDEN
RESTAURANTS®

Ambiance that makes it more than just a night out.

Great Expectations

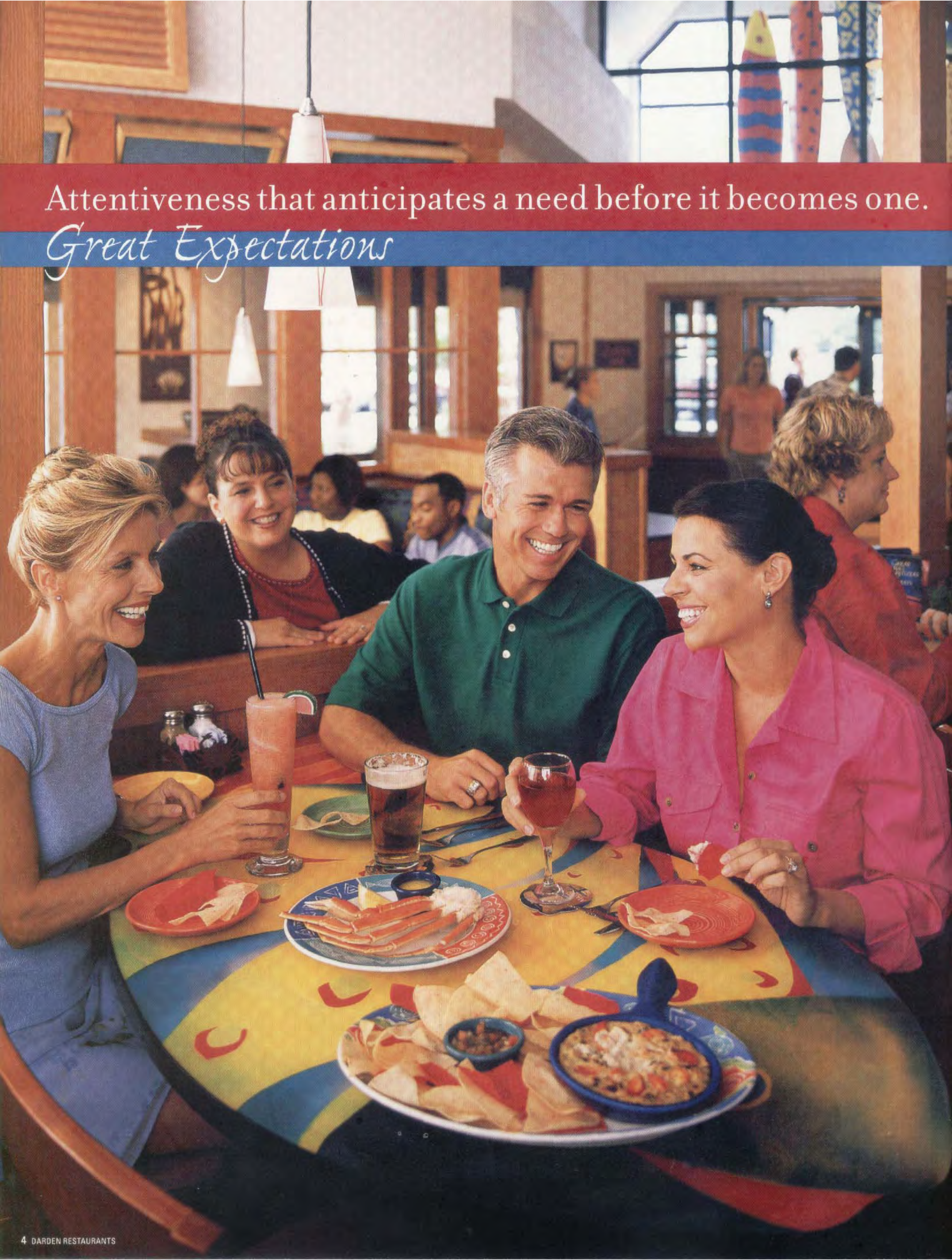


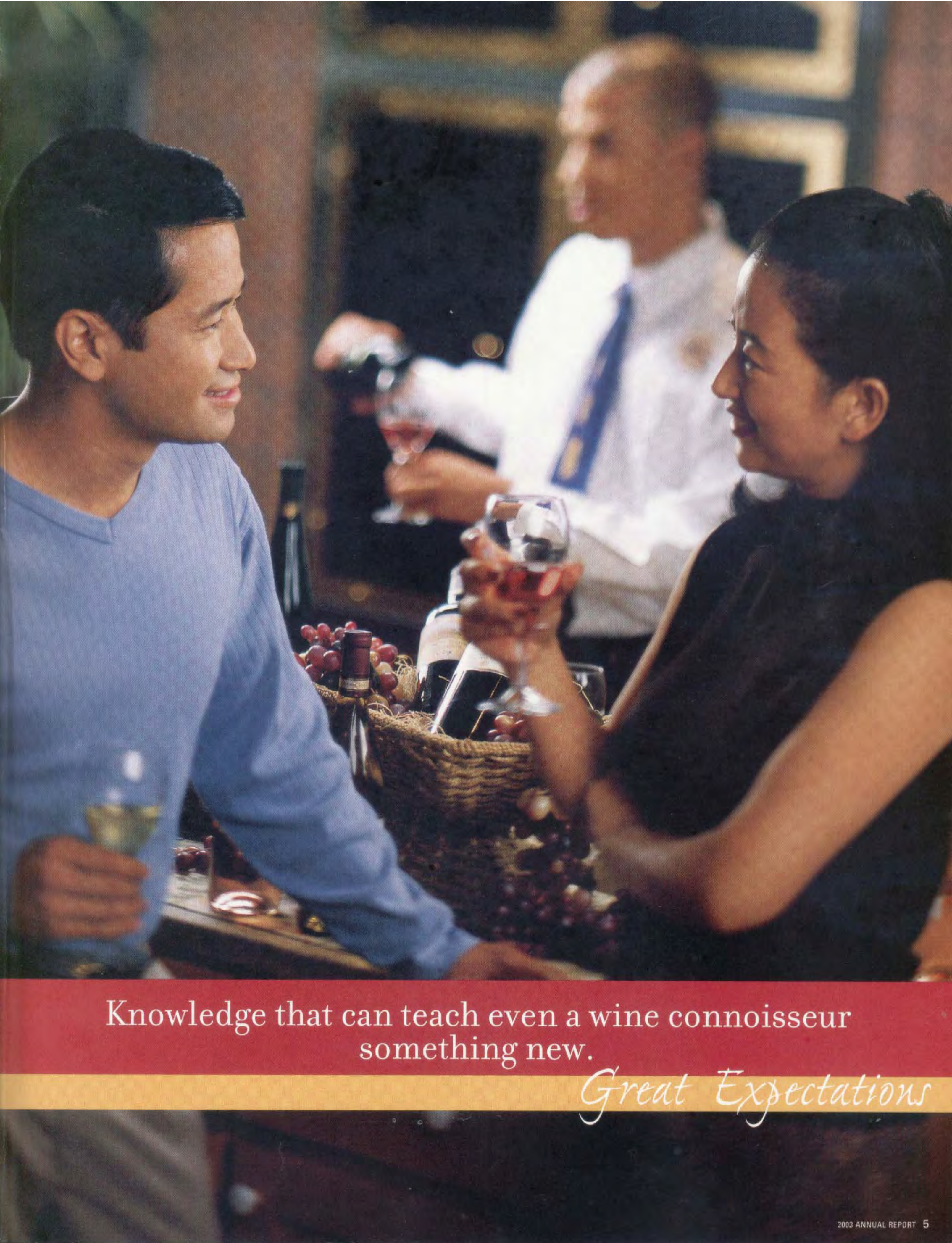
Service that presents food at just the right moment.

Great Expectations

Attentiveness that anticipates a need before it becomes one.

Great Expectations



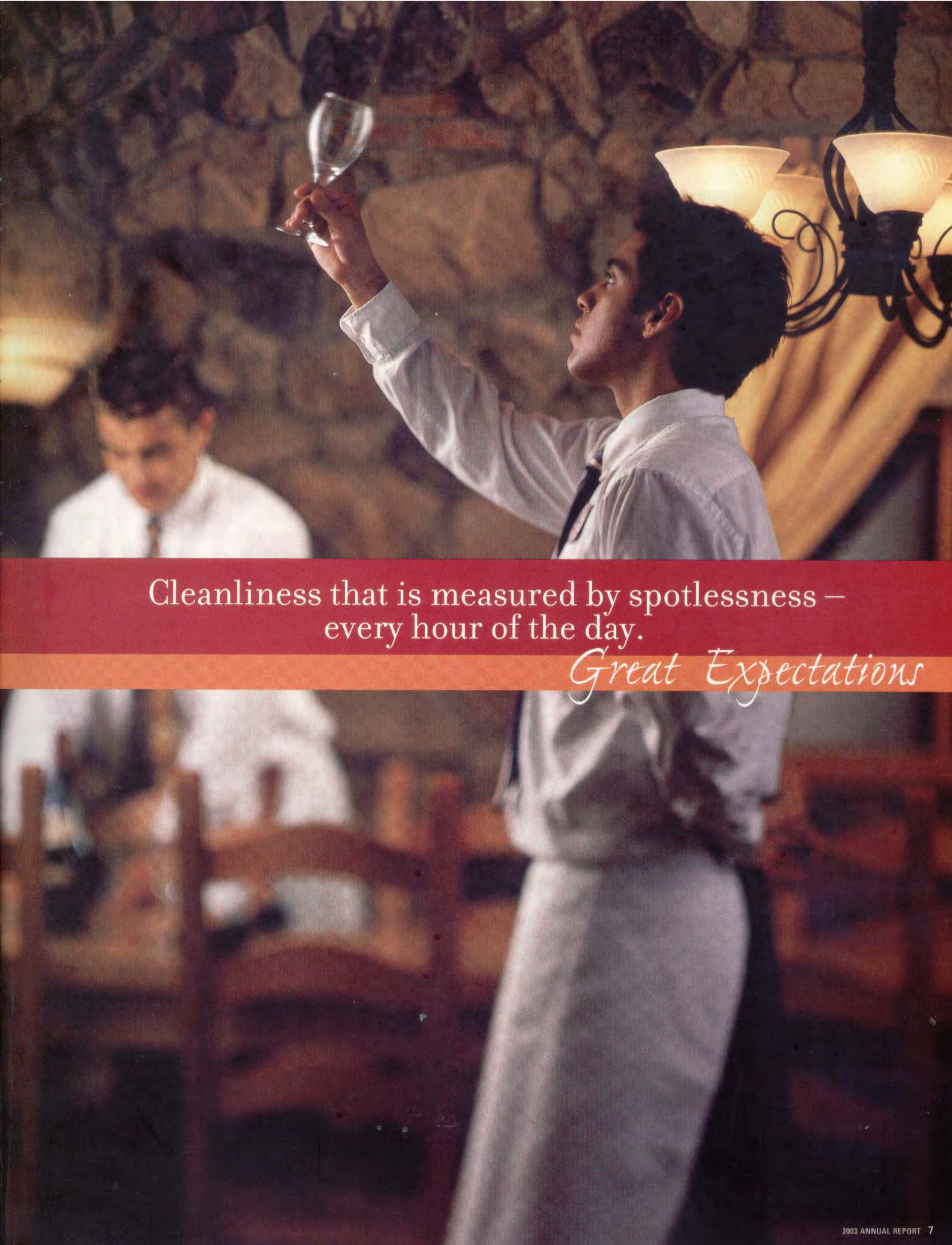


Knowledge that can teach even a wine connoisseur something new.

Great Expectations

Friendliness that's on a first-name basis whenever you come in.

Great Expectations


Cleanliness that is measured by spotlessness –
every hour of the day.
Great Expectations

Letter To Our Shareholders, Employees and Guests

Great Expectations

Joe R. Lee
Chairman and Chief Executive Officer

To Our Shareholders, Employees and Guests,

In fiscal 2003 we faced many challenges, including a difficult business environment, management transition within our organization and the difficulty of trying to surpass exceptional prior-year results. Though we made progress in several key areas, we were disappointed with our overall results and are focused on regaining our strong, positive momentum.

Our fiscal 2003 results were not consistent with our long-term objective – and track record – of providing industry-leading shareholder value. Still, the Company was able to deliver financial improvement in a number of areas.

- Sales increased 6.6% to $4.65 billion due primarily to continued same-restaurant sales growth at *Red Lobster* and *Olive Garden* and accelerated new restaurant growth across the Company.

- Although fiscal 2003 net earnings of $232.3 million were a 2% decrease from prior year, diluted net earnings per share increased to $1.31 in fiscal 2003 compared with $1.30 in fiscal 2002. Since becoming a public company in fiscal 1996, we have delivered 15% compound annual growth in diluted net earnings per share.

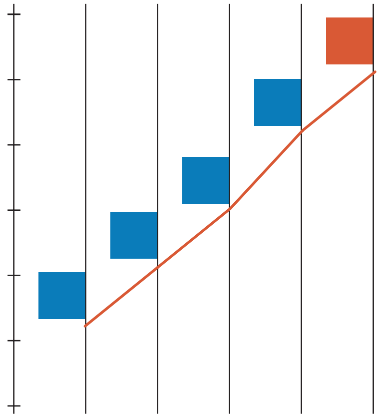
- *Red Lobster's* total sales were a record $2.43 billion, a 4.1% increase from prior year, and average sales per restaurant reached a record $3.7 million. U.S. same-restaurant sales growth for the year was 2.7%, and *Red Lobster* ended the year with 22 consecutive quarters of comparable restaurant sales growth. *Red Lobster* also built 11 new restaurants in fiscal 2003.

- *Olive Garden's* total sales were a record $1.99 billion, up 6.8% from prior year, and average sales per restaurant were $3.9 million. U.S. same-restaurant sales growth for the year was 2.2%, and *Olive Garden* ended the year with 35 consecutive quarters of comparable restaurant sales growth. In addition, *Olive Garden* built 28 new restaurants in fiscal 2003.

- *Bahama Breeze* continued to receive acclaim from both guests and restaurant critics for the quality of its dining experience. The company opened five restaurants in fiscal 2003, bringing the total number of restaurants in operation to 34. Sales continued to soften from the prior year's levels, although *Bahama Breeze's* sales remain at the high end of the casual dining industry – averaging over $4 million per restaurant as a dinner-only business.

Overall Company sales increased 6.6% to $4.65 billion.

SALES (in billions)



- *Smokey Bones BBQ* more than doubled in size for the third consecutive year, adding 20 new restaurants to last year's base of 19. *Smokey Bones* offers slow-smoked barbecue and a variety of other grilled favorites, served in a lively yet comfortable mountain lodge atmosphere that features sports viewing and other televised entertainment. This unique combination continued to drive sales that averaged more than $3 million per restaurant. Expansion will accelerate in fiscal 2004 as we seek to take advantage of this compelling opportunity.

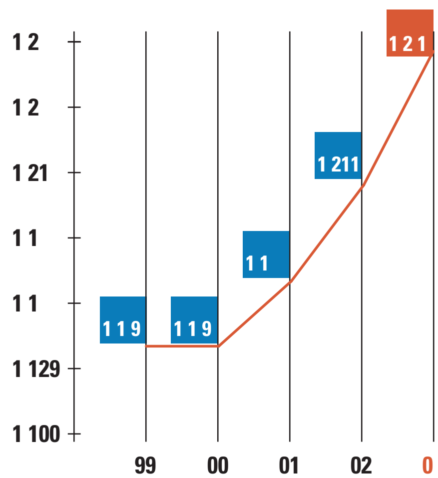
Smokey Bones more than doubled in size for the third consecutive year, adding 20 new restaurants.

- During fiscal 2003, Darden opened *Seasons 52*, a new test restaurant, in Orlando, Florida. *Seasons 52* is a casually sophisticated fresh grill and wine bar. It has seasonally inspired menus offering fresh ingredients to create great tasting, nutritionally balanced meals lower in calories than comparable restaurant meals. We are pleased with the restaurant's early results, but at this stage it remains a test and further research and experimentation continues.

- With our strong cash flow and balance sheet, we continued to aggressively buy back Darden's common stock. We repurchased 10.7 million shares in fiscal 2003, which represented more than $213 million in share repurchase. Since 1995, we have repurchased more than 98 million shares, or almost $1.3 billion of our common stock.

I believe we are once again on track to provide you, our shareholders, with strong, long-term value. We have a solid company, one that has an excellent blend of proven and emerging brands, as well as a balanced focus on operating excellence and effective brand building. We have a clearly defined core purpose that motivates us every day – *to nourish and delight everyone we serve*. And, we have a goal that is shared throughout the Company – we want to be the best in casual dining, now and for generations.

TOTAL NUMBER OF RESTAURANTS



We Are in the Right Industry at the Right Time

Our industry, casual dining, is large and continues to grow. In calendar 2002, sales in the casual dining industry increased 4.9%. This was below the industry's 10-year average growth rate of 8.1%. However, considering the adverse economic environment and other difficulties the industry faced, casual dining sales were resilient in 2002.

Industry experts forecast that over the next decade, annual growth in casual dining sales will average 5 percent to 7 percent. The key positive drivers have not changed; they remain growth in total employment, growth in real disposable income, an increasing number of women in the workforce and the aging of the population.

These growth drivers, combined with changing lifestyles that place a premium on the time-saving and social reconnection benefits of dining out, give us great confidence that we are in the right segment of the restaurant industry at the right time. In addition, the balance between supply and demand in casual dining remains favorable, as it has for the past several years. Growth in consumer demand, as measured by increased guest traffic, continues to outpace growth in the number of casual dining restaurants, and this has benefited the segment as a whole by contributing to a rise in average unit traffic and sales.

Great Expectations

We Have a Solid Foundation

Our business is built on a strong foundation, starting with our compelling core purpose: to nourish and delight everyone we serve. Last year, we highlighted Darden's core values, which have been forged over the 65-year heritage started by our late founder, Bill Darden. We value:

- Integrity and fairness
- Respect and caring
- Diversity
- Always learning / always teaching
- Being "of service"
- Teamwork
- Excellence

We have a compelling core purpose: to nourish and delight everyone we serve.

These values serve as a constant reminder of who we are as a company and help guide us in everything we do. In this time of increasing scrutiny of corporate governance and greater regulatory oversight, we believe it's more important than ever to be a company with strong core values and values-based leadership.

Our Strategic Framework Is Sound and Working

Our strategic framework has been in place for nearly five years and has helped us build a strong track record of success. The framework consists of three strategic imperatives: leadership development, service and hospitality excellence and culinary and beverage excellence. There are also three strategic enablers we believe can help us accelerate progress in each of the strategic imperatives: brand management excellence, diversity competency and technology-driven process improvement.

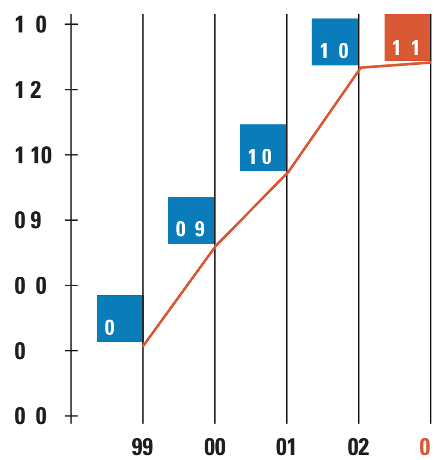
Brand management excellence is key to achieving ongoing success in the casual dining industry. Strong expertise in this area is the key to better understanding our guests, our brands and our industry, and to developing future operating practices, menu offerings and marketing methodologies and initiatives that will propel our business throughout the next decade.

Diversity excellence also continues to be a key area of focus at Darden. In fiscal 2003, we completed diversity training throughout the Company for all directors, which followed officer level initiatives in prior years. In fiscal 2004, we will begin building diversity skills at the general manager level as we continue building this strategic enabler and core value into a competitive advantage. An indication of our progress are the great strides *Red Lobster* and *Olive Garden* have made in developing effective marketing strategies for African-American and Hispanic/Latino consumers. And American industry is taking note. *Fortune* magazine recognized Darden as one of the "50 Best Companies for Minorities" for the third year in a row, and *Diversity, Inc.* magazine has named us one of the "Top 50 Companies for Diversity" for each of the two years it has tracked companies.

Technology solutions can help us better leverage our infrastructure and evolve our restaurant support and in-restaurant processes so they are more effective and less costly. To better manage and prioritize the many technology-driven process improvement opportunities before us, in fiscal 2003 we established three cross-company process councils focused on human resources, culinary and beverage excellence and facilities care. Their task is to examine our businesses, looking to consolidate and streamline, eliminate duplication of effort and resources and effectively leverage our size and scale. We expect increased collaboration among all our businesses and functional disciplines, leading to better outcomes for Darden.

We are as committed as ever to our strategic imperatives and key enablers, with an unrelenting focus on being brilliant with the basics in everything we do.

DILUTED NET EARNINGS PER SHARE



We Have Focused Priorities for Fiscal 2004

It is important for us to rebuild sales and traffic growth and affirm Darden's historical leadership position in the casual dining industry. With this aim, our priorities for fiscal 2004 are to:

- Rebuild sales and profit growth momentum at *Red Lobster*.
- Continue to grow sales and earnings at *Olive Garden*.
- Prepare *Bahama Breeze* for future growth.
- Sustain excellence at *Smokey Bones* and expand aggressively.
- Continue our test of *Seasons 52* and research new concepts.
- Use process improvement as a platform to balance cost management with investment spending.

These priorities are straightforward, yet challenging. I know we have the necessary tools and talented teams to achieve each of them.

We Are Well Positioned for Growth

Darden has a unique combination of strengths that positions us well for future growth. First and foremost, as Bill Darden used to say, our greatest competitive edge is our employees – the more than 140,000 people in our Company who are committed to nourishing and delighting everyone we serve. We are also the only company in casual dining with two top-tier restaurant businesses that each generate about $2 billion in sales. And we complement them with two exciting emerging companies, each of which we believe is capable of achieving future sales of $500 million or more.

We are proud to serve more than 300 million meals a year, which gives us one of the largest – and still growing – consumer bases in casual dining. That base, along with our considerable leadership and financial resources, provides us with an excellent platform for growing our Company and achieving our driving ambition to be the best in casual dining, now and for generations.

Joe R. Lee
Chairman and Chief Executive Officer

Core Purpose and Core Values

CORE PURPOSE:
To nourish and delight everyone we serve.

CORE VALUES:
Integrity and fairness. It all starts with integrity. We trust in the integrity and fairness of each other to always do the right thing, to be open, honest and forthright with ourselves and others, to demonstrate courage, to solve without blame and to follow through on all our commitments.

Respect and caring. We reach out with respect and caring. We have a genuine interest in the well being of others. We know the importance of listening, the power of understanding and the immeasurable value of support.

Diversity. Even though we have a common vision, we embrace and celebrate our individual differences. We are strengthened by a diversity of cultures, perspectives, attitudes, and ideas. We honor each other's heritage and uniqueness. Our power of diversity makes a world of difference.

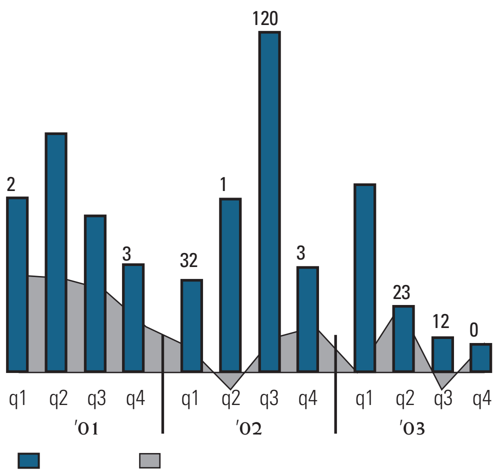
Always learning/always teaching. We learn from others as they learn from us. We learn. We teach. We grow.

Being "of service." Being of service is our pleasure. We treat people as special and appreciated by giving of ourselves, doing more than expected, anticipating needs, and making a difference.

Teamwork. Teamwork works. By trusting one another, we bring together the best in all of us and go beyond the boundaries of ordinary success.

Excellence. We have a passion to set and pursue, with innovation, courage and humility, ever higher standards.

Great Expectations



RED LOBSTER U.S. SAME-RESTAURANT SALES GROWTH vs. CASUAL DINING AVERAGE
(as a percentage)

Red Lobster

It's a good time to be a casual dining seafood restaurant. Seafood is the number-one choice among casual dining customers, especially aging baby boomers. Fish and shellfish are growing in popularity with increasingly health-conscious consumers, and casual dining sales have climbed to $59 billion – an all time high. These positive dynamics bode well for *Red Lobster*, the nation's leader in casual dining seafood with a 49 percent market share.

Red Lobster's sales performance during fiscal 2003 certainly confirmed these dynamics. For the 22nd consecutive quarter, we posted comparable U.S. restaurant sales growth. Total sales for the year reached a record high of $2.43 billion, up 4.1 percent from last year, while average annual sales per restaurant were $3.7 million, also a record. We opened 11 new restaurants during the year, growing *Red Lobster* to 673 restaurants in North America that serve more than 140 million guests each year.

To continue achieving the highest levels of operational excellence *and* continue to grow, we must consistently and continually bring our vision to life: *Red Lobster* is every community's favorite seafood restaurant ... Dedicated to delighting each guest and ... Making the flavors and feelings of the seaside available to everyone. To achieve this vision, we continue to focus on:

- Refreshing the décor of our restaurants with our award-winning Coastal Home design. Our renovated restaurants deliver an up-to-date atmosphere that captures the feelings of the seaside and that our guests love.
- Leading our crew members to achieve extraordinary levels of commitment and performance. Our strong training and selection systems are the foundations that have resulted in turnover rates that are among the lowest in casual dining.
- Demonstrating food and beverage excellence through ongoing menu innovations, to bring terrific new flavors to our guests, along with our well-loved favorites.
- Delivering service and hospitality excellence with service processes and styles that delight every guest by meeting their needs and providing unexpected pleasures. The overall result has been greater guest satisfaction, as evidenced by improved Guest Satisfaction Survey ratings.
- Communicating and living Share the Love™, our powerful message to consumers that captures the opportunity to enjoy the food they love with people they love at *Red Lobster*, while being cared for as treasured friends.

Red Lobster began delighting guests with the flavors and feelings of the seaside 35 years ago, when our first restaurant opened. Our commitment to evolving the *Red Lobster* brand to sustain and grow our appeal to casual dining consumers is the foundation of our ongoing success. Our recipe for excellence is simply this: a committed and capable crew, delivering our brand to every guest, combined with diligent management of our business model to deliver quality earnings, now and for generations to come.

Operating Highlights

Olive Garden

Olive Garden observed its 20th anniversary by posting an industry-leading 35th consecutive quarter of same-restaurant sales growth, delighting 2.8 million guests a week in 524 restaurants throughout North America. Indeed, it was a record-setting year for the industry leader in casual Italian dining. Sales reached a new high of $1.99 billion, up 6.8 percent year-over-year, while average annual sales per restaurant were $3.9 million.

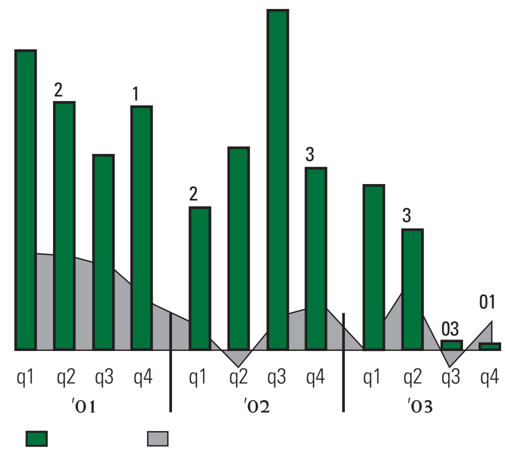
Record financial performance reflects being brilliant with the basics in all areas, including: compelling marketing that communicates "when you're here, you're family;" well-planned restaurant growth, featuring 28 new restaurants in fiscal 2004 built in our warm and inviting Tuscan Farmhouse design; culinary and beverage excellence, exemplified by several new entrées – many of them originating in our Culinary Institute in Tuscany – and several new wines added to one of the best wine lists in casual dining. In particular, *Olive Garden's* fiscal 2004 performance reflects a record level of service and hospitality excellence.

By every one of our measures, we achieved "best ever" results. Our average quality assurance score, based on internal audits, rose from 94.5 percent to 95.2 percent, demonstrating a commitment to operating the safest and cleanest restaurants in the industry. Similarly, nine out of 10 guest satisfaction measures achieved new "best ever" levels. And, fourth quarter industry surveys ranked *Olive Garden* as one of the top two casual dining brands in every category – food, service, atmosphere and value. Great guest experiences suggest a seasoned and experienced staff – a fact supported by management and team member turnover rates, which are among the lowest in the industry.

The essence of the *Olive Garden* brand is our passion to delight guests with a genuine Italian dining experience featuring fresh, simple, delicious Italian food, complemented by a great glass of wine in a comfortable home-like Italian setting, where you're welcomed by people who treat you like family. This passion is translated in every restaurant through a variety of programs, including:

- *Olive Garden* managers train in Italy at the Company's own Culinary Institute and Riserva di Fizzano restaurant in Tuscany.
- In the true spirit of Italian hospitality, we focus on service behaviors such as positive language, giving guests a feeling of having "a friend on the inside," and anticipating guest needs.
- Ongoing management and team training, which has increased five-fold in the last six years, reinforces the elements of a genuine Italian dining experience and Hospitaliano – our passion for 100 percent guest delight. All of which emphasizes the keys to great service like attentiveness, pace of meal and ensuring guests are always welcomed and valued as family and friends.

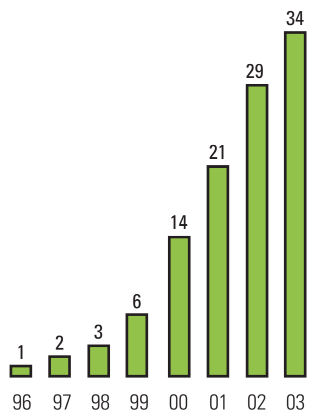
In a competitive market environment, *Olive Garden*'s most important service and hospitality attribute is a continual commitment to innovation and a relentless focus on high levels of service. The goal – to always have guests end their visit looking forward to their next visit. It's a strategy that's been working for two decades and one that keeps same-restaurant sales consistently growing.



OLIVE GARDEN U.S. SAME-RESTAURANT SALES GROWTH vs. CASUAL DINING AVERAGE

(as a percentage)

Great Expectations



NUMBER OF RESTAURANTS
(by fiscal year)

Bahama Breeze

This year has been a period of fine-tuning for *Bahama Breeze*, our Caribbean-inspired restaurant in its seventh year of operation. Operating in the upper end of the casual dining segment, *Bahama Breeze* had a challenging fiscal 2003 due to continued economic weakness. Despite these tough conditions, we opened five new restaurants and generated sales of $138 million.

With the promise of a refreshing island escape for guests, *Bahama Breeze* is keenly focused on service and hospitality. Fresh, made-from-scratch Caribbean-inspired cuisine, hand-crafted drinks, incredible service, and a relaxing island atmosphere combine to differentiate *Bahama Breeze* from casual dining competitors. Targeted operational improvements implemented during the year are enhancing this experience.

We introduced Five STAR service for all guests in February, which focuses the server on tailoring the dining experience to each guest's pace, wants and needs. Our goal is to make every guest feel welcome and cared for with personalized service. The program produced immediate results, with performance levels on service assessments increasing 11 percentage points within a month.

We also focused on improving the wait experience at *Bahama Breeze*, by implementing Seamless Seating across the Company. This initiative focuses on welcoming and hospitality, consistently quoting accurate wait times, and seating tables faster, especially during peak hours. Here, too, we saw immediate results, with a nine-point rise in service assessments on the wait and quote time accuracy. The program also has led to improved table management skills and a generally more welcome and hospitable experience for guests waiting to be seated. New strategies are also helping us accommodate large parties of 10 or more guests more smoothly.

In the past year we have worked, in particular, on efforts to strengthen and increase the diversity of *Bahama Breeze* management teams. These efforts have been rewarded with a significant reduction in management turnover, overall improvement in our managers' quality of life and a strong rise in the number of minorities and females in management.

Since its inception, *Bahama Breeze's* marketing has primarily been word of mouth. During fiscal 2003, we conducted extensive consumer research. Looking ahead to fiscal 2004 and beyond, we will focus on this research as we accelerate our brand-building efforts, including using integrated local marketing and public relations to further establish the *Bahama Breeze* brand. Armed with new insights, improved operations and a more finely tuned business plan, we are more enthusiastic than ever about providing a refreshing island escape – featuring welcoming hospitality, innovative cuisine and a tropical atmosphere – to more guests than ever before.

Operating Highlights

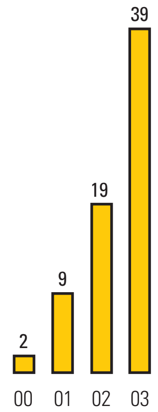
Smokey Bones BBQ

The combination of a barbecue-based menu and a lively, comfortable mountain lodge setting continues to be a winning concept as Darden rolls out our newest concept, *Smokey Bones BBQ.* During fiscal 2003, *Smokey Bones* doubled its restaurant base from 19 to 39 locations in the Northeast, Midwest and Southeast. In only its fourth year of operations, this business generated $93 million in sales and posted strong restaurant-level performance.

Smokey Bones' financial results in fiscal 2003 reflect high levels of customer satisfaction as indicated by a number of measurement tools introduced this year. The Fan Survey is the restaurants' guest satisfaction "shopper" program, and the company has set a minimum score of 90 percent for the survey. In fiscal 2003, restaurants open at least a year averaged 93 percent each quarter, with all restaurants meeting or exceeding the 90 percent minimum every quarter. Additionally, *Smokey Bones* introduced the Guest Satisfaction Survey already used widely by other Darden concepts. *Smokey Bones*' initial results ranked very favorably compared to Darden's established *Red Lobster* and *Olive Garden* brands. Quality assurance audit scores reached a high of 94 percent, with many new guests commenting on the cleanliness of *Smokey Bones* locations compared to other restaurants in the barbecue category.

This positive service and hospitality feedback is especially significant given the challenges of aggressively opening new restaurants. Training, in particular, is a top priority. *Smokey Bones* has introduced interactive electronic training modules, online training and print-on-demand features for training materials. Our base of certified trainers and managers also has increased to support restaurant openings. Restaurants in four different geographic regions have been certified to train new managers. *Smokey Bones* also is working diligently to reduce teammate and management turnover – a common challenge for any new restaurant.

Looking forward, *Smokey Bones* is well positioned to meet our goal of opening 25 to 30 restaurants in fiscal 2004. We remain excited about *Smokey Bones'* potential growth into an operating company with at least $500 million in annual sales. Our enthusiasm is based on the differentiated concept – barbecue in a lively mountain lodge atmosphere, the market fragmentation of the barbecue category and the broad regional and demographic appeal of barbecue itself. Given the favorable financial and operating fundamentals of *Smokey Bones* restaurants, our level of enthusiasm is only growing.



NUMBER OF RESTAURANTS
(by fiscal year)

Great Expectations

New Business Opportunities

Concept. The word implies imagination and ideas. And that's certainly where our New Business team starts – brainstorming concepts that have the potential to grow into powerful casual dining brands. These ideas must satisfy a culinary need that can be packaged into a distinctive dining experience. This means not only recipe and menu development, but also the creation of a restaurant's "personality" – the ambiance, attitude and décor. New concepts also must endure exhaustive market research, competitive analyses and business model development. In short, it's not easy to "birth" a new concept, but it's a critical process to ensure sustained, long-term growth.

The New Business team's latest project is *Seasons 52* – a casually sophisticated fresh grill and wine bar, operating as a test restaurant in Orlando, Florida. *Seasons 52* has been designed as a vehicle to explore popular culinary trends such as grilled foods, fresher ingredients, bolder flavors and lighter preparations.

As its name suggests, the culinary foundation of *Seasons 52* is built around a changing weekly array of the freshest seasonal vegetables, fruits, fish and meats available – including items like Wild Caught Pacific King Salmon on fresh gourmet greens, Char-Crusted Pork Tenderloin with corn polenta, broccolini and cabernet jus, and Grilled Jumbo Sea Scallops with toasted pearl pasta and grilled fresh asparagus. Each week the menu features the best tasting, seasonally fresh products available in the market. As a result, these menu items don't rely on added fats and high-calorie sauces to enhance flavor. Similarly, there are no fryers at *Seasons 52*, but an assortment of natural cooking methods such as open fire oak and mesquite grilling and stone hearth roasting.

The atmosphere of *Seasons 52* reflects this casual but sophisticated approach to cuisine. The restaurant design features warm contemporary design and artwork, as well as a piano bar. An international wine list encompasses more than 100 different wines, 65 of them available by the glass.

Seasons 52 is positioned strategically to appeal to baby boomers who are looking for more sophisticated fare, while also being more mindful of the nutritional value of the food they consume. With pricing in line with other upper-end casual dining establishments, the restaurant is expected to have broad appeal.

The test restaurant is indicative of our goal to be the best casual dining company in the industry. By conducting a limited test of a new concept, Darden has the opportunity to discover potentially new and larger markets.

Financial Review 2003

Darden Restaurants

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

This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes found elsewhere in this report.

As of May 25, 2003, Darden Restaurants, Inc. operated 1,271 Red Lobster, Olive Garden, Bahama Breeze, Smokey Bones BBQ, and Seasons 52 restaurants in the United States and Canada and licensed 33 restaurants in Japan. We own and operate all of our restaurants in the U.S. and Canada, with no franchising. Our fiscal year ends on the last Sunday in May. Fiscal 2003, 2002, and 2001 each consisted of 52 weeks of operation.

On March 21, 2002, our Board of Directors declared a three-for-two split of our common stock. The stock split was accomplished through a 50 percent stock dividend, which was distributed on May 1, 2002 to stockholders of record as of the close of business on April 10, 2002. All applicable references in this discussion and analysis to number of shares and per share amounts of common stock have been adjusted to reflect the stock split.

Results of Operations for Fiscal 2003, 2002, and 2001

The following table sets forth selected operating data as a percentage of sales for the periods indicated. All information is derived from the consolidated statements of earnings for the periods indicated.

	Fiscal Years		
	2003	2002	2001
Sales	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of sales:			
Food and beverage	31.1	31.7	32.6
Restaurant labor	31.9	31.5	31.6
Restaurant expenses	15.1	14.3	14.0
Total cost of sales, excluding restaurant depreciation and amortization of 3.8%, 3.6%, and 3.5%, respectively	78.1%	77.5%	78.2%
Selling, general, and administrative	9.4	9.6	9.8
Depreciation and amortization	4.1	3.8	3.7
Interest, net	0.9	0.9	0.8
Restructuring credit	–	(0.1)	–
Total costs and expenses	92.5%	91.7%	92.5%
Earnings before income taxes	7.5	8.3	7.5
Income taxes	2.5	2.9	2.6
Net earnings	5.0%	5.4%	4.9%

Sales

Sales were $4.65 billion in fiscal 2003, $4.37 billion in fiscal 2002, and $3.99 billion in fiscal 2001.

The 6.6 percent increase in sales for fiscal 2003 was primarily due to same-restaurant sales increases in the U.S. and a net increase of 60 company-owned restaurants since fiscal 2002. Total sales, although higher than the previous year, were less than anticipated due to lower than expected guest counts for fiscal 2003. Guest count growth was restrained by a competitive environment that was more challenging than expected, less effective advertising than in fiscal 2002, and a more severe winter than normal. Red Lobster sales of $2.43 billion were 4.1 percent above last year. U.S. same-restaurant sales for Red Lobster increased 2.7 percent due to a 3.1 percent increase in average check and a 0.4 percent decrease in guest counts. Average annual sales per restaurant for Red Lobster were $3.7 million in fiscal 2003. Olive Garden sales of $1.99 billion were 6.8 percent above last year. U.S. same-restaurant sales for Olive Garden increased 2.2 percent due to a 3.7 percent increase in average check and a 1.5 percent decrease in guest counts. Average annual sales per restaurant for Olive Garden were $3.9 million in fiscal 2003. Red Lobster and Olive Garden have enjoyed 22 and 35 consecutive quarters of U.S. same-restaurant sales increases, respectively. Bahama Breeze generated sales that exceeded $137 million and opened five new restaurants during fiscal 2003. We continue to make changes to Bahama Breeze that we anticipate will improve its sales, financial performance, and overall long-term potential. These changes include testing lunch operations, creating a new dinner menu, and slowing new restaurant development while we reduce the size of these restaurants and our related capital investment. Smokey Bones opened 20 new restaurants during fiscal 2003, more than doubling the total number of Smokey Bones restaurants open at the end of fiscal 2002. Sales for Smokey Bones in fiscal 2003 were $93 million.

The 9.4 percent increase in sales for fiscal 2002 versus the prior year was primarily due to same-restaurant sales increases in the U.S. and a net increase of 43 company-owned restaurants since fiscal 2001. Red Lobster sales of $2.34 billion were 7.1 percent above fiscal 2001. U.S. same-restaurant sales for Red Lobster increased 6.2 percent due to a 2.8 percent increase in average check and a 3.4 percent increase in guest counts. Average annual sales per restaurant for Red Lobster were $3.5 million in fiscal 2002. Olive Garden sales of $1.86 billion were 9.5 percent above fiscal 2001. U.S. same-restaurant sales for Olive Garden increased 6.3 percent due to a 3.1 percent increase in average check and a 3.2 percent increase in guest counts. Average annual sales per restaurant for Olive Garden were $3.9 million in fiscal 2002. Bahama Breeze opened eight new restaurants during fiscal 2002 and generated sales of over $125 million. Smokey Bones opened ten new restaurants during fiscal 2002 and generated sales of over $42 million.

Costs and Expenses

Total costs and expenses were $4.31 billion in fiscal 2003, $4.00 billion in fiscal 2002, and $3.69 billion in fiscal 2001. Total costs and expenses in fiscal 2003 were 92.5 percent of sales, an increase from 91.7 percent of sales in fiscal 2002. The following analysis of the components of total costs and expenses is presented as a percent of sales.

Food and beverage costs as a percent of sales decreased in fiscal 2003 and fiscal 2002 primarily as a result of lower product cost, pricing changes, and changes in the mix of sales among our various restaurant companies. Restaurant labor increased in fiscal 2003 primarily as a result of a modest increase in wage rates, higher promotional staffing levels and increased sales volatility, which made it more difficult to predict staffing needs. These factors were only partially offset by the impact of higher sales. Restaurant labor decreased in fiscal 2002 primarily due to efficiencies resulting from higher sales.

Restaurant expenses (which include lease, property tax, credit card, utility, workers' compensation, insurance, new restaurant pre-opening, and other operating expenses) as a percent of sales increased in fiscal 2003 primarily due to increased insurance, new restaurant pre-opening, workers' compensation and utility costs. These cost increases were only partially offset by higher sales. Restaurant expenses in fiscal 2002 were higher than fiscal 2001 primarily due to increased workers' compensation, new restaurant pre-opening, credit card and other operating expenses, which were only partially offset by lower utility expenses and higher sales volumes.

Selling, general, and administrative expenses as a percent of sales decreased in fiscal 2003 primarily due to decreased bonus costs and the favorable impact of higher sales. These amounts were only partially offset by increased marketing expense incurred in response to the challenging economic and competitive environment. Selling, general, and administrative expenses in fiscal 2002 were less than fiscal 2001 primarily as a result of decreased national television marketing expenses and the favorable impact of higher sales in fiscal 2002. These amounts were partially offset by our fiscal 2002 donation to the restaurant industry's Dine Out for America benefit and higher fiscal 2002 donations to the Darden Restaurants, Inc. Foundation.

Depreciation and amortization expense increased in fiscal 2003 and 2002 primarily as a result of new restaurant and remodel activity, which were only partially offset by the favorable impact of higher sales.

Net interest expense in fiscal 2003 was comparable to fiscal 2002 primarily because increased interest expense associated with higher average debt levels in fiscal 2003 was offset by the favorable impact of higher fiscal 2003 sales. Net interest expense increased in fiscal 2002 primarily due to increased interest expense associated with higher average debt levels, which was only partially offset by the impact of higher fiscal 2002 sales.

Pre-tax restructuring credits of $0.4 million and $2.6 million were recorded in fiscal 2003 and 2002, respectively. The credits resulted from lower than projected costs of lease terminations in connection with our fiscal 1997 restructuring. No restructuring credit was recognized during fiscal 2001. All fiscal 1997 restructuring actions have been completed as of May 25, 2003.

Income Taxes

The effective income tax rates for fiscal 2003, 2002, and 2001 were 33.2 percent, 34.6 percent, and 34.6 percent, respectively. The rate decrease in fiscal 2003 was primarily a result of ongoing tax liability adjustments that were made as a result of information that became available in fiscal 2003 and lower fiscal 2003 pre-tax earnings. The comparability of fiscal 2002 and 2001 effective rates was primarily a result of increased tax expense associated with higher fiscal 2002 pre-tax earnings, which was offset by fiscal 2002 deductions that were not available in fiscal 2001.

Net Earnings and Net Earnings Per Share

Net earnings for fiscal 2003 were $232 million ($1.31 per diluted share) compared with net earnings for fiscal 2002 of $238 million ($1.30 per diluted share) and net earnings for fiscal 2001 of $197 million ($1.06 per diluted share).

Net earnings for fiscal 2003 decreased 2.3 percent and diluted net earnings per share increased 0.8 percent, compared to fiscal 2002. The decrease in net earnings was primarily due to increases in restaurant labor, restaurant expenses, and depreciation and amortization expenses, which were only partially offset by the impact of higher sales. The increase in diluted net earnings per share is due to a reduction in the average diluted shares outstanding from fiscal 2002 to fiscal 2003 because of our continuing repurchase of our common stock.

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

Net earnings and diluted net earnings per share for fiscal 2002 increased 20.7 percent and 22.6 percent, respectively, compared to fiscal 2001. The increase in both net earnings and diluted net earnings per share was primarily due to increases in sales at both Red Lobster and Olive Garden and decreases in food and beverage costs and restaurant labor as a percent of sales. Diluted net earnings per share also reflected a reduction in the average diluted shares outstanding due to our share repurchase activities.

Seasonality

Our sales volumes fluctuate seasonally. During fiscal 2003, 2002, and 2001, our sales were highest in the spring, lowest in the fall, and comparable during winter and summer. Holidays, severe weather, storms, and similar conditions may impact sales volumes seasonally in some operating regions. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

Impact of Inflation

We do not believe inflation had a significant overall effect on our operations during fiscal 2003, 2002, and 2001. We believe we have historically been able to pass on increased operating costs through menu price increases and other strategies.

Critical Accounting Policies

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period (see Note 1 to our consolidated financial statements). Actual results could differ from those estimates.

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

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost, less accumulated depreciation. Building components are depreciated over estimated useful lives ranging from seven to 40 years using the straight-line method. Leasehold improvements, which are a component of buildings, are amortized over the lesser of the lease term or the estimated useful lives of the related assets 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.

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

Impairment of Long-Lived Assets

Land, buildings, and equipment and certain other assets, including capitalized software costs and liquor licenses, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the assets. If these assets are determined 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. Fair value is generally determined based on appraisals or sales prices of comparable assets. Restaurant sites and certain other assets to be disposed of are reported at the lower of their carrying amount or fair value, less estimated costs to sell. Restaurant sites and certain other assets to be disposed of are included in assets held for disposal when certain criteria are met. These criteria include the requirement that the likelihood of disposing of these assets within one year is probable. Those assets whose disposal is not probable within one year remain in land, buildings, and equipment until their disposal is probable within one year.

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

The judgments we make related to the expected useful lives of long-lived assets and our ability to realize undiscounted cash flows in excess of the carrying amounts of these assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in economic conditions, and changes in usage or operating performance. As we assess the ongoing expected cash flows and carrying amounts of our long-lived assets, significant adverse changes in these factors could cause us to realize a material impairment charge.

Self-Insurance Reserves

We self-insure a significant portion of expected losses under our workers' compensation, employee medical, and general liability programs. Accrued liabilities have been recorded based on our estimates of the ultimate costs to settle incurred claims, both reported and not yet reported.

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

Income Taxes

We estimate certain components of our provision for income taxes. These estimates include, among other items, effective rates for state and local income taxes, allowable tax credits for items such as taxes paid on reported tip income, estimates related to depreciation and amortization expense allowable for tax purposes, and the tax deductibility of certain other items.

Our estimates are based on the best available information at the time that we prepare the provision. We generally file our annual income tax returns several months after our fiscal year-end. Income tax returns are subject to audit by federal, state, and local governments, generally years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws.

Liquidity and Capital Resources

Cash flows generated from operating activities provide us with a significant source of liquidity. Since substantially all our sales are for cash and cash equivalents, and accounts payable are generally due in five to 30 days, we are able to carry current liabilities in excess of current assets. In addition to cash flows from operations, we use a combination of long-term and short-term borrowings to fund our capital needs.

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

Our commercial paper program serves as our primary source of short-term financing. As of May 25, 2003, there were no borrowings outstanding under the program. To support our commercial paper program, we have a credit facility under a Credit Agreement dated October 29, 1999, as amended, with a consortium of banks, including Wachovia Bank, N.A., as administrative agent, under which we can borrow up to $300 million. The credit facility allows us to borrow at interest rates based on the prime rate, LIBOR, or a competitively bid rate among the members of the lender consortium, at our option, and on our credit rating. The credit facility expires on October 29, 2004, and contains various restrictive covenants, including a leverage test that requires us to maintain a ratio of consolidated total debt to consolidated total capitalization of less than 0.55 to 1.00 and a limitation of $25 million on priority debt, subject to certain exceptions. The credit facility does not, however, contain a prohibition on borrowing in the event of a ratings downgrade or a material adverse change. None of these covenants are expected to impact our liquidity or capital resources. As of May 25, 2003, we were in compliance with all covenants and no amounts were outstanding under the credit facility.

At May 25, 2003, our long-term debt consisted principally of: (1) $150 million of unsecured 8.375 percent senior notes due in September 2005, (2) $150 million of unsecured 6.375 percent notes due in February 2006, (3) $150 million of unsecured 5.75 percent medium-term notes due in March 2007, (4) $75 million of unsecured 7.45 percent medium-term notes due in April 2011, (5) $100 million of unsecured 7.125 percent debentures due in February 2016, and (6) an unsecured, variable rate, $34 million commercial bank loan due in December 2018 that supports two loans from us to the Employee Stock Ownership Plan portion of the Darden Savings Plan. Through a shelf registration on file with the Securities and Exchange Commission (SEC), we may issue up to an additional $125 million of unsecured debt securities from time to time. The debt securities may bear interest at either fixed or floating rates, and may have maturity dates of nine months or more after issuance.

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

A summary of our contractual obligations and commercial commitments as of May 25, 2003, is as follows (in thousands):

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
Long-term debt [1]	$659,430	$ –	$300,000	$150,000	$209,430
Operating leases	327,921	55,938	97,192	72,170	102,621
Total contractual cash obligations	$987,351	$55,938	$397,192	$222,170	$312,051

		Amount of Commitment Expiration per Period			
Other Commercial Commitments	Total Amounts Committed	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
Trade letters of credit	$ 8,301	$ 8,301	$ –	$ –	$ –
Standby letters of credit [2]	48,945	48,945	–	–	–
Guarantees [3]	4,254	687	1,163	1,150	1,254
Other	2,250	1,000	1,250	–	–
Total commercial commitments	$63,750	$58,933	$2,413	$1,150	$1,254

1) Excludes issuance discount of $1,344.

2) Includes letters of credit for $41,442 of workers' compensation and general liabilities accrued in our consolidated financial statements; also includes letters of credit for $6,091 of lease payments included in contractual operating lease obligation payments noted above.

3) Consists solely of guarantees associated with sub-leased properties. We are not aware of any non-performance under these sub-lease arrangements that would result in us having to perform in accordance with the terms of the guarantees.

Our fixed-charge coverage ratio, which measures the number of times each year that we earn enough to cover our fixed charges, amounted to 6.0 times and 6.8 times at May 25, 2003, and May 26, 2002, respectively. Our adjusted debt to adjusted total capital ratio (which includes 6.25 times the total annual restaurant minimum rent ($48.1 million and $43.1 million for the fiscal years ended May 25, 2003, and May 26, 2002, respectively) and 3.00 times the total annual restaurant equipment minimum rent ($5.7 million and $8.4 million for the fiscal years ended May 25, 2003, and May 26, 2002, respectively) as components of adjusted debt and adjusted total capital) was 45 percent and 46 percent at May 25, 2003, and May 26, 2002, respectively. We use the lease-debt equivalent in our adjusted debt to adjusted total capital ratio as we believe its inclusion better represents the optimal capital structure that we target from period to period. Based on these ratios, we believe our financial condition is strong. The composition of our capital structure is shown in the following table.

(In millions, except ratios)	May 25, 2003	May 26, 2002
CAPITAL STRUCTURE		
Long-term debt	$ 658	$ 662
Stockholders' equity	1,196	1,129
Total capital	$1,854	$1,791
ADJUSTMENTS TO CAPITAL		
Long-term debt	$ 658	$ 662
Lease-debt equivalent	318	295
Adjusted debt	976	957
Stockholders' equity	1,196	1,129
Adjusted total capital	$2,172	$2,086
CAPITAL STRUCTURE RATIOS		
Debt to total capital ratio	36%	37%
Adjusted debt to adjusted total capital ratio	45%	46%

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

Our Board of Directors has authorized us to repurchase up to 115.4 million shares of our common stock. Net cash flows used in financing activities included our repurchase of 10.7 million shares of our common stock for $213 million in fiscal 2003 compared to 9.0 million shares for $209 million in fiscal 2002 and 12.7 million shares for $177 million in fiscal 2001. As of May 25, 2003, a total of 98.5 million shares have been repurchased under the authorization. The repurchased common stock is reflected as a reduction of stockholders' equity. Net cash flows used in financing activities also included dividends paid to stockholders of $14 million, $9 million, and $9 million in fiscal 2003, 2002, and 2001, respectively.

Net cash flows used in investing activities included capital expenditures incurred principally for building new restaurants, replacing equipment, and remodeling existing restaurants. Capital expenditures were $423 million in fiscal 2003, compared to $318 million in fiscal 2002, and $355 million in fiscal 2001. The increased expenditures in fiscal 2003 resulted primarily from increased spending associated with building more new restaurants and replacing equipment. The reduced expenditures in fiscal 2002 resulted primarily from a reduction in spending associated with building new restaurants. We estimate that our fiscal 2004 capital expenditures will approximate $400 million.

Net cash flows provided by operating activities for fiscal 2003 also included a $20 million contribution to our defined benefit pension plans, which enabled the plans to maintain a fully funded status as of the plans' February 28, 2003 annual valuation date. Our defined benefit and other post-retirement benefit costs and liabilities are calculated using various actuarial assumptions and methodologies prescribed under the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions" and No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." We use certain assumptions including, but not limited to, the selection of a discount rate, expected long-term rate of return on plan assets, and expected health care cost trend rates. We set the discount rate assumption annually for each plan at its valuation date to reflect the yield of high-quality, fixed-income debt instruments, with lives that approximate the maturity of the plan benefits. As of May 25, 2003, our discount rate was 6.25 percent. The expected long-term rate of return on plan assets and health care cost trend rates are based upon several factors, including our historical assumptions compared with actual results, an analysis of current market conditions, asset allocations, and the views of leading financial advisers and economists. Based on our recent analysis, we lowered our defined benefit plans' expected long-term rate of return on plan assets for fiscal 2004 from 10.4 percent to 9.0 percent. The change in our defined benefit plans' expected long-term rate of return on plan assets will decrease earnings before income taxes by approximately $2.0 million in fiscal 2004. As of May 25, 2003, our expected health care costs trend rates ranged from 12.0 percent to 13.0 percent for fiscal 2004, depending on the medical service category. The rates gradually decrease to 5.0 percent through fiscal 2011 and remain at that level thereafter.

The expected long-term rate of return on plan assets component of our net periodic benefit cost is calculated based on the market-related value of plan assets. Our target asset allocation is 35 percent U.S. equities, 30 percent high-quality, long-duration fixed-income securities, 15 percent international equities, 10 percent private equities, and 10 percent real assets. We monitor our actual asset allocation to ensure that it approximates our target allocation and believe that our long-term asset allocation will continue to approximate our target allocation. Our historical ten-year rate of return on plan assets, calculated using the geometric method average of returns, is approximately 9.4 percent.

We have an unrecognized net actuarial loss for the defined benefit plans and post-retirement benefit plan as of May 25, 2003, of $80 million and $6 million, respectively. The unrecognized net actuarial loss represents changes in the amount of the projected benefit obligation and plan assets resulting from differences in the assumptions used and actual experience. The amortization of the unrecognized net actuarial loss component of our fiscal 2004 net periodic benefit cost for the defined benefit plans and post-retirement benefit plan is expected to be approximately $4 million and $0.3 million, respectively.

We believe our defined benefit and post-retirement benefit plan assumptions are appropriate based upon the factors discussed above. However, other assumptions could also be reasonably applied that could differ from the assumptions used. A quarter percentage point change in the defined benefit plans' discount rate and the expected long-term rate of return on plan assets would increase or decrease earnings before income taxes by $0.6 million and $0.4 million, respectively. A quarter percentage point change in our post-retirement benefit plan discount rate would increase or decrease earnings before income taxes by less than $0.1 million. If the health care cost trend rates were to be increased or decreased by one percentage point each future year, the aggregate of the service cost and interest cost components of net periodic post-retirement benefit cost would change by $0.3 million. These changes in assumptions would not significantly impact our funding requirements.

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

We are not aware of any trends or events that would materially affect our capital requirements or liquidity. We believe that our internal cash-generating capabilities and borrowings available under our shelf registration for unsecured debt securities and short-term commercial paper program should be sufficient to finance our capital expenditures, stock repurchase program, and other operating activities through fiscal 2004.

Financial Condition

Our current assets of $326 million at May 25, 2003, decreased from $443 million at May 26, 2002. The decrease resulted primarily from decreases in cash and cash equivalents of $104 million and short-term investments of $10 million that resulted principally from the short-term investment of proceeds received from the March 2002 medium-term debt issuance.

Other assets of $182 million at May 25, 2003, increased from $159 million at May 26, 2002, primarily as a result of the $20 million funding of our defined benefit pension plans during fiscal 2003.

Current liabilities of $640 million at May 25, 2003, increased from $601 million at May 26, 2002, primarily as a result of increases in accounts payable of $16 million and unearned revenues of $16 million. The increase in accounts payable is primarily due to the timing of our inventory purchases at the end of fiscal 2003. The increase in unearned revenues is primarily due to an increase in gift card sales during fiscal 2003.

Net non-current deferred income tax liabilities of $151 million at May 25, 2003, increased from $118 million at May 26, 2002, primarily as a result of current income tax deductions for certain capitalized software costs, smallwares, and equipment.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of market risks, including fluctuations in interest rates, foreign currency exchange rates, and commodity prices. To manage this exposure, we periodically enter into interest rate, foreign currency exchange, and commodity instruments for other than trading purposes (see Notes 1 and 7 of the Notes to Consolidated Financial Statements).

We use the variance/covariance method to measure value at risk, over time horizons ranging from one week to one year, at the 95 percent confidence level. As of May 25, 2003, our potential losses in future net earnings resulting from changes in foreign currency exchange rate instruments, commodity instruments, and floating rate debt interest rate exposures were approximately $1 million over a period of one year. The value at risk from an increase in the fair value of all of our long-term fixed rate debt, over a period of one year, was approximately $24 million. The fair value of our long-term fixed rate debt during fiscal 2003 averaged $681 million, with a high of $706 million and a low of $645 million. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows by targeting an appropriate mix of variable and fixed rate debt.

Future Application of Accounting Standards

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and our associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. We adopted SFAS No. 143 in the first quarter of fiscal 2004. Adoption of SFAS No. 143 did not materially impact our consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment to Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies the financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement is effective for hedging relationships designated and contracts entered into or modified after June 30, 2003, except for the provisions that relate to SFAS No. 133 implementation issues, which will continue to be applied in accordance with their respective dates. Adoption of SFAS No. 149 did not materially impact our consolidated financial statements.

Financial Review 2003

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

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes accounting standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires certain financial instruments that were previously classified as equity to be classified as assets or liabilities. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Adoption of SFAS No. 150 is not expected to materially impact our consolidated financial statements.

Forward-Looking Statements

Certain statements included in this report and other materials filed or to be filed by us with the SEC (as well as information included in oral or written statements made or to be made by us) may contain statements that are forward-looking within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Words or phrases such as "believe," "plan," "will," "expect," "intend," "estimate," and "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; our expansion plans, capital expenditures, and business development activities; and our long-term goals of increasing market share, expanding margins on incremental sales, and earnings growth. These forward-looking statements are based on assumptions concerning important factors, risks, and uncertainties that could significantly affect anticipated results in the future and, accordingly, could cause the actual results to differ materially from those expressed in the forward-looking statements.

These factors, risks, and uncertainties include, but are not limited to:

- the highly competitive nature of the restaurant industry, especially pricing, service, location, personnel, and type and quality of food;
- economic, market, and other conditions, including a protracted economic slowdown or worsening economy, industry-wide cost pressures, weak consumer demand, changes in consumer preferences, demographic trends, weather conditions, construction costs, and the cost and availability of borrowed funds;
- the price and availability of food, labor, utilities, insurance and media, and other costs, including seafood costs, employee benefits, workers' compensation insurance, and the general impact of inflation;
- unfavorable publicity relating to food safety or other concerns, including litigation alleging poor food quality, food-borne illness, or personal injury;
- the availability of desirable restaurant locations;
- government regulations, including those relating to zoning, land use, environmental matters, and liquor licenses; and
- 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.

Darden Restaurants

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 accounting principles generally accepted in the United States of America, 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 our 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 at least quarterly 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 our consolidated financial statements. Their report follows.

Joe R. Lee

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 25, 2003, and May 26, 2002, and the related consolidated statements of earnings, changes in stockholders' equity and accumulated other comprehensive income, and cash flows for each of the years in the three-year period ended May 25, 2003. 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 25, 2003, and May 26, 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended May 25, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Orlando, Florida
June 17, 2003

Financial Review 2003

Consolidated Statements of Earnings

(In thousands, except per share data)	May 25, 2003	Fiscal Year Ended May 26, 2002	May 27, 2001
Sales	$ 4,654,971	$ 4,366,911	$ 3,992,419
Costs and expenses:			
Cost of sales:			
Food and beverage	1,449,162	1,384,481	1,302,926
Restaurant labor	1,485,046	1,373,416	1,261,837
Restaurant expenses	700,182	625,710	559,670
Total cost of sales, excluding restaurant depreciation and amortization of $177,127, $155,837, and $138,229, respectively	$ 3,634,390	$ 3,383,607	$ 3,124,433
Selling, general, and administrative	439,376	420,149	389,240
Depreciation and amortization	191,218	165,829	146,864
Interest, net	42,597	36,585	30,664
Restructuring credit	(358)	(2,568)	–
Total costs and expenses	$ 4,307,223	$ 4,003,602	$ 3,691,201
Earnings before income taxes	347,748	363,309	301,218
Income taxes	115,488	125,521	104,218
Net earnings	$ 232,260	$ 237,788	$ 197,000
Net earnings per share:			
Basic	$ 1.36	$ 1.36	$ 1.10
Diluted	$ 1.31	$ 1.30	$ 1.06
Average number of common shares outstanding:			
Basic	170,300	174,700	179,600
Diluted	177,400	183,500	185,600

See accompanying notes to consolidated financial statements.

Darden Restaurants

Consolidated Balance Sheets

(In thousands)	May 25, 2003	May 26, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,630	$ 152,875
Short-term investments	–	9,904
Receivables	29,023	29,089
Inventories	173,644	172,413
Assets held for disposal	–	3,868
Prepaid expenses and other current assets	25,126	23,076
Deferred income taxes	49,206	52,127
Total current assets	$ 325,629	$ 443,352
Land, buildings, and equipment	2,157,132	1,926,947
Other assets	181,872	159,437
Total assets	$ 2,664,633	$ 2,529,736
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 175,991	$ 160,064
Accrued payroll	85,975	87,936
Accrued income taxes	67,975	68,504
Other accrued taxes	35,069	30,474
Unearned revenues	72,698	56,632
Other current liabilities	202,201	197,404
Total current liabilities	$ 639,909	$ 601,014
Long-term debt	658,086	662,506
Deferred income taxes	150,537	117,709
Other liabilities	19,910	19,630
Total liabilities	$ 1,468,442	$ 1,400,859
Stockholders' equity:		
Common stock and surplus, no par value. Authorized 500,000 shares; issued 261,463 and 258,426 shares, respectively; outstanding 164,950 and 172,135 shares, respectively	$ 1,525,957	$ 1,474,054
Preferred stock, no par value. Authorized 25,000 shares; none issued and outstanding	–	–
Retained earnings	979,443	760,684
Treasury stock, 96,513 and 86,291 shares, at cost, respectively	(1,254,293)	(1,044,915)
Accumulated other comprehensive income	(10,489)	(12,841)
Unearned compensation	(42,848)	(46,108)
Officer notes receivable	(1,579)	(1,997)
Total stockholders' equity	$ 1,196,191	$ 1,128,877
Total liabilities and stockholders' equity	$ 2,664,633	$ 2,529,736

See accompanying notes to consolidated financial statements.

Financial Review 2003

Consolidated Statements of Changes in Stockholders' Equity and Accumulated Other Comprehensive Income

(In thousands, except per share data)	Common Stock and Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Unearned Compensation	Officer Notes Receivable	Total Stockholders' Equity
Balance at May 28, 2000	$1,351,707	$344,579	$ (666,837)	$(12,457)	$(56,522)	$(1,868)	$ 958,602
Comprehensive income:							
Net earnings	–	197,000	–	–	–	–	197,000
Other comprehensive income, foreign currency adjustment	–	–	–	(645)	–	–	(645)
Total comprehensive income							196,355
Cash dividends declared ($0.053 per share)	–	(9,458)	–	–	–	–	(9,458)
Stock option exercises (4,670 shares)	33,158	–	–	–	–	–	33,158
Issuance of restricted stock (443 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 benefits credited to equity	15,287	–	–	–	–	–	15,287
Purchases of common stock for treasury (12,660 shares)	–	–	(176,511)	–	–	–	(176,511)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (336 shares)	1,661	–	2,059	–	–	–	3,720
Issuance of officer notes, net	–	–	–	–	–	(56)	(56)
Balance at May 27, 2001	$1,405,799	$532,121	$ (840,254)	$(13,102)	$(49,322)	$(1,924)	$1,033,318
Comprehensive income:							
Net earnings	–	237,788	–	–	–	–	237,788
Other comprehensive income:							
Foreign currency adjustment	–	–	–	169	–	–	169
Change in fair value of derivatives, net of tax of $234	–	–	–	380	–	–	380
Minimum pension liability adjustment, net of tax benefit of $177	–	–	–	(288)	–	–	(288)
Total comprehensive income							238,049
Cash dividends declared ($0.053 per share)	–	(9,225)	–	–	–	–	(9,225)
Stock option exercises (4,310 shares)	34,742	–	1,364	–	–	–	36,106
Issuance of restricted stock (374 shares), net of forfeiture adjustments	5,666	–	815	–	(6,493)	–	(12)
Earned compensation	–	–	–	–	4,392	–	4,392
ESOP note receivable repayments	–	–	–	–	5,315	–	5,315
Income tax benefits credited to equity	24,989	–	–	–	–	–	24,989
Purchases of common stock for treasury (8,972 shares)	–	–	(208,578)	–	–	–	(208,578)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (290 shares)	2,858	–	1,738	–	–	–	4,596
Issuance of officer notes, net	–	–	–	–	–	(73)	(73)
Balance at May 26, 2002	$1,474,054	$760,684	$(1,044,915)	$(12,841)	$(46,108)	$(1,997)	$1,128,877
Comprehensive income:							
Net earnings	–	232,260	–	–	–	–	232,260
Other comprehensive income:							
Foreign currency adjustment	–	–	–	2,579	–	–	2,579
Change in fair value of derivatives, net of tax of $0	–	–	–	2	–	–	2
Minimum pension liability adjustment, net of tax benefit of $141	–	–	–	(229)	–	–	(229)
Total comprehensive income							234,612
Cash dividends declared ($0.080 per share)	–	(13,501)	–	–	–	–	(13,501)
Stock option exercises (3,133 shares)	27,261	–	1,652	–	–	–	28,913
Issuance of restricted stock (177 shares), net of forfeiture adjustments	4,429	–	600	–	(5,029)	–	–
Earned compensation	–	–	–	–	3,579	–	3,579
ESOP note receivable repayments	–	–	–	–	4,710	–	4,710
Income tax benefits credited to equity	16,385	–	–	–	–	–	16,385
Purchases of common stock for treasury (10,746 shares)	–	–	(213,311)	–	–	–	(213,311)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (280 shares)	3,828	–	1,681	–	–	–	5,509
Issuance of officer notes, net	–	–	–	–	–	418	418
Balance at May 25, 2003	$1,525,957	$979,443	$(1,254,293)	$(10,489)	$(42,848)	$(1,579)	$1,196,191

See accompanying notes to consolidated financial statements.

Darden Restaurants

Consolidated Statements of Cash Flows

(In thousands)	May 25, 2003	Fiscal Year Ended May 26, 2002	May 27, 2001
Cash flows – operating activities			
Net earnings	$ 232,260	$ 237,788	$ 197,000
Adjustments to reconcile net earnings to cash flows:			
Depreciation and amortization	191,218	165,829	146,864
Asset impairment charge	4,876	–	–
Amortization of unearned compensation and loan costs	6,901	7,578	7,031
Change in current assets and liabilities	36,046	49,604	41,740
Change in other liabilities	280	(619)	(642)
Contribution to defined benefit pension plans	(20,000)	–	–
Loss on disposal of land, buildings, and equipment	2,456	1,803	1,559
Change in cash surrender value of trust-owned life insurance	2,441	743	–
Deferred income taxes	35,749	22,800	11,750
Income tax benefits credited to equity	16,385	24,989	15,287
Non-cash restructuring credit	(358)	(2,568)	–
Non-cash compensation expense	758	–	–
Other, net	280	195	(19)
Net cash provided by operating activities	$ 509,292	$ 508,142	$ 420,570
Cash flows – investing activities			
Purchases of land, buildings, and equipment	(423,273)	(318,392)	(355,139)
Increase in other assets	(8,163)	(24,741)	(10,730)
Purchase of trust-owned life insurance	(6,000)	(31,500)	–
Proceeds from disposal of land, buildings, and equipment (including assets held for disposal)	7,047	10,741	13,492
Proceeds from maturities of (purchases of) short-term investments	10,000	(9,904)	–
Net cash used in investing activities	$ (420,389)	$ (373,796)	$ (352,377)
Cash flows – financing activities			
Proceeds from issuance of common stock	33,664	40,520	36,701
Dividends paid	(13,501)	(9,225)	(9,458)
Purchases of treasury stock	(213,311)	(208,578)	(176,511)
ESOP note receivable repayments	4,710	5,315	8,145
Decrease in short-term debt	–	(12,000)	(103,000)
Proceeds from issuance of long-term debt	–	149,655	224,454
Repayment of long-term debt	(4,710)	(7,962)	(10,658)
Payment of loan costs	–	(1,010)	(2,154)
Net cash used in financing activities	$ (193,148)	$ (43,285)	$ (32,481)
(Decrease) increase in cash and cash equivalents	(104,245)	91,061	35,712
Cash and cash equivalents – beginning of year	152,875	61,814	26,102
Cash and cash equivalents – end of year	$ 48,630	$ 152,875	$ 61,814
Cash flows from changes in current assets and liabilities			
Receivables	66	3,781	(4,908)
Inventories	(1,231)	(23,984)	(6,242)
Prepaid expenses and other current assets	(8,523)	1,987	(289)
Accounts payable	15,927	3,205	16,372
Accrued payroll	(1,961)	5,348	4,783
Accrued income taxes	(529)	20,806	14,442
Other accrued taxes	4,595	3,045	1,905
Unearned revenues	16,066	18,487	24,008
Other current liabilities	11,636	16,929	(8,331)
Change in current assets and liabilities	$ 36,046	$ 49,604	$ 41,740

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

Operations and Principles of Consolidation

The consolidated financial statements include the operations of Darden Restaurants, Inc. and its wholly owned subsidiaries. We own and operate various restaurant concepts located in the United States and Canada, with no franchising. We also license 33 restaurants in Japan. All significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Year

Our fiscal year ends on the last Sunday in May. Fiscal 2003, 2002, and 2001 each consisted of 52 weeks of operation.

Cash Equivalents

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

Short-Term Investments

Short-term investments included a U.S. treasury bill that was classified as a held-to-maturity security because we had the positive intent and ability to hold the security to maturity. The security was valued at amortized cost, which approximated fair value, and matured in September 2002.

Inventories

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

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost less accumulated depreciation. Building components are depreciated over estimated useful lives ranging from seven to 40 years using the straight-line method. Leasehold improvements, which are a component of buildings, are amortized over the lesser of the lease term or the estimated useful lives of the related assets 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. Depreciation and amortization expense associated with land, buildings, and equipment amounted to $184,963, $162,784 and $145,058, in fiscal 2003, 2002, and 2001, respectively. In fiscal 2003, 2002, and 2001, we had losses on disposal of land, buildings, and equipment of $2,456, $1,803, and $1,559, respectively, which were included in selling, general, and administrative expenses.

Capitalized Software Costs

Capitalized software, which is a component of other assets, is recorded at cost less accumulated amortization. Capitalized software is amortized using the straight-line method over estimated useful lives ranging from three to ten years. The cost of capitalized software at May 25, 2003, and May 26, 2002, amounted to $44,018 and $38,621, respectively. Accumulated amortization as of May 25, 2003, and May 26, 2002, amounted to $9,963 and $5,006, respectively. Amortization expense associated with capitalized software amounted to $6,255, $3,045, and $1,806, in fiscal 2003, 2002, and 2001, respectively.

Trust-Owned Life Insurance

In August 2001, we caused a trust that we previously had established to purchase life insurance policies covering certain of our officers and other key employees (trust-owned life insurance or TOLI). The trust is the owner and sole beneficiary of the TOLI policies. The policies were purchased to offset a portion of our obligations under our non-qualified deferred compensation plan. The cash surrender value of the policies is included in other assets while changes in cash surrender value are included in selling, general, and administrative expenses.

Liquor Licenses

The costs of obtaining non-transferable liquor licenses that are directly issued by local government agencies for nominal fees are expensed as incurred. The costs of purchasing transferable liquor licenses through open markets in jurisdictions with a limited number of authorized liquor licenses are capitalized. Annual liquor license renewal fees are expensed.

Impairment of Long-Lived Assets

Land, buildings, and equipment and certain other assets, including capitalized software costs and liquor licenses, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the assets. 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. Fair value is generally determined based on appraisals or sales prices of comparable assets. During fiscal 2003, we recorded an asset impairment charge of $4,876 related to the decision to relocate and rebuild certain restaurants. Restaurant sites and certain other assets to be disposed of are reported at the lower of their carrying amount or fair value, less estimated costs to sell. Restaurant sites and certain other assets to be disposed of are included in assets held for disposal when certain criteria are met. These criteria include the requirement that the likelihood of disposing of these assets within one year is probable. Those assets whose disposal is not probable within one year remain in land, buildings, and equipment until their disposal is probable within one year. During fiscal 2003, we recorded an asset impairment credit of $594 related to assets sold that were previously impaired. All impairment amounts are included in selling, general, and administrative expenses.

Self-Insurance Reserves

We self-insure a significant portion of expected losses under our workers' compensation, employee medical, and general liability programs. Accrued liabilities have been recorded based on our estimates of the ultimate costs to settle incurred claims, both reported and unreported.

Revenue Recognition

Revenue from restaurant sales is recognized when food and beverage products are sold. Unearned revenues represent our liability for gift cards and certificates that have been sold but not yet redeemed and are recorded at their expected redemption value. When the gift cards and certificates are redeemed, we recognize restaurant sales and reduce the deferred liability.

Income Taxes

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

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

Derivative Instruments and Hedging Activities

We account for derivative financial instruments and hedging activities in accordance with the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities – an Amendment of FASB Statement No. 133." SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at fair value. We use financial and commodities derivatives to manage interest rate and commodities pricing risks inherent in our business operations. Our use of derivative instruments is currently limited to interest rate hedges and commodities futures contracts. These instruments are structured as hedges of forecasted transactions or the variability of cash flow to be paid related to a recognized asset or liability (cash flow hedges). No derivative instruments are entered into for trading or speculative purposes. All derivatives are recognized on the balance sheet at fair value. On the date the derivative contract is entered into, we document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking the various hedge transactions. This process includes linking all derivatives designated as cash flow hedges to specific assets and liabilities on the consolidated balance sheet or to specific forecasted transactions. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Changes in the fair value of derivatives that are highly effective and that are designated and qualify as cash flow hedges are recorded in other comprehensive income until earnings are affected by the variability in cash flows of the designated hedged item. Where applicable, we discontinue hedge accounting prospectively when

Notes to Consolidated Financial Statements

it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item or the derivative is terminated. Any changes in the fair value of a derivative where hedge accounting has been discontinued or is ineffective are recognized immediately in earnings. Cash flows related to derivatives are included in operating activities.

Pre-Opening Expenses

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 fiscal year the advertising is first aired. The costs of other advertising, promotion, and marketing programs are charged to operations in the fiscal period incurred. Advertising expense amounted to $203,393, $187,154, and $177,998, in fiscal 2003, 2002 and 2001, respectively.

Stock-Based Compensation

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 No. 123, we have elected to account for our stock-based compensation plans under an intrinsic value method that requires compensation expense to be recorded only if, on the date of grant, the current market price of our common stock exceeds the exercise price the employee must pay for the stock. Our policy is to grant stock options at the fair market value of our underlying stock at the date of grant. Accordingly, no compensation expense has been recognized for stock options granted under any of our stock plans because the exercise price of all options granted was equal to the current market value of our stock on the grant date. Had we determined compensation expense for our stock options based on the fair value at the grant date as prescribed under SFAS No. 123, our net earnings and net earnings per share would have been reduced to the pro forma amounts indicated in the following table:

		Fiscal Year	
	2003	2002	2001
Net earnings, as reported	$232,260	$237,788	$197,000
Add: Stock-based compensation expense included in reported net earnings, net of related tax effects	2,642	2,695	2,565
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(19,801)	(18,386)	(15,023)
Pro forma	$215,101	$222,097	$184,542
Basic net earnings per share			
As reported	$ 1.36	$ 1.36	$ 1.10
Pro forma	$ 1.26	$ 1.27	$ 1.03
Diluted net earnings per share			
As reported	$ 1.31	$ 1.30	$ 1.06
Pro forma	$ 1.22	$ 1.21	$ 0.99

To determine pro forma net earnings, reported net earnings have been adjusted for compensation expense associated with stock options granted that are expected to eventually vest.

Restricted stock and restricted stock unit (RSU) awards are recognized as unearned compensation, a component of stockholders' equity, based on the fair market value of our common stock on the award date. These amounts are amortized to compensation expense, using the straight-line method, over the vesting period using assumed forfeiture rates for different types of awards. Compensation expense is adjusted in future periods if actual forfeiture rates differ from initial estimates.

Net Earnings Per Share

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

Notes to Consolidated Financial Statements

Options to purchase 3,952,618 shares, 161,220 shares, and 3,618,900 shares of common stock were excluded from the calculation of diluted net earnings per share for fiscal 2003, 2002, and 2001, respectively, because their exercise prices exceeded the average market price of common shares for the period.

Comprehensive Income

Comprehensive income includes net earnings and other comprehensive income items that are excluded from net earnings under accounting principles generally accepted in the United States of America. Other comprehensive income items include foreign currency translation adjustments, the effective unrealized portion of changes in the fair value of cash flow hedges, and amounts associated with minimum pension liability adjustments.

Foreign Currency

The Canadian dollar is the functional currency for our 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 (losses) from foreign currency transactions, which amounted to ($105), $33, and $1, are included in the consolidated statements of earnings for fiscal 2003, 2002, and 2001 respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Segment Reporting

As of May 25, 2003, we operated 1,271 Red Lobster, Olive Garden, Bahama Breeze, Smokey Bones BBQ and Seasons 52 restaurants in North America as part of a single operating segment. The restaurants operate principally in the U.S. within the casual dining industry, providing similar products to similar customers. The restaurants also possess similar pricing structures, resulting in similar long-term expected financial performance characteristics. Revenues from external customers are derived principally from food and beverage sales. We do not rely on any major customers as a source of revenue. We believe we meet the criteria for aggregating our operations into a single reporting segment.

Reclassifications

Certain reclassifications, including the reclassification of unearned revenues from other current liabilities, have been made to prior year amounts to conform to current year presentation.

Adoption of New Accounting Standards

In August 2001, FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and resolves significant implementation issues that had evolved since the issuance of SFAS No. 121. SFAS No. 144 also establishes a single accounting model for long-lived assets to be disposed of by sale. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001, and its provisions are generally to be applied prospectively. We adopted SFAS No. 144 in the first quarter of fiscal 2003. Adoption of SFAS No. 144 did not materially impact our consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 provides guidance on the recognition and measurement of liabilities for costs associated with exit or disposal activities. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. We adopted SFAS No. 146 in the third quarter of fiscal 2003. Adoption of SFAS No. 146 did not materially impact our consolidated financial statements.

Notes to Consolidated Financial Statements

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 supersedes Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others," and provides guidance on the recognition and disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees. The initial recognition and measurement provisions of Interpretation No. 45 are effective for guarantees issued or modified after December 31, 2002, and are to be applied prospectively. The disclosure requirements are effective for financial statements for interim or annual periods ending after December 15, 2002. We adopted Interpretation No. 45 in the third quarter of fiscal 2003. Adoption of Interpretation No. 45 did not materially impact our consolidated financial statements.

In November 2002, the FASB's Emerging Issues Task Force (EITF) discussed Issue No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor." Issue No. 02-16 provides guidance on the recognition of cash consideration received by a customer from a vendor. The consensus reached by the EITF in November 2002 is effective for fiscal periods beginning after December 15, 2002. Income statements for prior periods are required to be reclassified to comply with the consensus. We adopted the consensus reached in Issue No. 02-16 in the fourth quarter of fiscal 2003 and its provisions did not have a material impact on our consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require more prominent and frequent disclosures in financial statements about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of SFAS No.148 are effective for financial statements issued for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. We adopted SFAS No. 148 in the fourth quarter of fiscal 2003. Adoption of the disclosure requirements of SFAS No. 148 did not materially impact our consolidated financial statements.

Future Application of Accounting Standards

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. We adopted SFAS No. 143 in the first quarter of fiscal 2004. Adoption of SFAS No. 143 did not materially impact our consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment to Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies the financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement is effective for hedging relationships designated and contracts entered into or modified after June 30, 2003, except for the provisions that relate to SFAS No. 133 Implementation Issues, which will continue to be applied in accordance with their respective dates. Adoption of SFAS No. 149 did not materially impact our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes accounting standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires certain financial instruments that were previously classified as equity to be classified as assets or liabilities. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Adoption of SFAS No. 150 is not expected to materially impact our consolidated financial statements.

NOTE 2
Accounts Receivable

Our accounts receivable is primarily comprised of receivables from national storage and distribution companies with which we contract to provide services that are billed to us on a per-case basis. In connection with these services, certain of our inventory items are conveyed to these storage and distribution companies to transfer ownership and risk of loss prior to delivery of the inventory to our restaurants. We reacquire these items when the inventory is subsequently delivered to our restaurants. These transactions do not impact the consolidated statements of earnings. Receivables from national storage and distribution companies amounted to $19,628 and $21,083 at May 25, 2003, and May 26, 2002, respectively. The allowance for doubtful accounts associated with our receivables amounted to $330 at both May 25, 2003, and May 26, 2002.

NOTE 3
Restructuring Activities

In connection with the closing of certain restaurant properties, we recorded restructuring expenses of $70,900 in fiscal 1997. The restructuring liability, which is a component of other current liabilities, 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 and other activities under this restructuring action were completed as of May 25, 2003.

During fiscal 2003 and 2002, we recognized restructuring credits of $358 and $2,568, respectively. The fiscal 2003 and 2002 credits resulted from lease terminations completed on more favorable terms than previously anticipated. No restructuring expense or credit was charged to operating results during fiscal 2001.

As of May 25, 2003, $45,438 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 fiscal 2003 and 2002 is as follows:

	Fiscal Year 2003	Fiscal Year 2002
Beginning balance	$ 1,946	$ 5,798
Non-cash adjustments:		
Restructuring credits	(358)	(2,568)
Cash payments:		
Carrying costs and employee severance payments	(203)	(860)
Lease payments including lease buy-outs, net	(1,385)	(424)
Ending balance	$ –	$ 1,946

NOTE 4
Land, Buildings, and Equipment

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

	May 25, 2003	May 26, 2002
Land	$ 505,444	$ 471,072
Buildings	1,898,716	1,719,778
Equipment	922,592	830,404
Construction in progress	195,078	123,987
Total land, buildings, and equipment	3,521,830	3,145,241
Less accumulated depreciation	(1,364,698)	(1,218,294)
Net land, buildings, and equipment	$ 2,157,132	$ 1,926,947

Notes to Consolidated Financial Statements

NOTE 5
Other Assets

The components of other assets are as follows:

	May 25, 2003	May 26, 2002
Prepaid pension costs	$ 68,873	$ 48,262
Capitalized software costs, net	34,055	33,615
Trust-owned life insurance	34,316	30,757
Liquor licenses	21,219	19,405
Prepaid interest and loan costs	14,863	17,895
Miscellaneous	8,546	9,503
Total other assets	$181,872	$159,437

NOTE 6
Long-Term Debt

The components of long-term debt are as follows:

	May 25, 2003	May 26, 2002
8.375% senior notes due September 2005	$150,000	$150,000
6.375% notes due February 2006	150,000	150,000
5.75% medium-term notes due March 2007	150,000	150,000
7.45% medium-term notes due April 2011	75,000	75,000
7.125% debentures due February 2016	100,000	100,000
ESOP loan with variable rate of interest (1.64% at May 25, 2003) due December 2018	34,430	39,140
Total long-term debt	659,430	664,140
Less issuance discount	(1,344)	(1,634)
Total long-term debt less issuance discount	658,086	662,506
Less current portion	–	–
Long-term debt, excluding current portion	$658,086	$662,506

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

In November 2000, we 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, we issued $75,000 of unsecured 7.45 percent medium-term notes due in April 2011. In March 2002, we issued $150,000 of unsecured 5.75 percent medium-term notes due in March 2007. As of May 25, 2003, our shelf registration provides for the issuance of an additional $125,000 of unsecured debt securities.

In January 1996, we 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. Concurrent with the issuance of the notes and debentures, we 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.

We also maintain a credit facility that expires in October 2004, with a consortium of banks under which we can borrow up to $300,000. The credit facility allows us 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 our option. The credit facility supports our commercial paper borrowing program. We are 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 our maintenance of certain debt ratings and financial ratios, such as maximum debt to capital ratios. Advances under the credit facility are unsecured. At May 25, 2003, and May 26, 2002, no borrowings were outstanding under this credit facility.

The aggregate maturities of long-term debt for each of the five fiscal years subsequent to May 25, 2003, and thereafter are $0 in 2004 through 2005, $300,000 in 2006, $150,000 in 2007, $0 in 2008, and $209,430 thereafter.

NOTE 7
Derivative Instruments and Hedging Activities

We use interest rate-related derivative instruments to manage our exposure on debt instruments, as well as commodities derivatives to manage our exposure to commodity price fluctuations. By using these instruments, we expose ourselves, from time to time, to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. We minimize this credit risk by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates or commodity prices. We minimize this market risk by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Futures Contracts and Commodity Swaps

During fiscal 2003 and 2002, we entered into futures contracts and commodity swaps to reduce the risk of natural gas and coffee price fluctuations. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair value are not included in current earnings but are reported as other comprehensive income. These changes in fair value are subsequently reclassified into earnings when the natural gas and coffee are purchased and used by us in our operations. Net gains (losses) of $941 and ($276) related to these derivatives were recognized in earnings during fiscal 2003 and 2002, respectively. It is expected that $495 of net gains related to these contracts at May 25, 2003, will be reclassified from accumulated other comprehensive income into food and beverage costs or restaurant expenses during the next 12 months. To the extent these derivatives are not effective, changes in their fair value are immediately recognized in current earnings. Outstanding derivatives are included in other current assets or other current liabilities.

As of May 25, 2003, the maximum length of time over which we are hedging our exposure to the variability in future natural gas cash flows is 12 months. As of May 25, 2003, we are not hedging our exposure to the variability in future coffee cash flows. No gains or losses were reclassified into earnings during fiscal 2003 or 2002 as a result of the discontinuance of natural gas and coffee cash flow hedges.

Interest Rate Lock Agreement

During fiscal 2002, we entered into a treasury interest rate lock agreement (treasury lock) to hedge the risk that the cost of a future issuance of fixed-rate debt may be adversely affected by interest rate fluctuations. The treasury lock, which had a $75,000 notional principal amount of indebtedness, was used to hedge a portion of the interest payments associated with $150,000 of debt subsequently issued in March 2002. The treasury lock was settled at the time of the related debt issuance with a net gain of $267 being recognized in other comprehensive income. The net gain on the treasury lock is being amortized into earnings as an adjustment to interest expense over the same period in which the related interest costs on the new debt issuance are being recognized in earnings. Amortization of $53 and $14 was recognized in earnings as an adjustment to interest expense during fiscal 2003 and 2002, respectively. It is expected that $53 of this gain will be recognized in earnings as an adjustment to interest expense during the next 12 months.

Interest Rate Swaps

We had interest rate swaps with a notional amount of $200,000, which we used to convert variable rates on our long-term debt to fixed rates effective May 30, 1995. We 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 us of $27,670. This cost is being recognized as an adjustment to interest expense over the term of our 10-year, 6.375 percent notes and 20-year, 7.125 percent debentures (see Note 6).

NOTE 8
Financial Instruments

The fair values of cash equivalents, accounts receivable, and accounts payable approximate their carrying amounts due to their short duration. Short-term investments are carried at amortized cost, which approximates fair value.

The carrying value and fair value of long-term debt at May 25, 2003, was $658,086 and $740,130, respectively. The carrying value and fair value of long-term debt at May 26, 2002, was $662,506 and $680,115, respectively. The fair value of long-term debt is determined based on market prices or, if market prices are not available, the present value of the underlying cash flows discounted at our incremental borrowing rates.

NOTE 9
Stockholders' Equity

Treasury Stock

Our Board of Directors has authorized us to repurchase up to 115.4 million shares of our common stock. In fiscal 2003, 2002, and 2001, we purchased treasury stock totaling $213,311, $208,578, and $176,511, respectively. As of May 25, 2003, a total of 98.5 million shares have been repurchased under the authorization. The repurchased common stock is reflected as a reduction of stockholders' equity.

Stock Purchase/Loan Program

We have share ownership guidelines for our officers. To assist them in meeting these guidelines, we implemented the 1998 Stock Purchase/Option Award Loan Program (Loan Program) in conjunction with our Stock Option and Long-Term Incentive Plan of 1995. The Loan Program provided loans to our officers and awarded two options for every new share purchased, up to a maximum total share value equal to a designated percentage of the officer's base compensation. Loans are full recourse and interest bearing, with a maximum principal amount of 75 percent of the value of the stock purchased. The stock purchased is held on deposit with us until the loan is repaid. The interest rate for loans under the Loan Program is fixed and is equal to the applicable federal rate for mid-term loans with semi-annual compounding for the month in which the loan originates. Interest is payable on a weekly basis. Loan principal is payable in installments with 25 percent, 25 percent, and 50 percent of the total loan due at the end of the fifth, sixth, and seventh years of the loan. Effective July 30, 2002, and in compliance with the Sarbanes-Oxley Act of 2002, we no longer issue new loans to our executive-level officers under the Loan Program. We account for outstanding officer notes receivable as a reduction of stockholders' equity.

Stockholders' Rights Plan

Under our amended Rights Agreement, each share of our common stock has associated with it two-thirds of a right to purchase one-hundredth of a share of our Series A Participating Cumulative Preferred Stock at a purchase price of $62.50, subject to adjustment under certain circumstances to prevent dilution. The number of rights associated with each share of our common stock reflects an adjustment resulting from our three-for-two stock split in May 2002. The rights are exercisable when, and are not transferable apart from our common stock until, a person or group has acquired 20 percent or more, or makes a tender offer for 20 percent or more, of our common stock. If the specified percentage of our common stock is then acquired, each right will entitle the holder (other than the acquiring company) to receive, upon exercise, common stock of either us or the acquiring company having a value equal to two times the exercise price of the right. The rights are redeemable by our Board of Directors under certain circumstances and expire on May 24, 2005.

Stock Split

On March 21, 2002, our Board of Directors declared a three-for-two split of our common stock. The stock split was accomplished through a 50 percent stock dividend, which was distributed on May 1, 2002 to stockholders of record as of the close of business on April 10, 2002. In connection with the stock split, the number of common shares reserved for issuance or subject to issuance under our stock option, stock grant, and other plans was proportionately increased. The total number of common and preferred shares authorized for issuance under our Articles of Incorporation remained the same. All applicable references to number of shares and per share amounts of common stock in these financial statements and notes have been adjusted to reflect the stock split.

Accumulated Other Comprehensive Income (Loss)

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

	May 25, 2003	May 26, 2002
Foreign currency translation adjustment	$(10,354)	$(12,933)
Unrealized gains on derivatives	382	380
Minimum pension liability adjustment	(517)	(288)
Total accumulated other comprehensive income (loss)	$(10,489)	$(12,841)

Reclassification adjustments associated with pre-tax net derivative income (losses) realized in net earnings for fiscal 2003, 2002, and 2001 amounted to $994, ($262), and $0, respectively.

NOTE 10
Leases

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

	Fiscal Year 2003	2002	2001
Restaurant minimum rent	$48,121	$43,113	$40,007
Restaurant percentage rent	3,682	3,550	3,163
Restaurant equipment minimum rent	5,719	8,386	8,388
Restaurant rent averaging expense	(663)	(518)	(510)
Transportation equipment	2,665	2,481	2,320
Office equipment	1,138	1,526	1,323
Office space	1,713	1,387	1,020
Warehouse space	303	237	227
Total rent expense	$62,678	$60,162	$55,938

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. Many of our leases have renewal periods totaling five to 20 years, exercisable at our option, and require payment of property taxes, insurance, and maintenance costs in addition to the rent payments. The annual non-cancelable future lease commitments for each of the five fiscal years subsequent to May 25, 2003, and thereafter are: $55,938 in 2004, $51,627 in 2005, $45,565 in 2006, $39,637 in 2007, $32,533 in 2008, and $102,621 thereafter, for a cumulative total of $327,921.

NOTE 11
Interest, Net

The components of interest, net, are as follows:

	Fiscal Year 2003	2002	2001
Interest expense	$47,566	$41,493	$35,196
Capitalized interest	(3,470)	(3,653)	(3,671)
Interest income	(1,499)	(1,255)	(861)
Interest, net	$42,597	$36,585	$30,664

Capitalized interest was computed using our average borrowing rate. We paid $38,682, $31,027 and, $24,281, for interest (excluding amounts capitalized) in fiscal 2003, 2002, and 2001, respectively.

NOTE 12
Income Taxes

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

	Fiscal Year 2003	2002	2001
Earnings before income taxes:			
U.S.	$ 345,496	$ 359,947	$ 296,160
Canada	2,252	3,362	5,058
Earnings before income taxes	$ 347,748	$ 363,309	$ 301,218
Income taxes:			
Current:			
Federal	$ 68,178	$ 88,063	$ 79,285
State and local	11,396	14,582	13,049
Canada	24	133	134
Total current	$ 79,598	$ 102,778	$ 92,468
Deferred (principally U.S.)	35,890	22,743	11,750
Total income taxes	$ 115,488	$ 125,521	$ 104,218

During fiscal 2003, 2002, and 2001, we paid income taxes of $65,398, $56,839, and $63,893, 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 2003	2002	2001
U.S. statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal tax benefits	3.0	3.1	3.1
Benefit of federal income tax credits	(4.5)	(3.9)	(4.1)
Other, net	(0.3)	0.4	0.6
Effective income tax rate	33.2%	34.6%	34.6%

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

	May 25, 2003	May 26, 2002
Accrued liabilities	$ 12,616	$ 19,052
Compensation and employee benefits	55,935	52,804
Asset disposition and restructuring liabilities	2,004	2,584
Other	2,638	2,392
Gross deferred tax assets	$ 73,193	$ 76,832
Buildings and equipment	(116,148)	(93,752)
Prepaid pension costs	(25,987)	(18,096)
Prepaid interest	(1,454)	(3,478)
Deferred rent and interest income	(13,117)	(12,496)
Capitalized software and other assets	(16,115)	(12,127)
Other	(1,703)	(2,465)
Gross deferred tax liabilities	$(174,524)	$(142,414)
Net deferred tax liabilities	$(101,331)	$ (65,582)

A valuation allowance for deferred tax assets is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Realization is dependent upon the generation of future taxable income or the reversal of deferred tax liabilities during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. As of May 25, 2003, and May 26, 2002, no valuation allowance has been recognized for deferred tax assets because we believe that sufficient projected future taxable income will be generated to fully utilize the benefits of these deductible amounts.

NOTE 13
Retirement Plans

Defined Benefit Plans and Post-Retirement Benefit Plan

Substantially all of our employees are eligible to participate in a retirement plan. We sponsor non-contributory defined benefit pension plans for our salaried employees, in which benefits are based on various formulas that include years of service and compensation factors, and for a group of hourly employees, in which a fixed level of benefits is provided. Pension plan assets are primarily invested in U.S., international, and private equities; long duration fixed income securities and real assets. Our policy is to fund, at a minimum, the amount necessary on an actuarial basis to provide for benefits in accordance with the requirements of the Employee Retirement Income Security Act of 1974, as amended. We also sponsor a contributory post-retirement benefit plan that provides health care benefits to our salaried retirees. During fiscal 2003, we funded the defined benefit pension plans in the amount of $20,000. This funding allowed the defined benefit pension plans to maintain a fully funded status as of the February 28, 2003 annual valuation date.

Notes to Consolidated Financial Statements

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, 2003 and 2002:

	Defined Benefit Plans (1)		Post-Retirement Benefit Plan	
	2003	2002	2003	2002
Change in Benefit Obligation:				
Benefit obligation at beginning of period	$111,155	$ 97,339	$ 9,356	$ 6,739
Service cost	3,732	3,586	388	291
Interest cost	7,088	7,145	648	500
Participant contributions	–	–	112	91
Benefits paid	(4,558)	(4,412)	(252)	(214)
Actuarial loss	12,219	7,497	4,557	1,949
Benefit obligation at end of period	$129,636	$111,155	$ 14,809	$ 9,356
Change in Plan Assets:				
Fair value at beginning of period	$109,574	$120,042	$ –	$ –
Actual return on plan assets	(9,117)	(6,097)	–	–
Employer contributions	20,063	41	140	123
Participant contributions	–	–	112	91
Benefits paid	(4,558)	(4,412)	(252)	(214)
Fair value at end of period	$115,962	$109,574	$ –	$ –
Reconciliation of the Plan's Funded Status:				
Funded status at end of period	$ (13,675)	$ (1,581)	$(14,809)	$ (9,356)
Unrecognized prior service cost	(936)	(1,392)	29	47
Unrecognized actuarial loss	79,805	47,762	6,089	1,579
Contributions for March to May	19	10	35	44
Prepaid (accrued) benefit costs	$ 65,213	$ 44,799	$ (8,656)	$ (7,686)
Components of the Consolidated Balance Sheets:				
Prepaid benefit costs	$ 68,873	$ 48,262	$ –	$ –
Accrued benefit costs	(4,496)	(3,929)	(8,656)	(7,686)
Accumulated other comprehensive income	836	466	–	–
Net asset (liability) recognized	$ 65,213	$ 44,799	$ (8,656)	$ (7,686)

(1) For plans with accumulated benefit obligations in excess of plan assets, the accumulated benefit obligation and fair value of plan assets were $4,515 and $0, respectively, as of February 28, 2003, and $3,939 and $0, respectively, as of February 28, 2002.

The following table 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	
	2003	2002	2003	2002
Discount rate	6.25%	7.00%	6.25%	7.00%
Expected long-term rate of return on plan assets	10.40%	10.40%	N/A	N/A
Rate of future compensation increases	3.75%	3.75%	N/A	N/A

Notes to Consolidated Financial Statements

We set the discount rate assumption annually for each of the plans at their valuation dates to reflect the yield of high-quality fixed-income debt instruments, with lives that approximate the maturity of the plan benefits. The expected long-term rate of return on plan assets and health care cost trend rates are based upon several factors, including our historical assumptions compared with actual results, an analysis of current market conditions, asset allocations, and the views of leading financial advisers and economists. Based on our recent analysis, we have lowered our defined benefit plans' expected long-term rate of return on plan assets for fiscal 2004 to 9.00 percent.

The discount rate and expected return on plan assets assumptions have a significant effect on amounts reported for defined benefit pension plans. A quarter percentage point change in the defined benefit plans' discount rate and the expected long-term rate of return on plan assets would increase or decrease earnings before income taxes by $610 and $360, respectively.

The assumed health care cost trend rate increase in the per-capita charges for benefits ranged from 12.0 percent to 13.0 percent for fiscal 2004, depending on the medical service category. The rates gradually decrease to 5.0 percent through fiscal 2011 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 $207 and $179, respectively, and would increase or decrease the accumulated post-retirement benefit obligation by $3,013 and $2,377, respectively.

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

	Defined Benefit Plans			Post-Retirement Benefit Plan		
	2003	2002	2001	2003	2002	2001
Service cost	$ 3,732	$ 3,586	$ 3,488	$ 388	$291	$246
Interest cost	7,088	7,145	6,255	648	500	447
Expected return on plan assets	(12,739)	(12,416)	(11,589)	–	–	–
Amortization of unrecognized transition asset	–	(642)	(642)	–	–	–
Amortization of unrecognized prior service cost	(348)	(456)	(456)	18	18	18
Recognized net actuarial loss (gain)	1,924	1,104	213	46	–	(18)
Net periodic benefit (income) cost	$ (343)	$ (1,679)	$ (2,731)	$ 1,100	$809	$693

Defined Contribution Plan

We have a defined contribution plan covering most employees age 21 and older. We match contributions for participants with at least one year of service at up to 6.00 percent of compensation, based on our performance. The match ranges from a minimum of $0.25 to $1.20 for each dollar contributed by the participant. The plan had net assets of $334,319 at May 25, 2003, and $442,030 at May 26, 2002. Expense recognized in fiscal 2003, 2002, and 2001 was $1,732, $1,593, and $3,358, respectively. Employees classified as "highly compensated" under the Internal Revenue Code are ineligible to participate in this plan. Amounts payable to highly compensated employees under a separate, non-qualified deferred compensation plan totaled $69,653 and $66,241 as of May 25, 2003 and May 26, 2002, respectively. These amounts are included in other current liabilities.

The defined contribution plan includes an Employee Stock Ownership Plan (ESOP). This ESOP originally borrowed $50,000 from third parties, with guarantees by us, and borrowed $25,000 from us at a variable interest rate. The $50,000 third-party loan was refinanced in 1997 by a commercial bank's loan to us and a corresponding loan from us to the ESOP. Compensation expense is recognized as contributions are accrued. In addition to matching plan participant contributions, our contributions to the plan are also made to pay certain employee incentive bonuses. Fluctuations in our stock price impact the amount of expense to be recognized. Contributions to the plan, plus the dividends accumulated on allocated and unallocated shares held by the ESOP, are used to pay principal, interest, and expenses of the plan. As loan payments are made, common stock is allocated to ESOP participants. In fiscal 2003, 2002, and 2001, the ESOP incurred interest expense of $697, $1,258, and $3,086, respectively, and used dividends received of $1,002, $735, and $415, respectively, and contributions received from us of $4,266, $5,166, and $9,224, respectively, to pay principal and interest on our debt.

The ESOP shares we own are included in average common shares outstanding for purposes of calculating net earnings per share. At May 25, 2003, the ESOP's debt to us had a balance of $34,430 with a variable rate of interest of 1.64 percent; $17,530 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 our common shares within the ESOP at May 25, 2003, approximates 12,157,000 shares, representing 4,533,000 allocated shares, 222,000 committed-to-be-released shares, and 7,402,000 suspense shares.

NOTE 14
Stock Plans

We maintain four principal stock option and stock grant plans: the Stock Option and Long-Term Incentive Plan of 1995 (1995 Plan), the Restaurant Management and Employee Stock Plan of 2000 (2000 Plan), the 2002 Stock Incentive Plan (2002 Plan), and the Stock Plan for Directors (Director Stock 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 33,300,000 common shares in connection with the granting of non-qualified stock options, restricted stock, or RSUs to key employees. Up to 2,250,000 shares may be granted under the plan as restricted stock and RSUs. The 2000 Plan provides for the issuance of up to 5,400,000 common shares out of our treasury in connection with the granting of non-qualified stock options and restricted stock or RSUs to key employees, excluding directors and executive officers. Restricted stock and RSUs may be granted under the plan for up to 5.00 percent of the shares authorized under the plan. The 2002 Plan provides for the issuance of up to 8,550,000 common shares in connection with the granting of non-qualified stock options, incentive stock options, stock appreciation rights, stock awards, restricted stock, or RSUs to key employees and non-employee directors. Up to 1,700,000 shares may be granted under the plan as restricted stock and RSUs. The Director Stock Plan provides for the issuance of up to 375,000 common shares out of our 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 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. Outstanding options generally vest over two to four years. Restricted stock and RSUs granted under the 1995, 2000, and 2002 Plans generally vest over periods ranging from three to five years and no sooner than one year from the date of grant. The restricted period for certain grants may be accelerated based on performance goals established by the Committee.

We also maintain the Compensation Plan for Non-Employee Directors. 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 our common shares, and authorizes the issuance of up to 105,981 common shares out of our treasury for this purpose. The common shares issuable under the plan have an aggregate fair value equal to the value of the foregone retainer and meeting fees.

Notes to Consolidated Financial Statements

The per share weighted-average fair value of stock options granted during fiscal 2003, 2002, and 2001 was $9.01, $6.05, and $4.48, 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 exercise 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		
	2003	2002	2001
Risk-free interest rate	4.37%	4.50%	7.00%
Expected volatility of stock	30.0%	30.0%	30.0%
Dividend yield	0.2%	0.1%	0.1%
Expected option life	6.0 years	6.0 years	6.0 years

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 29, 2000	10,068,389	$7.12	26,352,761	$ 8.98
Options granted			5,375,727	$10.99
Options exercised			(4,670,100)	$ 7.00
Options cancelled			(926,100)	$10.82
Balance at May 27, 2001	12,222,339	$7.62	26,132,288	$ 9.68
Options granted			5,776,350	$17.36
Options exercised			(4,310,327)	$ 8.36
Options cancelled			(675,776)	$13.49
Balance at May 26, 2002	12,152,538	$8.31	26,922,535	$11.44
Options granted			4,200,086	$25.99
Options exercised			(3,132,894)	$ 9.23
Options cancelled			(1,298,094)	$16.86
Balance at May 25, 2003	13,481,166	$9.59	26,691,633	$13.73

The following table provides information regarding exercisable and outstanding options as of May 25, 2003:

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)
$ 4.00 - $10.00	7,089,174	$ 6.99	7,090,672	$ 6.99	2.5
$10.01 - $15.00	5,904,902	12.03	10,492,834	11.96	5.8
$15.01 - $20.00	432,208	16.85	5,133,444	17.03	8.2
Over $20.00	54,882	25.39	3,974,683	26.16	9.1
	13,481,166	$ 9.59	26,691,633	$13.73	5.9

We granted restricted stock and RSUs during fiscal 2003, 2002, and 2001 totaling 275,610, 428,280, and 563,306 shares, respectively. The per share weighted-average fair value of the awards granted in fiscal 2003, 2002, and 2001 was $26.53, $17.10, and $10.67, respectively. After giving consideration to assumed forfeiture rates and subsequent forfeiture adjustments, compensation expense recognized in net earnings for awards granted in fiscal 2003, 2002, and 2001 amounted to $3,579, $4,392, and $4,164, respectively.

NOTE 15
Employee Stock Purchase Plan

We maintain the Darden Restaurants Employee Stock Purchase Plan to provide eligible employees who have completed one year of service (excluding senior officers subject to Section 16(b) of the Securities Exchange Act of 1934) an opportunity to purchase shares of our 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 our common stock as of the first or last trading days of each quarterly participation period. During fiscal 2003, 2002, and 2001, employees purchased shares of common stock under the plan totaling 261,409, 284,576, and 328,338, respectively. As of May 25, 2003, an additional 778,456 shares are available for issuance.

No compensation expense 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 No. 123 is less than $800 and has no impact on reported basic or diluted net earnings per share.

NOTE 16
Commitments and Contingencies

We make trade commitments in the course of our normal operations. As of May 25, 2003, and May 26, 2002, we were contingently liable for approximately $8,301 and $9,786, respectively, under outstanding trade letters of credit issued in connection with purchase commitments. These letters of credit have terms of one month or less and are used to collateralize our obligations to third parties for the purchase of inventories.

As collateral for performance on contracts and as credit guarantees to banks and insurers, we were contingently liable for guarantees of subsidiary obligations under standby letters of credit. As of May 25, 2003, and May 26, 2002, we had $41,442 and $30,000, respectively, of standby letters of credit related to workers' compensation and general liabilities accrued in our consolidated financial statements. As of May 25, 2003, and May 26, 2002, we had $7,503 and $8,608, respectively, of standby letters of credit related to contractual operating lease obligations and other payments. All standby letters of credit are renewable annually. As of May 25, 2003, and May 26, 2002, we had other commercial commitments of $2,250 and $0, respectively.

As of May 25, 2003 and May 26, 2002, we had $4,254 and $5,463, respectively, of guarantees associated with third-party sublease or assignment obligations. These amounts represent the maximum potential amount of future payments under the guarantees. The fair value of these potential payments discounted at our pre-tax cost of capital at May 25, 2003 and May 26, 2002 amounted to $2,935 and $3,769, respectively. We did not accrue for the guarantees, as the likelihood of the third parties defaulting on the sublease or assignment agreements was less than probable. In the event of default by a third party, the indemnity and/or default clauses in our sublease and assignment agreements govern our ability to recover from and pursue the third party for damages incurred as a result of its default. We do not hold any third-party assets as collateral related to these sublease or assignment agreements, except to the extent that the sublease or assignment allows us to repossess the building and personal property. These guarantees expire over their respective lease terms, which range from fiscal 2004 through fiscal 2012.

We are involved in litigation arising from the normal course of business. In our opinion, this litigation is not expected to materially impact our consolidated financial statements.

Notes To Consolidated Financial Statements

NOTE 17
Quarterly Data (Unaudited)

The following table summarizes unaudited quarterly data for fiscal 2003 and 2002:

	Fiscal 2003 – Quarters Ended				
	Aug. 25	Nov. 24	Feb. 23	May 25	Total
Sales	$1,174,565	$1,071,531	$1,181,383	$1,227,492	$4,654,971
Earnings before income taxes	109,005	56,220	93,325	89,198	347,748
Net earnings	71,886	37,478	61,786	61,110	232,260
Net earnings per share:					
Basic	0.42	0.22	0.36	0.36	1.36
Diluted	0.40	0.21	0.35	0.35	1.31
Dividends paid per share	–	0.04	–	0.04	0.08
Stock price:					
High	27.83	26.13	22.96	20.27	27.83
Low	19.17	17.96	16.46	16.70	16.46

	Fiscal 2002 – Quarters Ended				
	Aug. 26	Nov. 25	Feb. 24	May 26	Total
Sales	$1,073,410	$1,007,080	$1,124,472	$1,161,949	$4,366,911
Earnings before income taxes	95,577	56,255	102,776	108,701	363,309
Net earnings	62,156	36,463	66,220	72,949	237,788
Net earnings per share:					
Basic	0.35	0.21	0.38	0.42	1.36
Diluted	0.34	0.20	0.36	0.40	1.30
Dividends paid per share	–	0.0265	–	0.0265	0.053
Stock price:					
High	21.667	21.653	28.660	29.767	29.767
Low	16.400	15.400	20.007	23.733	15.400

Notes to Consolidated Financial Statements

Five-Year Financial Summary

(In thousands, except per share data)	**May 25, 2003**	May 26, 2002	May 27, 2001	May 28, 2000	May 30, 1999
			Fiscal Year Ended		
Operating Results					
Sales	$ 4,654,971	$4,366,911	$3,992,419	$3,675,461	$3,432,375
Costs and expenses:					
Cost of sales:					
Food and beverage	1,449,162	1,384,481	1,302,926	1,199,709	1,133,705
Restaurant labor	1,485,046	1,373,416	1,261,837	1,181,156	1,117,401
Restaurant expenses	700,182	625,710	559,670	510,727	485,708
Total cost of sales, excluding restaurant depreciation and amortization (1)	$ 3,634,390	$3,383,607	$3,124,433	$2,891,592	$2,736,814
Selling, general, and administrative	439,376	420,149	389,240	363,041	343,280
Depreciation and amortization	191,218	165,829	146,864	130,464	125,327
Interest, net	42,597	36,585	30,664	22,388	19,540
Restructuring and asset impairment credit, net	(358)	(2,568)	–	(5,931)	(8,461)
Total costs and expenses	$ 4,307,223	$4,003,602	$3,691,201	$3,401,554	$3,216,500
Earnings before income taxes	347,748	363,309	301,218	273,907	215,875
Income taxes	115,488	125,521	104,218	97,202	75,337
Net earnings	$ 232,260	$ 237,788	$ 197,000	$ 176,705	$ 140,538
Net earnings per share:					
Basic	$ 1.36	$ 1.36	$ 1.10	$ 0.92	$ 0.68
Diluted	$ 1.31	$ 1.30	$ 1.06	$ 0.89	$ 0.66
Average number of common shares outstanding, net of shares held in Treasury:					
Basic	170,300	174,700	179,600	192,800	206,000
Diluted	177,400	183,500	185,600	197,800	212,100
Financial Position					
Total assets	$ 2,664,633	$2,529,736	$2,216,534	$1,969,555	$1,888,560
Land, buildings, and equipment	2,157,132	1,926,947	1,779,515	1,578,541	1,461,535
Working capital (deficit)	(314,280)	(157,662)	(226,116)	(316,427)	(194,478)
Long-term debt	658,086	662,506	520,574	306,586	316,451
Stockholders' equity	1,196,191	1,128,877	1,033,318	958,602	962,349
Stockholders' equity per outstanding share	7.25	6.56	5.87	5.23	4.86
Other Statistics					
Cash flow from operations	$ 509,292	$ 508,142	$ 420,570	$ 342,626	$ 357,942
Capital expenditures	426,204	318,392	355,139	268,946	123,673
Dividends paid	13,501	9,225	9,458	10,134	10,857
Dividends paid per share	0.080	0.053	0.053	0.053	0.053
Advertising expense	203,393	187,950	177,998	165,590	162,934
Stock price:					
High	27.83	29.767	19.660	15.375	15.583
Low	16.46	15.400	10.292	8.292	9.458
Close	$ 18.35	$ 25.030	$ 19.267	$ 12.583	$ 14.208
Number of employees	140,700	133,200	128,900	122,300	116,700
Number of restaurants	1,271	1,211	1,168	1,139	1,139

(1) Total cost of sales, excluding restaurant depreciation and amortization of $177,127, $155,837, $138,229, $123,477, and $119,140, respectively.

Corporate Responsibility

A Sampling of Our 2003 Corporate Responsibility Efforts

Darden helped send care packages to U.S. troops in Iraq.

For American soldiers stationed in the desert of Iraq – including more than 140 Darden employee-reservists – basics such as having a hot shower and a clean towel are only a distant memory. One of the home comforts soldiers miss most is the ability to bathe regularly and wash away the dirt and sand. After hearing news reports that troops needed basic essentials, Howard Hohman, senior vice president of Red Lobster's Dallas Division, led an effort to aid the soldiers that involved Red Lobster restaurants around the country.

In just 10 days they collected and shipped enough personal hygiene items and snacks to fill 250 cases. In addition, Darden contacted the USO to offer help with care packages for the troops and sent dozens of cases of moist towelettes, the most-requested item.

"Being deployed during war time is never easy, but your outpouring of support has greatly eased our burdens," one soldier wrote to the Company. "As we face enemies abroad, it is always good to know we have friends at home."

For more than 30 years, Darden Restaurants has been a friend to the communities where we operate. Whether lending a helping hand in times of national crisis or doing the day-to-day work of building communities, Darden employees have always been at the front lines. It is often said that one person can make a difference, and it's still true. But combining the hands-on efforts of our more than 140,000 employees with the financial resources of our philanthropy program enables us to multiply the efforts of both, creating a powerful engine to drive transformation in our communities.

Back in 1968 when Bill Darden, our founder and namesake, opened the first Red Lobster in Lakeland, Florida, corporate responsibility wasn't a term that was heard often. But even before the concept had a name or became a part of business school curricula, Bill Darden understood and lived the principles of good corporate citizenship. He didn't spend a lot of time talking about making a difference; he just did it. Through his community activity and the way he treated his employees, suppliers and guests, he set the tone for a spirit of volunteerism, ethical business practices and philanthropy that are still defining characteristics of Darden today.

We are committed to being an enduring and positive influence on the communities where we live and work. This year we again backed up that commitment by supporting many civic and charitable organizations, helping solve the issues our communities face. We are proud of our record as corporate citizens, as demonstrated by some of the key projects we supported in fiscal 2003:

CELEBRATING DIVERSITY

We have worked hard to create an atmosphere in which all Darden employees, vendors and guests feel a sense of pride, dignity and belonging. Fostering and celebrating diversity in our business and the community is critical to our ability to excel in an increasingly diverse and dynamic marketplace.

We have developed key partnerships and business relationships with a variety of organizations that support diversity efforts on the local and national level, including the National Minority Supplier Development Council, the Multicultural Foodservice & Hospitality Alliance, Urban League, National Council of LaRaza, NAACP, the Executive Leadership Council, the National MBA Association Recruitment, INROADS, and the United Negro College Fund, to name just a few.

Our efforts have earned numerous awards and recognition, including being named one of the "50 Best Companies for Minorities" by *Fortune* magazine three years in a row, and one of the "Top 50 Companies for Diversity" by *Diversity, Inc.* magazine.

Corporate Responsibility

(From Left to Right) • Last Labor Day, Red Lobster and Olive Garden restaurants around the country delivered meals to over 1,100 community agencies and public servants, just to say "thanks!" • *myregion.org* is helping Orlando, Florida, and the surrounding counties move to the forefront of the new global economy. • Hundreds of Native American students are attending and graduating from college, thanks to Catching the Dream.

SUPPORTING KIDS, FEEDING FAMILIES

Our restaurants support many charitable enterprises at the local and national level.

Red Lobster restaurants participate in Cops & Lobsters, an event in which uniformed law enforcement officers work as celebrity servers and collect "tips," raising millions of dollars for Special Olympics. Olive Garden's annual Pasta for Pennies program raises millions for the national Leukemia and Lymphoma Society by encouraging schoolchildren around the country to collect spare change. The promise of an Olive Garden pasta party for the class in each school that raises the most money is a powerful incentive!

As part of Olive Garden's team sponsorship in the American Le Mans Series, the company also donates truckloads of food to food banks in cities where races take place. Since 1999, the Drive Against Hunger program has provided more than 500,000 pounds of food and almost 10,000 meals to food banks across the country. And wherever Bahama Breeze opens a new restaurant, it holds practice runs before officially opening for business, charging $5 per person and donating the proceeds to the local chapter of Boys & Girls Clubs.

Employees throughout the Darden family of restaurants also participate in countless local community service efforts, providing meals for charitable events, raising funds, conducting school tours, mentoring students, and adopting local families in need during the holidays.

BUILDING STRONG COMMUNITIES

myregion.org

To build vibrant, healthy communities requires a collaborative effort. One person, one business, one government agency can't do it alone. That's one reason the Darden Restaurants Foundation supported *myregion.org* this year, an organization that seeks to move beyond artificial boundaries like county and city lines and build a regional consensus for the future of the Central Florida region, where Darden is based.

myregion.org represents a new way of thinking for community problem solvers. The three-year initiative has brought together public officials, citizens and business leaders from the seven contiguous counties and 84 cities that make up Central Florida to talk about working cooperatively and building on the region's strengths.

Early phases of the project focused on culture, demographics/diversity, development, economy/workforce, education, environment, governance, healthcare, history, infrastructure, public safety, tourism and transportation. The next phase will build on the regional consensus established during the past three years to implement the strategies and recommendations outlined in its final report, *The Central Florida Sourcebook – A New Regional Agenda*, with the ultimate goal of moving Central Florida to the forefront of the new global economy.

Labor Day Outreach Program

On Labor Day, 2002, Red Lobster and Olive Garden restaurants around the country reached out to serve those in need and honor the people and organizations that play a critical role in our communities. Red Lobster crews cooked, delivered and served complete meals with all the fixings to 650 community outreach programs that serve those in need across North America. And Olive Garden served complete *Hospitaliano!* lunches to nearly 500 fire stations, police departments and hospital emergency wards across the continent.

EDUCATING OUR CHILDREN & FAMILIES

Catching the Dream

Historically, the percentage of Native Americans attending college has been extremely low, and for those who do go, the dropout rate is shockingly high. Not only does this contribute to a cycle of poverty that persists for generations, but it also deprives Native American communities of the doctors, lawyers, teachers, engineers, accountants and business managers they need to rebuild their economies and improve their communities.

Corporate Responsibility

(From Left to Right) • Conklin Center for the Blind helps people with multiple handicaps find jobs and maintain their independence. • The Sphinx Organization makes it possible for talented students in minority communities to study and perform classical music. • Instead of living off the endangered Kemp's Ridley sea turtle, the people of Rancho Nuevo, Mexico, make and sell hand-crafted art now.

The mission of Catching the Dream in Albuquerque, New Mexico, is to provide Native American communities, tribes and tribal organizations with educated professionals by providing scholarships for high-achieving students who have expressed a willingness to return to work for their communities. In fiscal 2003, the Darden Restaurants Foundation supported that goal with financial support for Native American business students interested in careers in culinary science/hospitality programs.

Since Catching the Dream was established in 1986, more than 370 scholarship recipients have returned to their communities, and the rate of employment for graduates is 100 percent.

HELPING PEOPLE HELP THEMSELVES

Conklin Center for the Blind

Conklin Center for the Blind in Daytona Beach, Florida, is one of the few organizations in the state helping blind people with multiple handicaps, such as seizures, hearing loss or developmental disabilities. A grant from the Darden Restaurants Foundation is helping the organization with its Supported Living and Supported Employment Programs.

For a person with multiple handicaps, finding a job is just the first of many hurdles standing in the way of independence. Everyday tasks most people take for granted, such as buying groceries, paying bills and finding transportation become monumental tasks.

Through its programs, the Conklin Center empowers motivated adults with disabilities to live on their own and become productive citizens. Participants live in dorms and take classes to learn the life and job skills they need for independence. After completing the program and finding jobs, students continue to receive training and *lifelong* supported employment and living services to maintain their independence.

PRESERVING OUR ARTISTIC AND CULTURAL HERITAGE

The Sphinx Organization

Founded in 1996, The Sphinx Organization helps encourage and develop the classical music talents of youths in minority communities that don't have formal classical music programs. The organization provides a year-round curriculum specializing in classical music education and awareness for string players. Student musicians take part in a variety of training activities, master classes and seminars with renowned musicians and professionals, culminating in an annual competition.

Supported by a Darden Restaurants Foundation grant, Musical Encounters is another Sphinx program that takes student players to schools nationwide, where they perform and answer questions. It gives other students an opportunity to see that classical music study is not only available for young people – including minorities – but also a possible educational and career choice.

PROTECTING OUR NATURAL RESOURCES

Rancho Nuevo

At Darden Restaurants, we understand conserving and sustaining a natural resource means more than just protecting it. We need to get to the source of its decline, which in many cases is associated with a region's economic needs. Take the Kemp's Ridley sea turtle. For centuries, inhabitants of Rancho Nuevo on Mexico's Gulf Coast – this turtle species' only nesting site – used the turtle as a source of food and income, dwindling its population to the point of near extinction.

As part of a comprehensive conservation and recovery program supported by the Darden Restaurants Foundation, though, the people of this coastal community are now handcrafting and selling *objets d'art* as a source of income, instead of relying on turtles. By helping provide the residents of this remote area with an income source that lets them provide for their families without harvesting turtles and turtle eggs, Darden is helping save the world's most endangered sea turtle from extinction.

And it's working. The Kemp's Ridley Turtle Restoration Project saw a record number of nests for the 2003 nesting season. In fact, the Kemp's Ridley may soon be taken off the endangered species list!

Darden Restaurants

Board of Directors

Front Row, left to right

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

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

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

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

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

Back Row, left to right

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

Richard E. Rivera
President and
Chief Operating Officer,
Darden Restaurants, Inc.

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

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

Odie C. Donald
Retired President of DIRECTV, Inc.,
a satellite television service

Dr. Leonard L. Berry
Professor of Marketing,
Mays Business School
Texas A&M University

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

Corporate Officers

Top Row, left to right

Andrew Madsen
Senior Vice President;
President, Olive Garden

Edna Morris
Senior Vice President;
President, Red Lobster

Clarence Otis, Jr.
Executive Vice President;
President, Smokey Bones

Laurie B. Burns
Senior Vice President;
President, Bahama Breeze

Middle Row, left to right

Linda J. Dimopoulos
Senior Vice President,
Chief Financial Officer

Richard J. Walsh
Senior Vice President,
Corporate Relations

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

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

Bottom Row, left to right

Valerie K. Collins
Senior Vice President,
Chief Information Officer

Daniel M. Lyons
Senior Vice President,
Human Resources

Stephen E. Helsel
Senior Vice President,
Corporate Controller

Darden Restaurants

Transfer Agent, Registrar and Dividend Payments

Wachovia Bank National Association
1525 West W.T. Harris Boulevard, 3C3
Charlotte, NC 28288-1153
Phone: (800) 829-8432

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

Independent Auditors

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

Form 10-K Report

Shareholders may request a free copy of the Company's Form 10-K, including schedules but excluding exhibits, by writing to Investor Relations, Darden Restaurants, Inc., P.O. Box 593330, Orlando, FL 32859-3330.

Shareholder Reports/Investor Inquiries

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

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

Darden Restaurants Foundation Annual Report

To receive a copy of the 2003 Darden Restaurants Foundation Annual Report, mail a request to the Foundation Administrator, Darden Restaurants, Inc., P.O. Box 593330, Orlando, FL 32859-3330, or visit our Web site at www.darden.com.

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. Eastern Daylight Time, Thursday, September 25, 2003, at Gaylord Palms Orlando Resort Hotel, 6000 W. Osceola Parkway, Kissimmee, FL 34746, 407-586-0000.

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
www.seasons52.com

Company Address

Darden Restaurants, Inc.
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Mailing Address

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