

DARDEN RESTAURANTS INC

Form 10-Q

April 02, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 26, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

1-13666

Commission File Number

DARDEN RESTAURANTS, INC.

(Exact name of registrant as specified in its charter)

Florida

(State or other jurisdiction of incorporation or organization)

59-3305930

(I.R.S. Employer Identification No.)

1000 Darden Center Drive

Orlando, Florida

(Address of principal executive offices)

407-245-4000

32837

(Zip Code)

(Registrant's telephone number, including area code)

Not applicable (Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

Number of shares of common stock outstanding as of March 15, 2012: 128,653,628 (excluding 159,870,784 shares held in our treasury).



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Cautionary Statement Regarding Forward-Looking Statements

Statements set forth in or incorporated into this report regarding the expected net increase in the number of our restaurants, U.S. same-restaurant sales, total sales growth, diluted net earnings per share growth, and capital expenditures in fiscal 2012, and all other statements that are not historical facts, including without limitation statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of Darden Restaurants, Inc. and its subsidiaries that are preceded by, followed by or that include words such as “may,” “will,” “expect,” “intend,” “anticipate,” “continue,” “estimate,” “project,” “believe,” “plan” or similar expressions, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This statement is included for purposes of complying with the safe harbor provisions of that Act. Any forward-looking statements speak only as of the date on which such statements are made, and we undertake no obligation to update such statements for any reason to reflect events or circumstances arising after such date. By their nature, forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by such forward-looking statements. For further information regarding such forward-looking statements, risks and uncertainties, please see “Forward-Looking Statements” under Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this report.

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## PART I

## FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

## DARDEN RESTAURANTS, INC.

## CONSOLIDATED STATEMENTS OF EARNINGS

(In millions, except per share data)

(Unaudited)

|  | Three Months Ended |                   | Nine Months Ended |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | February 26, 2012  | February 27, 2011 | February 26, 2012 | February 27, 2011 |
| Sales  | \$2,159.7          | \$ 1,976.8        | \$5,933.2         | \$ 5,509.8        |
| Costs and expenses:  |                    |                   |                   |                   |
| Cost of sales:   |                    |                   |                   |                   |
| Food and beverage  | 661.7              | 571.3             | 1,828.5           | 1,573.5           |
| Restaurant labor   | 657.2              | 621.2             | 1,864.6           | 1,771.9           |
| Restaurant expenses  | 308.4              | 285.9             | 901.2             | 839.9             |
| Total cost of sales, excluding restaurant depreciation and amortization of \$83.2, \$74.5, \$242.2 and \$219.0, respectively | \$1,627.3          | \$ 1,478.4        | \$4,594.3         | \$ 4,185.3        |
| Selling, general and administrative  | 198.0              | 194.8             | 568.3             | 555.9             |
| Depreciation and amortization  | 88.9               | 80.5              | 258.8             | 235.2             |
| Interest, net  | 27.7               | 24.0              | 74.5              | 72.1              |
| Total costs and expenses   | \$1,941.9          | \$ 1,777.7        | \$5,495.9         | \$ 5,048.5        |
| Earnings before income taxes   | 217.8              | 199.1             | 437.3             | 461.3             |
| Income taxes   | (53.7 )            | (47.4 )           | (112.3 )          | (120.5 )          |
| Earnings from continuing operations  | \$164.1            | \$ 151.7          | \$325.0           | \$ 340.8          |
| Losses from discontinued operations, net of tax benefit of \$0.0, \$0.3, \$0.4 and \$1.2, respectively                       | —                  | (0.5 )            | (0.7 )            | (2.0 )            |
| Net earnings   | \$164.1            | \$ 151.2          | \$324.3           | \$ 338.8          |
| Basic net earnings per share:  |                    |                   |                   |                   |
| Earnings from continuing operations  | \$1.28             | \$ 1.11           | \$2.49            | \$ 2.48           |
| Losses from discontinued operations  | —                  | —                 | (0.01 )           | (0.02 )           |
| Net earnings   | \$1.28             | \$ 1.11           | \$2.48            | \$ 2.46           |
| Diluted net earnings per share:  |                    |                   |                   |                   |
| Earnings from continuing operations  | \$1.25             | \$ 1.08           | \$2.43            | \$ 2.42           |
| Losses from discontinued operations  | —                  | —                 | (0.01 )           | (0.02 )           |
| Net earnings   | \$1.25             | \$ 1.08           | \$2.42            | \$ 2.40           |
| Average number of common shares outstanding:   |                    |                   |                   |                   |
| Basic  | 128.0              | 136.4             | 130.7             | 137.5             |
| Diluted  | 130.9              | 140.0             | 133.8             | 141.0             |
| Dividends declared per common share  | \$0.43             | \$0.32            | \$1.29            | \$0.96            |

See accompanying notes to our unaudited consolidated financial statements.

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DARDEN RESTAURANTS, INC.  
 CONSOLIDATED BALANCE SHEETS  
 (In millions)

|  | February 26,<br>2012<br>(Unaudited) | May 29,<br>2011 |   |
|--|-------------------------------------|-----------------|---|
| <b>ASSETS</b>  |                                     |                 |   |
| Current assets:  |                                     |                 |   |
| Cash and cash equivalents  | \$88.5                              | \$70.5          |   |
| Receivables, net   | 55.5                                | 65.4            |   |
| Inventories  | 453.6                               | 300.1           |   |
| Prepaid income taxes   | 13.2                                | 5.2             |   |
| Prepaid expenses and other current assets  | 69.0                                | 77.0            |   |
| Deferred income taxes  | 125.5                               | 145.6           |   |
| Total current assets   | \$805.3                             | \$663.8         |   |
| Land, buildings and equipment, net of accumulated depreciation and amortization of \$2,717.4 and \$2,545.4, respectively | 3,882.9                             | 3,622.0         |   |
| Goodwill   | 539.2                               | 517.1           |   |
| Trademarks   | 464.8                               | 454.0           |   |
| Other assets   | 235.2                               | 209.7           |   |
| Total assets   | \$5,927.4                           | \$5,466.6       |   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                     |                 |   |
| Current liabilities:   |                                     |                 |   |
| Accounts payable   | \$294.1                             | \$251.3         |   |
| Short-term debt  | 287.7                               | 185.5           |   |
| Accrued payroll  | 158.6                               | 167.1           |   |
| Accrued income taxes   | 1.4                                 | 9.3             |   |
| Other accrued taxes  | 72.0                                | 64.3            |   |
| Unearned revenues  | 267.3                               | 200.0           |   |
| Current portion of long-term debt  | 349.9                               | —               |   |
| Other current liabilities  | 467.3                               | 409.3           |   |
| Total current liabilities  | \$1,898.3                           | \$1,286.8       |   |
| Long-term debt, less current portion   | 1,452.8                             | 1,407.3         |   |
| Deferred income taxes  | 329.1                               | 345.4           |   |
| Deferred rent  | 199.6                               | 186.2           |   |
| Obligations under capital leases, net of current installments  | 54.8                                | 56.0            |   |
| Other liabilities  | 216.5                               | 248.7           |   |
| Total liabilities  | \$4,151.1                           | \$3,530.4       |   |
| Stockholders' equity:  |                                     |                 |   |
| Common stock and surplus   | \$2,483.7                           | \$2,408.8       |   |
| Retained earnings  | 3,077.2                             | 2,921.9         |   |
| Treasury stock   | (3,679.2)                           | (3,325.3)       | ) |
| Accumulated other comprehensive income (loss)  | (97.5)                              | (59.8)          | ) |
| Unearned compensation  | (7.9)                               | (9.4)           | ) |
| Total stockholders' equity   | \$1,776.3                           | \$1,936.2       |   |
| Total liabilities and stockholders' equity   | \$5,927.4                           | \$5,466.6       |   |

See accompanying notes to our unaudited consolidated financial statements.



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## DARDEN RESTAURANTS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND  
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

For the nine months ended February 26, 2012 and February 27, 2011

(In millions)

(Unaudited)

|  | Common<br>Stock<br>And<br>Surplus | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Unearned<br>Compensation | Total<br>Stockholders'<br>Equity |
|--|-----------------------------------|----------------------|-------------------|--|--------------------------|----------------------------------|
| Balance at May 29, 2011  | \$2,408.8                         | \$2,921.9            | \$(3,325.3 )      | \$ (59.8 )   | \$ (9.4 )                | \$1,936.2                        |
| Comprehensive income:  |                                   |                      |                   |  |                          |                                  |
| Net earnings   | —                                 | 324.3                | —                 | —  | —                        | 324.3                            |
| Other comprehensive income<br>(loss):  |                                   |                      |                   |  |                          |                                  |
| Foreign currency adjustment  | —                                 | —                    | —                 | (0.5 )   | —                        | (0.5 )                           |
| Change in fair value of<br>marketable securities, net of tax<br>of \$0.1                         | —                                 | —                    | —                 | (0.1 )   | —                        | (0.1 )                           |
| Change in fair value of<br>derivatives, net of tax of \$25.0                                     | —                                 | —                    | —                 | (42.5 )  | —                        | (42.5 )                          |
| Amortization of unrecognized net<br>actuarial loss, net of tax of \$3.3                          | —                                 | —                    | —                 | 5.4  | —                        | 5.4                              |
| Total comprehensive income   | —                                 | (169.0 )             | —                 | —  | —                        | 286.6                            |
| Dividends declared   | —                                 | (169.0 )             | —                 | —  | —                        | (169.0 )                         |
| Stock option exercises (1.4<br>shares)   | 37.7                              | —                    | 2.2               | —  | —                        | 39.9                             |
| Stock-based compensation   | 20.5                              | —                    | —                 | —  | —                        | 20.5                             |
| ESOP note receivable repayments  | —                                 | —                    | —                 | —  | 1.5                      | 1.5                              |
| Income tax benefits credited to<br>equity  | 12.0                              | —                    | —                 | —  | —                        | 12.0                             |
| Purchases of common stock for<br>treasury (7.9 shares)   | —                                 | —                    | (357.0 )          | —  | —                        | (357.0 )                         |
| Issuance of treasury stock under<br>Employee Stock Purchase Plan<br>and other plans (0.1 shares) | 4.7                               | —                    | 0.9               | —  | —                        | 5.6                              |
| Balance at February 26, 2012   | \$2,483.7                         | \$3,077.2            | \$(3,679.2 )      | \$ (97.5 )   | \$ (7.9 )                | \$1,776.3                        |
| Balance at May 30, 2010  | \$2,297.9                         | \$2,621.9            | \$(2,943.5 )      | \$ (71.1 )   | \$ (11.2 )               | \$1,894.0                        |
| Comprehensive income:  |                                   |                      |                   |  |                          |                                  |
| Net earnings   | —                                 | 338.8                | —                 | —  | —                        | 338.8                            |
| Other comprehensive income<br>(loss):  |                                   |                      |                   |  |                          |                                  |
| Foreign currency adjustment  | —                                 | —                    | —                 | 1.7  | —                        | 1.7                              |
| Change in fair value of<br>marketable securities, net of tax<br>of \$0.0                         | —                                 | —                    | —                 | 0.1  | —                        | 0.1                              |
|  | —                                 | —                    | —                 | 3.2  | —                        | 3.2                              |



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|  |           |           |              |           |          |           |
|--|-----------|-----------|--------------|-----------|----------|-----------|
| Change in fair value of derivatives, net of tax of \$1.1                                   |           |           |              |           |          |           |
| Amortization of unrecognized net actuarial loss, net of tax of \$3.0                       | —         | —         | —            | 4.7       | —        | 4.7       |
| Total comprehensive income   |           |           |              |           |          | 348.5     |
| Dividends declared   | —         | (132.5 )  | —            | —         | —        | (132.5 )  |
| Stock option exercises (1.8 shares)  | 42.4      | —         | 1.8          | —         | —        | 44.2      |
| Stock-based compensation   | 25.3      | —         | —            | —         | —        | 25.3      |
| ESOP note receivable repayments  | —         | —         | —            | —         | 1.5      | 1.5       |
| Income tax benefits credited to equity   | 12.7      | —         | —            | —         | —        | 12.7      |
| Purchases of common stock for treasury (6.3 shares)  | —         | —         | (275.9 )     | —         | —        | (275.9 )  |
| Issuance of treasury stock under Employee Stock Purchase Plan and other plans (0.2 shares) | 4.8       | —         | 0.9          | —         | —        | 5.7       |
| Balance at February 27, 2011   | \$2,383.1 | \$2,828.2 | \$(3,216.7 ) | \$(61.4 ) | \$(9.7 ) | \$1,923.5 |

See accompanying notes to our unaudited consolidated financial statements.

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DARDEN RESTAURANTS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In millions)  
(Unaudited)

|  | Nine Months Ended    |                      |
|--|----------------------|----------------------|
|  | February 26,<br>2012 | February 27,<br>2011 |
| Cash flows—operating activities  |                      |                      |
| Net earnings   | \$324.3              | \$338.8              |
| Losses from discontinued operations, net of tax benefit                            | 0.7                  | 2.0                  |
| Adjustments to reconcile net earnings from continuing operations to cash flows:    |                      |                      |
| Depreciation and amortization  | 258.8                | 235.2                |
| Asset impairment charges   | 0.3                  | 4.3                  |
| Amortization of loan costs   | 4.4                  | 2.2                  |
| Stock-based compensation expense   | 41.3                 | 48.7                 |
| Change in current assets and liabilities   | (101.4               | ) 28.2               |
| Contributions to pension and postretirement plans                                  | (22.7                | ) (11.9              |
| Loss on disposal of land, buildings and equipment                                  | 4.9                  | 4.8                  |
| Change in cash surrender value of trust-owned life insurance                       | 0.1                  | (12.6                |
| Deferred income taxes  | 23.7                 | 28.2                 |
| Change in deferred rent  | 13.7                 | 13.2                 |
| Change in other liabilities  | (1.2                 | ) (21.2              |
| Income tax benefits from exercise of stock-based compensation credited to goodwill | 0.3                  | 0.2                  |
| Other, net   | 3.3                  | 2.6                  |
| Net cash provided by operating activities of continuing operations                 | \$550.5              | \$662.7              |
| Cash flows—investing activities  |                      |                      |
| Purchases of land, buildings and equipment   | (483.4               | ) (390.1             |
| Proceeds from disposal of land, buildings and equipment                            | 3.3                  | 5.8                  |
| Purchases of marketable securities   | (32.1                | ) (2.3               |
| Proceeds from sale of marketable securities  | 21.3                 | 4.6                  |
| Cash used in business acquisitions, net of cash acquired                           | (58.6                | ) —                  |
| Increase in other assets   | (10.3                | ) (8.5               |
| Net cash used in investing activities of continuing operations                     | \$(559.8             | ) \$(390.5           |
| Cash flows—financing activities  |                      |                      |
| Proceeds from issuance of common stock   | 45.1                 | 49.9                 |
| Income tax benefits credited to equity   | 12.0                 | 12.7                 |
| Dividends paid   | (168.6               | ) (132.0             |
| Purchases of treasury stock  | (357.0               | ) (275.9             |
| ESOP note receivable repayment   | 1.5                  | 1.5                  |
| Proceeds from issuance of short-term debt  | 1,791.7              | 920.4                |
| Repayments of short-term debt  | (1,689.5             | ) (856.4             |
| Repayment of long-term debt  | (1.5                 | ) (151.5             |
| Principal payments on capital leases   | (1.2                 | ) (1.0               |
| Proceeds from issuance of long-term debt   | 400.0                | —                    |
| Payment of debt issuance costs   | (5.1                 | ) —                  |
| Net cash provided by (used in) financing activities of continuing operations       | \$27.4               | \$(432.3             |
| Cash flows—discontinued operations   |                      |                      |
| Net cash used in operating activities of discontinued operations                   | (0.4                 | ) (2.1               |
| Net cash provided by investing activities of discontinued operations               | 0.3                  | 3.1                  |

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|  |           |           |   |
|--|-----------|-----------|---|
| Net cash (used in) provided by discontinued operations                     | \$ (0.1)  | ) \$ 1.0  |   |
| Increase (decrease) in cash and cash equivalents                           | 18.0      | (159.1    | ) |
| Cash and cash equivalents - beginning of period                            | 70.5      | 248.8     |   |
| Cash and cash equivalents - end of period                                  | \$ 88.5   | \$ 89.7   |   |
| Cash flows from changes in current assets and liabilities                  |           |           |   |
| Receivables, net   | 9.9       | (19.5     | ) |
| Inventories  | (152.5    | ) (106.1  | ) |
| Prepaid expenses and other current assets                                  | (3.3      | ) (10.9   | ) |
| Accounts payable   | 28.9      | 24.2      |   |
| Accrued payroll  | (9.0      | ) (0.5    | ) |
| Prepaid/accrued income taxes   | (15.9     | ) (3.2    | ) |
| Other accrued taxes  | 7.7       | 4.5       |   |
| Unearned revenues  | 66.7      | 62.3      |   |
| Other current liabilities  | (33.9     | ) 77.4    |   |
| Change in current assets and liabilities                                   | \$ (101.4 | ) \$ 28.2 |   |
| See accompanying notes to our unaudited consolidated financial statements. |           |           |   |

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DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

Darden Restaurants, Inc. (we, our or the Company) owns and operates full-service dining restaurants in the United States and Canada under the trade names Red Lobster®, Olive Garden®, LongHorn Steakhouse®, The Capital Grille®, Bahama Breeze®, Seasons 52®, Eddie V's Prime Seafood® and Wildfish Seafood Grille®. We have prepared these consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally presented in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the quarter ended February 26, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending May 27, 2012.

These statements should be read in conjunction with the consolidated financial statements and related notes to consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended May 29, 2011. The accounting policies used in preparing these consolidated financial statements are the same as those described in our Form 10-K.

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of sales and costs and expenses during the reporting period. Actual results could differ from those estimates. We have reclassified certain amounts in the prior-period consolidated statement of cash flows to conform to the current period's presentation.

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

Unearned Revenues

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

Acquisition of Eddie V's

On November 14, 2011, we completed the acquisition of eight Eddie V's Prime Seafood restaurants and three Wildfish Seafood Grille restaurants (collectively Eddie V's) and all related assets and net working capital for \$58.6 million in cash. The results of operations from Eddie V's, which are not material, are included in our consolidated financial statements from the date of acquisition.

The acquisition resulted in the recording of depreciable assets, definite-lived amortizable intangible assets and indefinite-lived intangible assets, including goodwill. We are in the process of confirming, through internal studies and third-party valuations, the fair value of these assets, including buildings and equipment and intangible assets. The

fair values set forth below are based on preliminary valuations and are subject to adjustment as additional information is obtained. When the valuation process is completed, adjustments to goodwill may result.

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DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table summarizes the preliminary estimated fair values of the Eddie V's assets acquired and liabilities assumed as of the acquisition date and the adjustments made thereto during the fiscal quarter ended February 26, 2012:

| (in millions)             | Balances at<br>November 14,<br>2011 | Adjustments | Balances at<br>February 26,<br>2012 |
|---------------------------|-------------------------------------|-------------|-------------------------------------|
| Current assets            | \$1.7                               | \$(0.1      | ) \$1.6                             |
| Buildings and equipment   | 26.8                                | 0.4         | 27.2                                |
| Trademarks                | 17.0                                | (6.2        | ) 10.8                              |
| Other assets              | 2.9                                 | (0.4        | ) 2.5                               |
| Goodwill                  | 16.6                                | 5.7         | 22.3                                |
| Total assets acquired     | \$65.0                              | \$(0.6      | ) \$64.4                            |
| Current liabilities       | 4.5                                 | —           | 4.5                                 |
| Other liabilities         | 1.3                                 | —           | 1.3                                 |
| Total liabilities assumed | \$5.8                               | \$—         | \$5.8                               |
| Net assets acquired       | \$59.2                              | \$(0.6      | ) \$58.6                            |

Adjustments to the preliminary purchase price allocation during the quarter ended February 26, 2012 were primarily related to updated valuations in the preliminary appraisals of identifiable intangible and tangible assets.

The excess of the purchase price over the aggregate fair value of net assets acquired was allocated to goodwill, all of which is expected to be deductible for tax purposes. Trademarks primarily have an indefinite life based on the expected use of the assets and the regulatory and economic environment within which they are being used. These trademarks represent highly respected brands with positive connotations and we intend to cultivate and protect the use of these brands. Goodwill and indefinite-lived trademarks are not amortized but are reviewed annually for impairment or more frequently if indicators of impairment exist. Buildings and equipment will be depreciated over a period of 5 months to 23 years. Other assets and liabilities represent value associated with favorable and unfavorable market leases and will be amortized over a weighted average period of 16 years.

As a result of the acquisition and related integration efforts, we incurred expenses of approximately \$1.1 million and \$2.4 million during the quarter and nine months ended February 26, 2012, respectively, which are included in selling, general and administrative expenses in our consolidated statements of earnings. Pro-forma financial information of the combined entities for periods prior to the acquisition is not presented due to the immaterial impact of the financial results of Eddie V's on our consolidated financial statements.

## Note 2. Supplemental Cash Flow Information

| (in millions)                             | Nine Months Ended    |                      |
|---|----------------------|----------------------|
|   | February 26,<br>2012 | February 27,<br>2011 |
| Interest paid, net of amounts capitalized | \$51.0               | \$59.6               |
| Income taxes paid, net of refunds         | 92.0                 | 90.7                 |

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## Note 3. Stock-Based Compensation

We grant stock options for a fixed number of shares to certain employees and directors with an exercise price equal to the fair value of the shares at the date of grant. We also grant restricted stock, restricted stock units, and performance stock units with a fair value determined based on our closing stock price on the date of grant. In addition, we also grant cash settled stock units (Darden Stock Units) and cash settled performance stock units, which are classified as liabilities and are marked to market as of the end of each period. The weighted-average fair value of non-qualified stock options and the related assumptions used in the Black-Scholes option pricing model were as follows:

|                                 | Stock Options Granted        |                   |   |   |
|---------------------------------|------------------------------|-------------------|---|---|
|                                 | During the Nine Months Ended |                   |   |   |
|                                 | February 26, 2012            | February 27, 2011 |   |   |
| Weighted-average fair value     | \$14.32                      | \$12.84           |   |   |
| Dividend yield                  | 3.53                         | % 3.01            | % | % |
| Expected volatility of stock    | 39.4                         | % 39.1            | % | % |
| Risk-free interest rate         | 2.10                         | % 2.21            | % | % |
| Expected option life (in years) | 6.5                          | 6.7               |   |   |

The following table presents a summary of our stock-based compensation activity for the nine months ended February 26, 2012:

| (in millions)                   | Stock Options | Restricted Stock/ Restricted Stock Units | Darden Stock Units | Performance Stock Units |
|---------------------------------|---------------|--|--------------------|-------------------------|
| Outstanding beginning of period | 13.0          | 0.6                                      | 1.9                | 1.0                     |
| Awards granted                  | 1.6           | 0.1                                      | 0.6                | 0.3                     |
| Awards exercised                | (1.4          | ) (0.4                                   | ) (0.3             | ) (0.2                  |
| Awards forfeited                | (0.1          | ) —                                      | (0.1               | ) —                     |
| Outstanding end of period       | 13.1          | 0.3                                      | 2.1                | 1.1                     |

We recognized expense from stock-based compensation as follows:

| (in millions)                           | Three Months Ended |                   | Nine Months Ended |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | February 26, 2012  | February 27, 2011 | February 26, 2012 | February 27, 2011 |
| Stock options                           | \$4.8              | \$5.1             | \$14.5            | \$15.1            |
| Restricted stock/restricted stock units | 0.9                | 3.1               | 3.5               | 7.4               |
| Darden stock units                      | 6.0                | 2.9               | 11.1              | 11.1              |
| Performance stock units                 | 4.4                | 5.8               | 9.6               | 12.2              |
| Employee stock purchase plan            | 0.5                | 0.6               | 1.4               | 1.5               |
| Director compensation program/other     | —                  | 0.1               | 1.2               | 1.4               |
| Total stock-based compensation expense  | \$16.6             | \$17.6            | \$41.3            | \$48.7            |

## Note 4. Income Taxes

The effective income tax rate for the quarter and nine months ended February 26, 2012 was 24.7 percent and 25.7 percent, respectively, compared to an effective income tax rate of 23.8 percent and 26.1 percent for the quarter and nine months ended February 27, 2011, respectively. The increase in the effective income tax rate for the quarter ended

February 26, 2012 as compared to the quarter ended February 27, 2011 is primarily attributable to the fiscal 2011 impact of the favorable resolution of prior year tax matters expensed in prior years in addition to the impact of market-driven changes in the value of our trust-owned life insurance that are excluded for tax purposes, partially offset by an increase in federal income tax credits related to the Hiring Incentives to Restore Employment (HIRE) Act, an increase in the impact of FICA tax credits for employee reported



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tips and the impact of solar energy tax credits. The decrease in the effective income tax rate during the nine months ended February 26, 2012 as compared to the nine months ended February 27, 2011 is primarily attributable to an increase in federal income tax credits related to the HIRE Act, an increase in the impact of FICA tax credits for employee reported tips and the impact of solar energy tax credits, partially offset by the fiscal 2011 impact of the favorable resolution of prior year tax matters expensed in prior years in addition to the impact of market-driven changes in the value of our trust-owned life insurance that are excluded for tax purposes.

Included in our remaining balance of unrecognized tax benefits is \$1.6 million related to tax positions for which it is reasonably possible that the total amounts could change within the next twelve months based on the outcome of examinations or as a result of the expiration of the statute of limitations for specific jurisdictions.

Note 5. Long-Term Debt

Until October 3, 2011, we maintained a \$750.0 million revolving Credit Agreement dated September 20, 2007 (Prior Revolving Credit Agreement) with Bank of America, N.A. (BOA), as administrative agent, and the lenders and other agents party thereto. The Prior Revolving Credit Agreement was a senior unsecured credit commitment to the Company and contained customary representations, affirmative and negative covenants (including limitations on liens and subsidiary debt and a maximum consolidated lease adjusted total debt to total capitalization ratio of 0.75 to 1.00) and events of default usual for credit facilities of this type. The Prior Revolving Credit Agreement also contained a sub-limit of \$150.0 million for the issuance of letters of credit. The Prior Revolving Credit Agreement supported our commercial paper borrowing program and would have matured on September 20, 2012, but was terminated on October 3, 2011 when we entered into the new credit arrangements described below and repaid all amounts that were outstanding under the Prior Revolving Credit Agreement.

On October 3, 2011, we entered into a new \$750.0 million revolving Credit Agreement (New Revolving Credit Agreement) with BOA, as administrative agent, and the lenders (New Revolving Credit Lenders) and other agents party thereto. The New Revolving Credit Agreement is a senior unsecured credit commitment to the Company and contains customary representations and affirmative and negative covenants (including limitations on liens and subsidiary debt and a maximum consolidated lease adjusted total debt to total capitalization ratio of 0.75 to 1.00) and events of default customary for credit facilities of this type. As of February 26, 2012, we were in compliance with the covenants under the New Revolving Credit Agreement.

The New Revolving Credit Agreement matures on October 3, 2016, and the proceeds may be used for commercial paper back-up, working capital and capital expenditures, the refinancing of certain indebtedness, certain acquisitions and general corporate purposes. The New Revolving Credit Agreement also contains a sub-limit of \$150.0 million for the issuance of letters of credit. The borrowings and letters of credit obtained under the New Revolving Credit Agreement may be denominated in U.S. Dollars, Euro, Sterling, Yen, Canadian Dollars and each other currency approved by the New Revolving Credit Lenders. The Company could elect to increase the commitments under the New Revolving Credit Agreement by up to \$250.0 million (to an aggregate amount of up to \$1.0 billion), subject to the Company obtaining commitments from new and existing lenders for the additional amounts.

Loans under the New Revolving Credit Agreement bear interest at a rate of LIBOR plus a margin determined by reference to a ratings-based pricing grid (Applicable Margin), or the base rate (which is defined as the higher of the BOA prime rate or the Federal Funds rate plus 0.500 percent) plus the Applicable Margin. Assuming a "BBB" equivalent credit rating level, the Applicable Margin under the New Revolving Credit Agreement will be 1.075 percent for LIBOR loans and 0.075 percent for base rate loans. We may also request that loans under the New Revolving Credit Agreement be made at interest rates offered by one or more of the New Revolving Credit Lenders,

which may vary from the LIBOR or base rate, for up to \$200.0 million of borrowings. The New Revolving Credit Agreement requires that we pay a facility fee on the total amount of such facility (ranging from 0.125 percent to 0.250 percent, based on our credit ratings).

As of February 26, 2012, we had no outstanding balances under the New Revolving Credit Agreement. As of February 26, 2012, \$287.7 million of commercial paper and \$70.9 million of letters of credit were outstanding, which were backed by this facility. After consideration of borrowings then outstanding and commercial paper and letters of credit backed by the New Revolving Credit Agreement, as of February 26, 2012, we had \$391.4 million of credit available under the New Revolving Credit Agreement.

On October 11, 2011, we issued \$400.0 million aggregate principal amount of unsecured 4.500 percent senior notes due October 2021 (the New Senior Notes) under a registration statement filed with the SEC on October 6, 2010. Discount and

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issuance costs, which totaled \$5.1 million, are being amortized over the term of the New Senior Notes using the straight-line method, the results of which approximate the effective interest method. Interest on the New Senior Notes is payable semi-annually in arrears on April 15 and October 15 of each year, commencing April 15, 2012. We may redeem the New Senior Notes at any time in whole or from time to time in part, at the principal amount plus a make-whole premium. If we experience a change in control triggering event, unless we have previously exercised our right to redeem the New Senior Notes, we may be required to purchase the New Senior Notes from the holders at a purchase price equal to 101 percent of their principal amount plus accrued and unpaid interest.

The interest rates on our \$350.0 million 5.625 percent senior notes due October 2012, \$500.0 million 6.200 percent senior notes due October 2017 and \$300.0 million 6.800 percent senior notes due October 2037 are subject to adjustment from time to time if the debt rating assigned to such series of notes is downgraded below a certain rating level (or subsequently upgraded). The maximum adjustment is 2.000 percent above the initial interest rate and the interest rate cannot be reduced below the initial interest rate. As of February 26, 2012, no adjustments to these interest rates had been made.

## Note 6. Net Earnings per Share

Outstanding stock options and restricted stock granted by us represent the only dilutive effect reflected in diluted weighted average shares outstanding. Options and restricted stock do not impact the numerator of the diluted net earnings per share computation. Restricted stock and options to purchase shares of common stock excluded from the calculation of diluted net earnings per share because the effect would have been anti-dilutive, are as follows:

| (in millions)                              | Three Months Ended |                   | Nine Months Ended |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | February 26, 2012  | February 27, 2011 | February 26, 2012 | February 27, 2011 |
| Anti-dilutive restricted stock and options | 3.1                | 1.4               | 2.7               | 1.2               |

## Note 7. Stockholders' Equity

Pursuant to the authorization of our Board of Directors to repurchase up to 187.4 million shares of our common stock in accordance with applicable securities laws, we have repurchased a total of 170.5 million shares of our common stock through February 26, 2012. Fiscal 2012 common stock repurchases are as follows:

| (in millions)            | Three Months Ended |                   | Nine Months Ended |                   |
|--------------------------|--------------------|-------------------|-------------------|-------------------|
|                          | February 26, 2012  | February 27, 2011 | February 26, 2012 | February 27, 2011 |
| Common stock repurchased | 1.8                | \$77.9            | 7.9               | \$357.0           |

## Note 8. Retirement Plans

Components of net periodic benefit cost are as follows:

| (in millions)                   | Defined Benefit Plans |                   |                   |                   |
|---------------------------------|-----------------------|-------------------|-------------------|-------------------|
|                                 | Three Months Ended    |                   | Nine Months Ended |                   |
|                                 | February 26, 2012     | February 27, 2011 | February 26, 2012 | February 27, 2011 |
| Service cost                    | \$1.4                 | \$1.4             | \$4.1             | \$4.4             |
| Interest cost                   | 2.2                   | 2.4               | 6.7               | 7.2               |
| Expected return on plan assets  | (4.5                  | ) (4.0            | ) (13.4           | ) (12.1           |
| Unrecognized prior service cost | —                     | 0.1               | —                 | 0.1               |
| Recognized net actuarial loss   | 1.6                   | 1.1               | 4.7               | 3.4               |

|                           |       |       |       |       |
|---------------------------|-------|-------|-------|-------|
| Net periodic benefit cost | \$0.7 | \$1.0 | \$2.1 | \$3.0 |
|---------------------------|-------|-------|-------|-------|

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| (in millions)                 | Postretirement Benefit Plan |                      |                      |                      |
|-------------------------------|-----------------------------|----------------------|----------------------|----------------------|
|                               | Three Months Ended          |                      | Nine Months Ended    |                      |
|                               | February 26,<br>2012        | February 27,<br>2011 | February 26,<br>2012 | February 27,<br>2011 |
| Service cost                  | \$0.2                       | \$0.2                | \$0.6                | \$0.7                |
| Interest cost                 | 0.3                         | 0.5                  | 1.0                  | 1.7                  |
| Recognized net actuarial loss | —                           | 0.4                  | —                    | 1.0                  |
| Net periodic benefit cost     | \$0.5                       | \$1.1                | \$1.6                | \$3.4                |

## Note 9. Derivative Instruments and Hedging Activities

We enter into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments as required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 815, Derivatives and Hedging, and those utilized as economic hedges. We use financial and commodities derivatives to manage interest rate, compensation and commodities pricing and foreign currency exchange rate risks inherent in our business operations. To the extent our derivatives are effective in offsetting the variability of the hedged cash flows, and otherwise meet the cash flow hedge accounting criteria required by ASC Topic 815, changes in the derivatives' fair value are not included in current earnings but are included in accumulated other comprehensive income (loss), net of tax. These changes in fair value will be reclassified into earnings at the time of the forecasted transaction. Ineffectiveness measured in the hedging relationship is recorded currently in earnings in the period in which it occurs. To the extent our derivatives are effective in mitigating changes in fair value, and otherwise meet the fair value hedge accounting criteria required by ASC Topic 815, gains and losses in the derivatives' fair value are included in current earnings, as are the gains and losses of the related hedged item. To the extent the hedge accounting criteria are not met, the derivative contracts are utilized as economic hedges and changes in the fair value of such contracts are recorded currently in earnings in the period in which they occur.

By using these instruments, we expose ourselves, from time to time, to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. We minimize this credit risk by entering into transactions with high quality counterparties. We currently do not have any provisions in our agreements with counterparties that would require either party to hold or post collateral in the event that the market value of the related derivative instrument exceeds a certain limit. As such, the maximum amount of loss due to counterparty credit risk we would incur at February 26, 2012, if counterparties to the derivative instruments failed completely to perform, would approximate the values of derivative instruments currently recognized as assets in our consolidated balance sheet. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates, commodity prices, or the market price of our common stock. We minimize this market risk by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The notional values of derivative contracts designated as hedging instruments and derivative contracts that are not designated as hedging instruments are as follows:

| (in millions)  | Notional Values      |                 |
|--|----------------------|-----------------|
|  | February 26,<br>2012 | May 29,<br>2011 |
| Derivative contracts designated as hedging instruments |                      |                 |
| Natural gas  | \$—                  | \$3.8           |
| Foreign currency                                       | 6.7                  | 20.7            |

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|  |       |       |
|--|-------|-------|
| Interest rate locks  | —     | 150.0 |
| Interest rate swaps  | 450.0 | 350.0 |
| Equity forwards  | 24.3  | 18.0  |
| Derivative contracts not designated as hedging instruments   |       |       |
| Natural gas  | \$—   | \$7.7 |
| Other commodities  | 7.1   | 12.7  |
| Equity forwards  | 47.7  | 24.0  |
| We periodically enter into natural gas futures, swaps and option contracts (collectively, natural gas contracts) to reduce |       |       |

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the risk of variability in cash flows associated with fluctuations in the price of natural gas during the fiscal year. For a certain portion of our natural gas purchases, changes in the price we pay for natural gas is highly correlated with changes in the market price of natural gas. For these natural gas purchases, we designate natural gas contracts as cash flow hedging instruments. For the remaining portion of our natural gas purchases, changes in the price we pay for natural gas are not highly correlated with changes in the market price of natural gas, generally due to the timing of when changes in the market prices are reflected in the price we pay. For these natural gas purchases, we utilize natural gas contracts as economic hedges. We currently have no natural gas contracts outstanding.

We periodically enter into other commodity futures and swaps (typically for soybean oil, milk, diesel fuel and butter) to reduce the risk of fluctuations in the price we pay for these commodities, which are either used directly in our restaurants (e.g., class III milk contracts for cheese and soybean oil for salad dressing) or are components of the cost we pay for items used in our restaurants (i.e., diesel fuel contracts to mitigate risk related to diesel fuel surcharges charged by our distributors). Our other commodity futures and swap contracts currently extend through October 2012. We periodically enter into foreign currency forward contracts to reduce the risk of fluctuations in exchange rates specifically related to forecasted transactions or payments made in a foreign currency either for commodities and items used directly in our restaurants or for forecasted payments of services. Our foreign currency forward contracts currently extend through June 2012.

We entered into treasury-lock derivative instruments with \$300.0 million of notional value to hedge a portion of the risk of changes in the benchmark interest rate prior to the issuance of the New Senior Notes in the second quarter of fiscal 2012, as changes in the benchmark interest rate would cause variability in our forecasted interest payments. These derivative instruments were designated as cash flow hedges. These instruments were settled at the issuance of the New Senior Notes for a cumulative loss of \$53.7 million. Of the cumulative loss, \$52.6 million was recorded in accumulated other comprehensive income (loss) and will be reclassified into earnings as an adjustment to interest expense on the New Senior Notes or similar debt as incurred.

We entered into forward-starting interest rate swap agreements with \$300.0 million of notional value to hedge a portion of the risk of changes in the benchmark interest rate associated with the expected issuance of long-term debt to refinance our \$350.0 million 5.625 percent senior notes due October 2012, as changes in the benchmark interest rate will cause variability in our forecasted interest payments. These derivative instruments are designated as cash flow hedges.

We entered into interest rate swap agreements with \$150.0 million of notional value to limit the risk of changes in fair value of a portion of the \$350.0 million 5.625 percent senior notes due October 2012 attributable to changes in the benchmark interest rate, between inception of the interest rate swap agreements and maturity of the related debt. The swap agreements effectively swap the fixed rate obligations for floating rate obligations, thereby mitigating changes in fair value of the related debt prior to maturity. The swap agreements were designated as fair value hedges of the related debt and met the requirements to be accounted for under the short-cut method, resulting in no ineffectiveness in the hedging relationship. During the quarters ended February 26, 2012 and February 27, 2011, \$0.7 million and \$0.9 million, respectively, was recorded as a reduction to interest expense related to the net swap settlements. During the nine months ended February 26, 2012 and February 27, 2011, \$2.2 million and \$2.8 million, respectively, was recorded as a reduction to interest expense related to the net swap settlements.

We enter into equity forward contracts to hedge the risk of changes in future cash flows associated with the unvested, unrecognized Darden stock units. The equity forward contracts will be settled at the end of the vesting periods of their underlying Darden stock units, which range between four and five years. The contracts were initially designated as cash flow hedges to the extent the Darden stock units are unvested and, therefore, unrecognized as a liability in our financial statements. As of February 26, 2012, we were party to equity forward contracts that were indexed to 1.1 million shares of our common stock, at varying forward rates between \$27.57 per share and \$45.66 per share,

extending through August 2016. The forward contracts can only be net settled in cash. As the Darden stock units vest, we will de-designate that portion of the equity forward contract that no longer qualifies for hedge accounting and changes in fair value associated with that portion of the equity forward contract will be recognized in current earnings. We periodically incur interest on the notional value of the contracts and receive dividends on the underlying shares. These amounts are recognized currently in earnings as they are incurred.

We entered into equity forward contracts to hedge the risk of changes in future cash flows associated with recognized, cash-settled performance stock units and employee-directed investments in Darden stock within the non-qualified deferred compensation plan. The equity forward contracts are indexed to 0.7 million shares of our common stock at forward rates between \$23.41 and \$50.19 per share, can only be net settled in cash and expire between fiscal 2012 and 2016. We did not elect hedge accounting with the expectation that changes in the fair value of the equity forward contracts would offset changes in the fair value of the performance stock units and Darden stock investments in the non-qualified deferred compensation plan within



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selling, general and administrative expenses in our consolidated statements of earnings.

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

| (in millions)  | Balance Sheet Location | Derivative Assets |              | Derivative Liabilities |              |
|--|------------------------|-------------------|--------------|------------------------|--------------|
|  |                        | February 26, 2012 | May 29, 2011 | February 26, 2012      | May 29, 2011 |
| Derivative contracts designated as hedging instruments     |                        |                   |              |                        |              |
| Commodity contracts  | (1)                    | \$—               | \$0.1        | \$—                    | \$—          |
| Equity forwards  | (1)                    | —                 | 0.4          | —                      | —            |
| Interest rate related                                      | (1)                    | 1.8               | 3.6          | (36.6                  | ) (23.2      |
| Foreign currency forwards                                  | (1)                    | 0.2               | 0.6          | —                      | —            |
|  |                        | \$2.0             | \$4.7        | \$(36.6                | ) \$(23.2    |
| Derivative contracts not designated as hedging instruments |                        |                   |              |                        |              |
| Commodity contracts  | (1)                    | \$0.5             | \$0.6        | \$—                    | \$—          |
| Equity forwards  | (1)                    | —                 | 0.5          | (0.1                   | ) —          |
|  |                        | \$0.5             | \$1.1        | \$(0.1                 | ) \$—        |
| Total derivative contracts                                 |                        | \$2.5             | \$5.8        | \$(36.7                | ) \$(23.2    |

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

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

| (in millions)      | Amount of Gain (Loss) Recognized in AOCI (effective portion) |                   | Location of Gain (Loss) Reclassified from AOCI to Earnings | Amount of Gain (Loss) Reclassified from AOCI to Earnings (effective portion) |                   | Location of Gain (Loss) Recognized in Earnings (ineffective portion) | (1) Amount of Gain (Loss) Recognized in Earnings (ineffective portion) |                   |
|--------------------|--|-------------------|--|--|-------------------|--|--|-------------------|
|                    | Three Months Ended February 26, 2012                         | February 27, 2011 |  | Three Months Ended February 26, 2012   | February 27, 2011 |  | Three Months Ended February 26, 2012                                   | February 27, 2011 |
| Type of Derivative |  |                   |  |  |                   |  |  |                   |
| Commodity          | \$(0.1   | ) \$(0.3          | (2)  | \$(1.1   | ) \$—             | (2)  | \$—  | \$—               |
| Equity             | 2.4  | (1.9              | (3)  | —  | —                 | (3)  | 0.2  | 0.1               |
| Interest rate      | (3.5   | ) 15.1            | Interest, net  | (1.1   | ) 0.2             | Interest, net  | —  | (0.5              |
| Foreign currency   | 0.6  | (0.3              | (4)  | 0.2  | 0.6               | (4)  | —  | —                 |
|                    | \$(0.6   | ) \$12.6          |  | \$(2.0   | ) \$0.8           |  | \$0.2  | \$(0.4            |



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| (in millions)      | Amount of Gain (Loss) Recognized in AOCI (effective portion) |                   | Location of Gain (Loss) Reclassified from AOCI to Earnings | Amount of Gain (Loss) Reclassified from AOCI to Earnings (effective portion) |                   | Location of Gain (Loss) Recognized in Earnings (ineffective portion) | (1) Amount of Gain (Loss) Recognized in Earnings (ineffective portion) |                   |
|--------------------|--|-------------------|--|--|-------------------|--|--|-------------------|
|                    | Nine Months Ended  |                   |  | Nine Months Ended  |                   |  | Nine Months Ended  |                   |
| Type of Derivative | February 26, 2012  | February 27, 2011 |  | February 26, 2012  | February 27, 2011 |  | February 26, 2012  | February 27, 2011 |
| Commodity          | \$ (1.7 )  | \$ (0.3 )         | (2)  | \$ (1.7 )  | \$ (0.9 )         | (2)  | \$ —   | \$ —              |
| Equity             | (2.0 )   | 1.6               | (3)  | —  | —                 | (3)  | 0.5  | 0.2               |
| Interest rate      | (67.0 )  | 3.8               | Interest, net  | (1.8 )   | 0.5               | Interest, net  | (0.7 )   | (0.8 )            |
| Foreign currency   | 0.4  | (0.3 )            | (4)  | 0.7  | 0.7               | (4)  | —  | —                 |
|                    | \$ (70.3 )   | \$ 4.8            |  | \$ (2.8 )  | \$ 0.3            |  | \$ (0.2 )  | \$ (0.6 )         |

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

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

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

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

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

| (in millions) | Amount of Gain (Loss) Recognized in Earnings on Derivatives | Location of Gain (Loss) Recognized in Earnings on Derivatives | Hedged Item in Fair Value Hedge Relationship | Amount of Gain (Loss) Recognized in Earnings on Related Hedged Item | Location of Gain (Loss) Recognized in Earnings on Related Hedged Item |
|---------------|---|---|--|---|---|
|               |   |   |  |   |   |

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|               |                   |                   |                               |                   |                   |               |
|---------------|-------------------|-------------------|-------------------------------|-------------------|-------------------|---------------|
|               | February 26, 2012 | February 27, 2011 |                               | February 26, 2012 | February 27, 2011 |               |
| Interest rate | \$(0.3 )          | \$(0.5 )          | Interest, net Fixed-rate debt | \$0.3             | \$0.5             | Interest, net |

| (in millions) | Amount of Gain (Loss) Recognized in Earnings on Derivatives | Location of Gain (Loss) Recognized in Earnings on Derivatives | Hedged Item in Fair Value Hedge Relationship | Amount of Gain (Loss) Recognized in Earnings on Related Hedged Item | Location of Gain (Loss) Recognized in Earnings on Related Hedged Item |
|---------------|---|---|--|---|---|
|               | Nine Months Ended February 26, 2012                         | February 27, 2011   |  | Nine Months Ended February 26, 2012                                 | February 27, 2011   |
| Interest rate | \$(1.9 )  | \$0.4   | Interest, net Fixed-rate debt                | \$1.9   | \$(0.4 ) Interest, net  |

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DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| (in millions)       | Location of Gain (Loss) Recognized in Earnings on Derivatives | Amount of Gain (Loss) Recognized in Earnings |                   |                   |                   |
|---------------------|---|--|-------------------|-------------------|-------------------|
|                     |   | Three Months Ended                           |                   | Nine Months Ended |                   |
|                     |   | February 26, 2012                            | February 27, 2011 | February 26, 2012 | February 27, 2011 |
| Commodity contracts | (1)   | \$ (2.6)                                     | \$ —              | \$ (7.3)          | \$ —              |
| Equity forwards     | (2)   | 1.5  | (0.1)             | 0.7               | 1.7               |
| Equity forwards     | Selling, General and Administrative                           | 4.5  | (0.3)             | 1.9               | 1.7               |
|                     |   | \$ 3.4                                       | \$ (0.4)          | \$ (4.7)          | \$ 3.4            |

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

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

Based on the fair value of our derivative instruments designated as cash flow hedges as of February 26, 2012, we expect to reclassify \$5.3 million of net losses on derivative instruments from accumulated other comprehensive income (loss) to earnings during the next twelve months based on the timing of our forecasted commodity purchases and maturity of equity forward and interest rate related instruments. However, the amounts ultimately realized in earnings will be dependent on the fair value of the contracts on the settlement dates.

## Note 10. Fair Value Measurements

The fair values of cash equivalents, accounts receivable, accounts payable and short-term debt approximate their carrying amounts due to their short duration.

The following table summarizes the fair values of financial instruments measured at fair value on a recurring basis as reflected in our unaudited consolidated balance sheet as of February 26, 2012 and May 29, 2011:

## Items Measured at Fair Value at February 26, 2012

| (in millions)                        |      | Fair value of assets (liabilities) | Quoted prices in active market for identical assets (liabilities) (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|--------------------------------------|------|------------------------------------|---|---|---|
| Fixed-income securities:             |      |                                    |   |   |   |
| Corporate bonds                      | (1 ) | \$ 14.6                            | \$ —  | \$ 14.6                                       | \$ —                                      |
| U.S. Treasury securities             | (2 ) | 13.2                               | 13.2  | —   | —   |
| Mortgage-backed securities           | (1 ) | 10.0                               | —   | 10.0  | —   |
| Derivatives:                         |      |                                    |   |   |   |
| Commodities futures, swaps & options | (3 ) | 0.5                                | —   | 0.5   | —   |
| Equity forwards                      | (4 ) | (0.1)                              | —   | (0.1)   | —   |
| Interest rate swaps                  | (5 ) | (34.8)                             | —   | (34.8)  | —   |
| Foreign currency forwards            | (6 ) | 0.2                                | —   | 0.2   | —   |
| Total                                |      | \$ 3.6                             | \$ 13.2   | \$ (9.6)                                      | \$ —                                      |



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DARDEN RESTAURANTS, INC.

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## Items Measured at Fair Value at May 29, 2011

| (in millions)                        | Fair value<br>of assets<br>(liabilities) | Quoted prices<br>in active<br>market for<br>identical assets<br>(liabilities)<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
|--------------------------------------|--|--|---|--|
| Fixed-income securities:             |  |  |   |  |
| Corporate bonds                      | (1 ) \$16.6                              | \$—  | \$16.6  | \$—  |
| U.S. Treasury securities             | (2 ) 10.6                                | 10.6   | —   | —  |
| Mortgage-backed securities           | (1 ) 4.9                                 | —  | 4.9   | —  |
| Derivatives:                         |  |  |   |  |
| Commodities futures, swaps & options | (3 ) 0.7                                 | —  | 0.7   | —  |
| Equity forwards                      | (4 ) 0.9                                 | —  | 0.9   | —  |
| Interest rate locks & swaps          | (5 ) (19.6 )                             | —  | (19.6 )   | —  |
| Foreign currency forwards            | (6 ) 0.6                                 | —  | 0.6   | —  |
| Total                                | \$14.7                                   | \$10.6   | \$4.1   | \$—  |

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

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

(3) The fair value of our commodities futures, swaps and options classified as Level 2 is based on closing market prices of the contracts, inclusive of the risk of nonperformance.

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

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

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

The carrying value and fair value of long-term debt, including the amounts included in current liabilities, as of February 26, 2012, was \$1.80 billion and \$2.04 billion, respectively. The carrying value and fair value of long-term debt as of May 29, 2011, was \$1.41 billion and \$1.56 billion, 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.

The following table summarizes the fair values of non-financial assets measured at fair value on a non-recurring basis as of February 26, 2012:

## Items Measured at Fair Value

| (in millions)                       | Fair Value of<br>Assets | Quoted prices in<br>active market for<br>identical assets<br>(liabilities)<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
|-------------------------------------|-------------------------|---|---|--|
| Long-lived assets held for disposal | (1 ) \$0.8              | \$ —  | \$—   | \$0.8  |
| Long-lived assets held and used     | (2 ) —                  | —   | —   | —  |
| Total                               | \$0.8                   | \$ —  | \$—   | \$0.8  |

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In accordance with the provisions of ASC Topic 360, Property, Plant and Equipment, during fiscal 2012,  
(1) long-lived assets held for disposal with a carrying amount of \$0.9 million were written down to their fair value of \$0.8 million, based on a review of comparable assets, resulting in an impairment charge of \$0.1 million, which was included in losses from discontinued operations.

In accordance with the provisions of ASC Topic 360, Property, Plant and Equipment, during fiscal 2012,  
(2) long-lived assets held and used with a carrying amount of \$0.3 million were written down to their fair value of \$0.0 million, due to fire loss, resulting in an impairment charge of \$0.3 million, which was included in earnings from continuing operations.

The following table summarizes the fair values of non-financial assets measured at fair value on a non-recurring basis as of May 29, 2011:



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DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Items Measured at Fair Value

| (in millions)                       |      | Fair value<br>of assets | Quoted prices in<br>active market for<br>identical assets<br>(liabilities)<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
|-------------------------------------|------|-------------------------|---|---|--|
| Long-lived assets held for disposal | (1 ) | \$4.4                   | \$ —  | \$—   | \$4.4  |
| Long-lived assets held and used     | (2 ) | 0.7                     | —   | —   | 0.7  |
| Total                               |      | \$5.1                   | \$ —  | \$—   | \$5.1  |

In accordance with the provisions of ASC Topic 360, Property, Plant and Equipment, during fiscal 2011, long-lived assets held for disposal with a carrying amount of \$7.0 million were written down to their fair value of (1) \$4.4 million, based on a review of comparable assets, resulting in an impairment charge of \$2.6 million, of which \$1.9 million was included in earnings from continuing operations and \$0.7 million was included in losses from discontinued operations.

In accordance with the provisions of ASC Topic 360, Property, Plant and Equipment, during fiscal 2011, (2) long-lived assets held and used with a carrying amount of \$2.8 million were written down to their fair value of \$0.7 million, based on a review of comparable assets, resulting in an impairment charge of \$2.1 million, which was included in earnings from continuing operations.

## Note 11. Commitments and Contingencies

As collateral for performance on contracts and as credit guarantees to banks and insurers, we are contingently liable for guarantees of subsidiary obligations under standby letters of credit. As of February 26, 2012 and May 29, 2011, we had \$99.2 million and \$96.4 million, respectively, of standby letters of credit related to workers' compensation and general liabilities accrued in our consolidated financial statements. As of February 26, 2012 and May 29, 2011, we had \$19.6 million and \$16.8 million, 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 February 26, 2012 and May 29, 2011, we had \$5.7 million and \$7.4 million, respectively, of guarantees associated with leased properties that have been assigned to third parties. These amounts represent the maximum potential amount of future payments under the guarantees. The fair value of these potential payments discounted at our pre-tax cost of capital as of February 26, 2012 and May 29, 2011, amounted to \$4.3 million and \$5.4 million, respectively. We did not accrue for the guarantees, as the likelihood of the third parties defaulting on the assignment agreements was deemed to be less than probable. In the event of default by a third party, the indemnity and default clauses in our assignment agreements govern our ability to recover from and pursue the third party for damages incurred as a result of its default. We do not hold any third-party assets as collateral related to these assignment agreements, except to the extent that the assignment allows us to repossess the building and personal property. These guarantees expire over their respective lease terms, which range from fiscal 2013 through fiscal 2021.

We are subject to private lawsuits, administrative proceedings and claims that arise in the ordinary course of our business. A number of these lawsuits, proceedings and claims may exist at any given time. These matters typically involve claims from guests, employees and others related to operational issues common to the restaurant industry, and can also involve infringement of, or challenges to, our trademarks. While the resolution of a lawsuit, proceeding or claim may have an impact on our financial results for the period in which it is resolved, we believe that the final disposition of the lawsuits, proceedings and claims in which we are currently involved, either individually or in the aggregate, will not have a material adverse effect on our financial position, results of operations or liquidity.

Note 12. Application of New Accounting Standards

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. Many of the amendments in this update change the wording used in the existing guidance to better align U.S. generally accepted accounting principles with International Financial Reporting Standards and to clarify the FASB's intent on various aspects of the fair value guidance. This update also requires increased disclosure of quantitative information about unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy. This update is effective for us in our first quarter of fiscal 2013 and will be applied prospectively. Other than requiring additional disclosures, adoption of this new guidance will not have a significant impact on our consolidated financial statements.

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DARDEN RESTAURANTS, INC.

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(Unaudited)

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220), Presentation of Comprehensive Income, which requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of equity. In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220), Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05, to defer the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. All other provisions of this update are effective for us in our first quarter of fiscal 2013 and will be applied retrospectively. We do not believe adoption of this new guidance will have a significant impact on our consolidated financial statements. In September 2011, the FASB issued ASU 2011-08, Intangibles - Goodwill and Other (Topic 350), Testing Goodwill for Impairment, which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying value before applying the two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. This update is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011, which will require us to adopt these provisions in fiscal 2013; however, early adoption is permitted. We do not believe adoption of this new guidance will have a significant impact on our consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities, which requires companies to disclose information about financial instruments that have been offset and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Companies will be required to provide both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset. This update is effective for us in our first quarter of fiscal 2014 and will be applied retrospectively. We do not believe adoption of this new guidance will have a significant impact on our consolidated financial statements.

Note 13. Subsequent Events

On March 22, 2012, the Board of Directors declared a cash dividend of \$0.43 per share to be paid May 1, 2012 to all shareholders of record as of the close of business on April 10, 2012.

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis below for the Company, which contains forward-looking statements, should be read in conjunction with the unaudited financial statements, the notes to such financial statements and the "Forward-Looking Statements" included elsewhere in this Form 10-Q.

The following table sets forth selected operating data as a percent of sales for the periods indicated. All information is derived from the unaudited consolidated statements of earnings for the quarters and nine months ended February 26, 2012 and February 27, 2011.

|  | Three Months Ended   |                      | Nine Months Ended    |                      |   |  |
|--|----------------------|----------------------|----------------------|----------------------|---|--|
|  | February 26,<br>2012 | February 27,<br>2011 | February 26,<br>2012 | February 27,<br>2011 |   |  |
| Sales  | 100.0                | % 100.0              | % 100.0              | % 100.0              | % |  |
| Costs and expenses:  |                      |                      |                      |                      |   |  |
| Cost of sales:   |                      |                      |                      |                      |   |  |
| Food and beverage  | 30.6                 | 28.9                 | 30.8                 | 28.6                 |   |  |
| Restaurant labor   | 30.4                 | 31.4                 | 31.4                 | 32.2                 |   |  |
| Restaurant expenses  | 14.3                 | 14.5                 | 15.2                 | 15.2                 |   |  |
| Total cost of sales, excluding restaurant depreciation and amortization of 3.9%, 3.8%, 4.1% and 4.0%, respectively | 75.3                 | % 74.8               | % 77.4               | % 76.0               | % |  |
| Selling, general and administrative  | 9.2                  | 9.8                  | 9.5                  | 10.0                 |   |  |
| Depreciation and amortization  | 4.1                  | 4.1                  | 4.4                  | 4.3                  |   |  |
| Interest, net  | 1.3                  | 1.2                  | 1.3                  | 1.3                  |   |  |
| Total costs and expenses   | 89.9                 | % 89.9               | % 92.6               | % 91.6               | % |  |
| Earnings before income taxes   | 10.1                 | 10.1                 | 7.4                  | 8.4                  |   |  |
| Income taxes   | (2.5)                | ) (2.4)              | ) (1.9)              | ) (2.2)              | ) |  |
| Earnings from continuing operations  | 7.6                  | 7.7                  | 5.5                  | 6.2                  |   |  |
| Losses from discontinued operations  | —                    | (0.1)                | ) —                  | (0.1)                | ) |  |
| Net earnings   | 7.6                  | % 7.6                | % 5.5                | % 6.1                | % |  |

## OVERVIEW OF OPERATIONS

On November 14, 2011, we completed the acquisition of eight Eddie V's Prime Seafood restaurants and three Wildfish Seafood Grille restaurants (collectively Eddie V's) and all related assets and net working capital for \$58.6 million in cash. The results of operations from Eddie V's, which are not material, are included in our consolidated financial statements from the date of acquisition.

Our sales from continuing operations were \$2.16 billion and \$5.93 billion for the third quarter and first nine months of fiscal 2012, respectively, compared to \$1.98 billion and \$5.51 billion for the third quarter and first nine months of fiscal 2011, respectively. The increases of 9.3 percent and 7.7 percent in sales for the third quarter and first nine months of fiscal 2012, respectively, were driven primarily by the operation of 80 net new company-owned restaurants plus the addition of 11 Eddie V's restaurants since the third quarter of fiscal 2011 and blended U.S. same-restaurant sales increases for Olive Garden, Red Lobster and LongHorn Steakhouse of 4.1 percent and 3.0 percent for the third quarter and first nine months of fiscal 2012, respectively. For the third quarter of fiscal 2012, the increase in blended same-restaurant sales compares to an estimated increase of 2.6 percent for the Knapp-Track™ benchmark of U.S. same-restaurant sales excluding Darden. For the third quarter of fiscal 2012, our net earnings from continuing operations were \$164.1 million compared to \$151.7 million for the third quarter of fiscal 2011, an 8.2 percent increase, and our diluted net earnings per share from continuing operations were \$1.25 for the third quarter of fiscal 2012 compared to \$1.08 for the third quarter of fiscal 2011, a 15.7 percent increase. For the first nine months of fiscal 2012, our net earnings from continuing operations were \$325.0 million compared to \$340.8 million for the first nine months of fiscal 2011, a 4.6 percent decrease, and our diluted net earnings per share from continuing operations were \$2.43 for the first nine months of fiscal 2012 compared to \$2.42 for the first nine months of fiscal 2011, a 0.4 percent

increase. The increases in net earnings from continuing operations and diluted net earnings per share from continuing operations for the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011 were primarily due to increased sales and lower restaurant labor expenses, restaurant expenses and selling, general and administrative expenses as a percent of sales, which were partially offset by higher food and beverage costs as a percent of sales, and a higher effective income tax rate. In addition

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to an increase in earnings, a portion of the increase in diluted net earnings per share from continuing operations was due to a reduction in the average diluted shares outstanding primarily as a result of the cumulative impact of our continuing repurchase of our common stock. The decrease in net earnings from continuing operations for the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 was primarily due to higher food and beverage costs and depreciation and amortization expenses as a percent of sales, which were partially offset by increased sales and lower restaurant labor expenses and selling, general and administrative expenses as a percent of sales, and a lower effective income tax rate. While net earnings from continuing operations decreased, diluted net earnings per share from continuing operations increased for the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 due to a reduction in the average diluted shares outstanding primarily as a result of the cumulative impact of our continuing repurchase of our common stock.

**SALES**

Sales from continuing operations were \$2.16 billion and \$1.98 billion for the quarters ended February 26, 2012 and February 27, 2011, respectively. The 9.3 percent increase in sales for the third quarter of fiscal 2012 was driven by the operation of 80 net new company-owned restaurants plus the addition of 11 Eddie V's restaurants since the third quarter of fiscal 2011 and a 4.1 percent blended U.S. same-restaurant sales increase for Olive Garden, Red Lobster and LongHorn Steakhouse. Olive Garden's sales of \$956.8 million for the third quarter of fiscal 2012 were 5.5 percent above last year's third fiscal quarter, driven by revenue from 33 net new restaurants and a U.S. same-restaurant sales increase of 2.0 percent. The increase in U.S. same-restaurant sales resulted from a 1.6 percent increase in same-restaurant guest counts combined with a 0.4 percent increase in average check. Red Lobster's sales of \$711.7 million for the third quarter of fiscal 2012 were 7.4 percent above last fiscal year's third quarter, driven by a 6.0 percent increase in U.S. same-restaurant sales and revenue from eight net new restaurants. The increase in U.S. same-restaurant sales resulted from a 1.4 percent increase in same-restaurant guest counts, combined with a 4.6 percent increase in average check. LongHorn Steakhouse's sales of \$310.8 million for the third quarter of fiscal 2012 were 16.2 percent above last fiscal year's third quarter, driven by revenue from 27 net new restaurants and a 6.7 percent increase in same-restaurant sales. The increase in same-restaurant sales resulted from a 7.2 percent increase in same-restaurant guest counts partially offset by a 0.5 percent decrease in average check. In total, The Capital Grille, Bahama Breeze, Seasons 52 and Eddie V's generated sales of \$178.1 million for the third quarter of fiscal 2012, which were 27.8 percent above last fiscal year's third quarter, primarily driven by six new restaurants at Seasons 52, three new restaurants at Bahama Breeze, one new restaurant at The Capital Grille, and the addition of 11 Eddie V's purchased restaurants. Additionally, sales growth reflected same-restaurant sales increases of 5.7 percent at The Capital Grille, 5.9 percent at Bahama Breeze and 6.1 percent at Seasons 52.

Sales from continuing operations were \$5.93 billion and \$5.51 billion for the nine months ended February 26, 2012 and February 27, 2011, respectively. The 7.7 percent increase in sales for the first nine months of fiscal 2012 was driven by the operation of 80 net new company-owned restaurants plus the addition of 11 Eddie V's restaurants since the third quarter of fiscal 2011 and a 3.0 percent blended U.S. same-restaurant sales increase for Olive Garden, Red Lobster and LongHorn Steakhouse. Olive Garden's sales of \$2.68 billion for the first nine months of fiscal 2012 were 2.5 percent above the same period last fiscal year, driven by revenue from 33 net new restaurants, partially offset by a U.S. same-restaurant sales decrease of 1.0 percent. The decrease in U.S. same-restaurant sales resulted from a 0.4 percent decrease in same-restaurant guest counts combined with a 0.6 percent decrease in average check. Red Lobster's sales of \$1.99 billion for the first nine months of fiscal 2012 were 9.3 percent above the same period last fiscal year, driven by a 7.8 percent increase in U.S. same-restaurant sales and revenue from eight net new restaurants. The increase in U.S. same-restaurant sales resulted from a 6.0 percent increase in same-restaurant guest counts combined with a 1.8 percent increase in average check. LongHorn Steakhouse's sales of \$818.9 million for the first nine months of fiscal 2012 were 14.1 percent above the same period last fiscal year, driven by revenue from 27 net new restaurants and a 6.0 percent increase in same-restaurant sales. The increase in same-restaurant sales resulted from a 5.7 percent increase in same-restaurant guest counts combined with a 0.3 percent increase in average check. In total, The Capital Grille, Bahama Breeze, Seasons 52 and Eddie V's generated sales of \$443.8 million for the first nine months of fiscal 2012, which were 23.0 percent above the same period last fiscal year, primarily driven by six new restaurants at Seasons 52, three new restaurants at Bahama Breeze, one new restaurant at The Capital Grille, and the addition of 11

Eddie V's purchased restaurants. Additionally, sales growth reflected same-restaurant sales increases of 6.2 percent at The Capital Grille, 3.6 percent at Bahama Breeze and 3.6 percent at Seasons 52.

Same-restaurant sales is a year-over-year comparison of each period's sales volumes and is limited to restaurants open at least 16 months.

**COSTS AND EXPENSES**

Quarter Ended February 26, 2012 Compared to Quarter Ended February 27, 2011

Total costs and expenses were \$1.94 billion and \$1.78 billion for the quarters ended February 26, 2012 and February 27,

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2011, respectively. As a percent of sales, total costs and expenses were 89.9 percent in both the third quarter of fiscal 2012 and the third quarter of fiscal 2011.

Food and beverage costs were \$661.7 million in the third quarter of fiscal 2012, an increase of \$90.4 million, or 15.8 percent, from food and beverage costs of \$571.3 million in the third quarter of fiscal 2011. As a percent of sales, food and beverage costs increased for the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011, primarily as a result of higher seafood and other food commodity costs and unfavorable menu-mix. Restaurant labor costs were \$657.2 million in the third quarter of fiscal 2012, an increase of \$36.0 million, or 5.8 percent, from restaurant labor costs of \$621.2 million in the third quarter of fiscal 2011. Restaurant labor costs as a percent of sales decreased primarily as a result of sales leveraging, improved wage-rate management, and lower employee insurance claims costs, partially offset by higher manager incentive compensation, higher unemployment taxes and an increase in FICA taxes on higher reported tips. The increase in FICA tax expense on higher reported tips is fully offset in our consolidated earnings from continuing operations by a corresponding income tax credit, which reduces income tax expense. Restaurant expenses (which include utilities, repairs and maintenance, credit card, lease, property tax, workers' compensation, new restaurant pre-opening and other restaurant-level operating expenses) were \$308.4 million in the third quarter of fiscal 2012, an increase of \$22.5 million, or 7.9 percent, from restaurant expenses of \$285.9 million in the third quarter of fiscal 2011. As a percent of sales, restaurant expenses decreased in the third quarter of fiscal 2012 primarily due to sales leverage and lower credit card fees partially offset by higher workers' compensation and pre-opening expenses.

Selling, general and administrative expenses were \$198.0 million in the third quarter of fiscal 2012, an increase of \$3.2 million, or 1.6 percent, from selling, general and administrative expenses of \$194.8 million in the third quarter of fiscal 2011. As a percent of sales, selling, general and administrative expenses decreased for the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011 primarily due to sales leverage and lower performance-based compensation partially offset by unfavorable market-driven changes in fair value related to our non-qualified deferred compensation plans and higher media costs.

Depreciation and amortization expense was \$88.9 million in the third quarter of fiscal 2012, an increase of \$8.4 million, or 10.4 percent, from depreciation and amortization expense of \$80.5 million in the third quarter of fiscal 2011. As a percent of sales, depreciation and amortization expense was flat in the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011 as an increase in depreciable assets related to new restaurants and remodel activities was offset by sales leveraging.

Net interest expense was \$27.7 million in the third quarter of fiscal 2012, an increase of \$3.7 million, or 15.4 percent, from net interest expense of \$24.0 million in the third quarter of fiscal 2011. As a percent of sales, net interest expense for the third quarter of fiscal 2012 increased compared to the third quarter of fiscal 2011 primarily due to higher average long-term debt balances.

Nine Months Ended February 26, 2012 Compared to Nine Months Ended February 27, 2011

Total costs and expenses were \$5.50 billion and \$5.05 billion for the nine months ended February 26, 2012 and February 27, 2011, respectively. As a percent of sales, total costs and expenses increased from 91.6 percent for the first nine months of fiscal 2011 to 92.6 percent for the first nine months of fiscal 2012.

Food and beverage costs were \$1.83 billion for the first nine months of fiscal 2012, an increase of \$255.0 million, or 16.2 percent, from food and beverage costs of \$1.57 billion for the first nine months of fiscal 2011. As a percent of sales, food and beverage costs increased for the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011, primarily as a result of higher seafood and other food commodity costs and unfavorable menu-mix. Restaurant labor costs were \$1.86 billion for the first nine months of fiscal 2012, an increase of \$92.7 million, or 5.2 percent, from restaurant labor costs of \$1.77 billion for the first nine months of fiscal 2011. Restaurant labor costs as a percent of sales decreased primarily as a result of sales leveraging and improved wage-rate management, partially offset by an increase in FICA taxes on higher reported tips, decreased labor efficiencies and higher unemployment taxes. The increase in FICA tax expense on higher reported tips is fully offset in our consolidated earnings from continuing operations by a corresponding income tax credit, which reduces income tax expense. Restaurant expenses (which include utilities, repairs and maintenance, credit card, lease, property tax, workers' compensation, new



restaurant pre-opening and other restaurant-level operating expenses) were \$901.2 million for the first nine months of fiscal 2012, an increase of \$61.3 million, or 7.3%, from restaurant expenses of \$839.9 million for the first nine months of fiscal 2011. As a percent of sales, restaurant expenses for the first nine months of fiscal 2012 were flat compared to the first nine months of fiscal 2011.

Selling, general and administrative expenses were \$568.3 million for the first nine months of fiscal 2012, an increase of \$12.4 million, or 2.2 percent, from selling, general and administrative expenses of \$555.9 million for the first nine months of

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fiscal 2011. As a percent of sales, selling, general and administrative expenses decreased for the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 primarily due to sales leveraging and favorable market-driven changes in fair value related to our non-qualified deferred compensation plans, partially offset by higher media costs.

Depreciation and amortization expense was \$258.8 million for the first nine months of fiscal 2012, an increase of \$23.6 million, or 10.0 percent, from depreciation and amortization expense of \$235.2 million for the first nine months of fiscal 2011. As a percent of sales, depreciation and amortization expense increased for the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 primarily due to an increase in depreciable assets related to new restaurants and remodel activities, partially offset by sales leveraging.

Net interest expense was \$74.5 million for the first nine months of fiscal 2012, an increase of \$2.4 million, or 3.3 percent, from net interest expense of \$72.1 million for the first nine months of fiscal 2011. As a percent of sales, net interest expense was flat for the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 .

**INCOME TAXES**

The effective income tax rate for the quarter and nine months ended February 26, 2012 was 24.7 percent and 25.7 percent, respectively, compared to an effective income tax rate of 23.8 percent and 26.1 percent for the quarter and nine months ended February 27, 2011, respectively. The increase in the effective income tax rate for the quarter ended February 26, 2012 as compared to the quarter ended February 27, 2011 is primarily attributable to the fiscal 2011 impact of the favorable resolution of prior year tax matters expensed in prior years in addition to the impact of market-driven changes in the value of our trust-owned life insurance that are excluded for tax purposes, partially offset by an increase in federal income tax credits related to the Hiring Incentives to Restore Employment (HIRE) Act, an increase in the impact of FICA tax credits for employee reported tips and the impact of solar energy tax credits. The decrease in the effective income tax rate during the nine months ended February 26, 2012 as compared to the nine months ended February 27, 2011 is primarily attributable to an increase in federal income tax credits related to the HIRE Act, an increase in the impact of FICA tax credits for employee reported tips and the impact of solar energy tax credits, partially offset by the fiscal 2011 impact of the favorable resolution of prior year tax matters expensed in prior years in addition to the impact of market-driven changes in the value of our trust-owned life insurance that are excluded for tax purposes.

**NET EARNINGS AND NET EARNINGS PER SHARE FROM CONTINUING OPERATIONS**

For the third quarter of fiscal 2012, our net earnings from continuing operations were \$164.1 million compared to \$151.7 million in the third quarter of fiscal 2011, an 8.2 percent increase, and our diluted net earnings per share from continuing operations were \$1.25 compared to \$1.08 in the third quarter of fiscal 2011, a 15.7 percent increase. At Olive Garden, lower restaurant labor expenses, restaurant expenses and selling, general and administrative expenses as a percent of sales were partially offset by higher food and beverage costs and depreciation expenses as a percent of sales. As a result, operating profit as a percent of sales increased in the third quarter of fiscal 2012, compared to the third quarter of fiscal 2011. At Red Lobster, higher food and beverage costs and depreciation expenses as a percent of sales were partially offset by lower restaurant labor expenses, restaurant expenses and selling, general and administrative expenses as a percent of sales. As a result, operating profit as a percent of sales decreased for Red Lobster in the third quarter of fiscal 2012, compared to the third quarter of fiscal 2011. At LongHorn Steakhouse, lower restaurant labor expenses, restaurant expenses and selling, general and administrative expenses as a percent of sales were partially offset by higher food and beverage costs and depreciation expenses as a percent of sales. As a result, operating profit as a percent of sales increased for LongHorn Steakhouse in the third quarter of fiscal 2012, compared to the third quarter of fiscal 2011. In addition to an increase in earnings, a portion of the increase in diluted net earnings per share from continuing operations was due to a reduction in the average diluted shares outstanding primarily as a result of the cumulative impact of our continuing repurchase of our common stock.

For the first nine months of fiscal 2012, our net earnings from continuing operations were \$325.0 million compared to \$340.8 million for the first nine months of fiscal 2011, a 4.6 percent decrease, and our diluted net earnings per share from continuing operations were \$2.43 compared to \$2.42 for the first nine months of fiscal 2011, a 0.4 percent increase. At Olive Garden, higher food and beverage costs, restaurant expenses, selling, general and administrative expenses and depreciation expenses as a percent of sales were partially offset by lower restaurant labor expenses. As a

result, operating profit as a percent of sales decreased for the first nine months of fiscal 2012, compared to the first nine months of fiscal 2011. At Red Lobster, higher food and beverage costs and depreciation expenses as a percent of sales were partially offset by lower restaurant labor expenses, restaurant expenses and selling, general and administrative expenses as a percent of sales. As a result, operating profit as a percent of sales decreased for Red Lobster for the first nine months of fiscal 2012, compared to the first nine months of fiscal 2011. At LongHorn Steakhouse, higher food and beverage costs and depreciation expenses as a percent of sales were partially offset by lower restaurant labor expenses, restaurant expenses and selling, general and administrative expenses as a percent of sales. As a result, operating profit as a percent of sales decreased for LongHorn Steakhouse for the first nine months of fiscal 2012, compared to the first nine months of fiscal 2011. While net earnings from continuing operations decreased,

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diluted net earnings per share from continuing operations increased due to a reduction in the average diluted shares outstanding primarily as a result of the cumulative impact of our continuing repurchase of our common stock.

**SEASONALITY**

Our sales volumes fluctuate seasonally. During fiscal 2011 and 2010, our average sales per restaurant were highest in the winter and spring, followed by the summer, and lowest in the fall. Holidays, changes in the economy, severe weather and similar conditions may impact sales volumes seasonally in some operating regions. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

**NUMBER OF RESTAURANTS**

The following table details the number of company-owned restaurants currently reported in continuing operations that were open at the end of the third quarter of fiscal 2012, compared with the number open at the end of fiscal 2011 and the end of the third quarter of fiscal 2011.

|                          | February 26,<br>2012 | May 29, 2011 | February 27,<br>2011 |
|--------------------------|----------------------|--------------|----------------------|
| Red Lobster – USA        | 675                  | 670          | 666                  |
| Red Lobster – Canada     | 27                   | 28           | 28                   |
| Total                    | 702                  | 698          | 694                  |
| Olive Garden – USA       | 770                  | 748          | 737                  |
| Olive Garden – Canada    | 6                    | 6            | 6                    |
| Total                    | 776                  | 754          | 743                  |
| LongHorn Steakhouse      | 374                  | 354          | 347                  |
| The Capital Grille       | 45                   | 44           | 44                   |
| Bahama Breeze            | 28                   | 26           | 25                   |
| Seasons 52               | 21                   | 17           | 15                   |
| Eddie V's <sup>(1)</sup> | 11                   | —            | —                    |
| Other                    | 2                    | 1            | —                    |
| Total                    | 1,959                | 1,894        | 1,868                |

(1) Represents the number of restaurants owned and operated by us as of the end of each period reported, and includes the restaurants acquired from Eddie V's on November 14, 2011.

**LIQUIDITY AND CAPITAL RESOURCES**

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

We currently manage our business and financial ratios to maintain an investment grade bond rating, which has historically allowed flexible access to financing at reasonable costs. Currently, our publicly issued long-term debt carries “Baa2” (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 as of the date of the filing of this Form 10-Q and have been obtained with the understanding that Moody’s Investors Service, Standard & Poor’s and Fitch will continue to monitor our credit and make future adjustments to these ratings to the extent warranted. The ratings are not a recommendation to buy, sell or hold our securities, may be changed, superseded or withdrawn at any time and should be evaluated independently of any other rating.

Our revolving credit facility and our commercial paper program serve as our primary source of short-term financing. Until October 3, 2011, we maintained a \$750.0 million revolving Credit Agreement dated September 20, 2007 (Prior Revolving Credit Agreement) with Bank of America, N.A. (BOA), as administrative agent, and the lenders and other agents party thereto. The Prior Revolving Credit Agreement was a senior unsecured credit commitment to the

Company and contained customary representations, affirmative and negative covenants (including limitations on liens and subsidiary debt and a maximum

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consolidated lease adjusted total debt to total capitalization ratio of 0.75 to 1.00) and events of default usual for credit facilities of this type. The Prior Revolving Credit Agreement also contained a sub-limit of \$150.0 million for the issuance of letters of credit. The Prior Revolving Credit Agreement supported our commercial paper borrowing program and would have matured on September 20, 2012, but was terminated on October 3, 2011 when we entered into the new credit arrangements described below and repaid all amounts that were outstanding under the Prior Revolving Credit Agreement.

On October 3, 2011, we entered into a new \$750.0 million revolving Credit Agreement (New Revolving Credit Agreement) with BOA, as administrative agent, and the lenders and other agents party thereto. The New Revolving Credit Agreement is a senior unsecured credit commitment to the Company and contains customary representations and affirmative and negative covenants (including limitations on liens and subsidiary debt and a maximum consolidated lease adjusted total debt to total capitalization ratio of 0.75 to 1.00) and events of default usual for credit facilities of this type. As of February 26, 2012, we were in compliance with all covenants under the New Revolving Credit Agreement. The New Revolving Credit Agreement matures on October 3, 2016, and the proceeds may be used for commercial paper back-up, working capital and capital expenditures, the refinancing of certain indebtedness, certain acquisitions and general corporate purposes. The New Revolving Credit Agreement also contains a sub-limit of \$150.0 million for the issuance of letters of credit. Additional information regarding the terms and conditions of the New Revolving Credit Agreement is incorporated by reference from Note 5 to our unaudited consolidated financial statements in Part I, Item 1 of this report.

As of February 26, 2012, we had no outstanding balances under the New Revolving Credit Agreement. As of February 26, 2012, \$287.7 million of commercial paper and \$70.9 million of letters of credit were outstanding, which are backed by this facility. After consideration of borrowings currently outstanding and commercial paper and letters of credit backed by the New Revolving Credit Agreement, as of February 26, 2012, we had \$391.4 million of credit available under the New Revolving Credit Agreement.

On October 11, 2011, we issued \$400.0 million aggregate principal amount of unsecured 4.500 percent senior notes due October 2021 (the New Senior Notes) under a registration statement filed with the Securities and Exchange Commission on October 6, 2010. Discount and issuance costs, which totaled \$5.1 million, are being amortized over the term of the New Senior Notes using the straight-line method, the results of which approximate the effective interest method. Interest on the New Senior Notes is payable semi-annually in arrears on April 15 and October 15 of each year, commencing April 15, 2012. We may redeem the New Senior Notes at any time in whole or from time to time in part, at the principal amount plus a make-whole premium. If we experience a change in control triggering event, unless we have previously exercised our right to redeem the New Senior Notes, we may be required to purchase the New Senior Notes from the holders at a purchase price equal to 101 percent of their principal amount plus accrued and unpaid interest.

As of February 26, 2012, our long-term debt consisted principally of:

- \$100.0 million of unsecured 7.125 percent debentures due in February 2016;
- \$500.0 million of unsecured 6.200 percent senior notes due in October 2017;
- \$400.0 million of unsecured 4.500 percent senior notes due in October 2021;
- \$150.0 million of unsecured 6.000 percent senior notes due in August 2035;
- \$300.0 million of unsecured 6.800 percent senior notes due in October 2037; and

An unsecured, variable rate \$6.5 million commercial bank loan due in December 2018 that is used to support two loans from us to the Employee Stock Ownership Plan (ESOP) portion of the Darden Savings Plan.

We also have \$350.0 million of unsecured 5.625 percent senior notes due in October 2012 included in current liabilities as current portion of long-term debt. Upon maturity of the notes due October 2012, we expect to issue unsecured debt securities that will effectively refinance the notes due October 2012.

The interest rates on our \$350.0 million senior notes due October 2012, \$500.0 million senior notes due October 2017 and \$300.0 million senior notes due October 2037 are subject to adjustment from time to time if the debt rating assigned to such series of notes is downgraded below a certain rating level (or subsequently upgraded). The maximum adjustment is 2.000 percent above the initial interest rate and the interest rate cannot be reduced below the initial interest rate. As of February 26, 2012, no adjustments to these interest rates had been made.

From time to time we enter into interest rate derivative instruments. See Note 9 to our unaudited consolidated financial statements in Part I, Item 1 of this report, which is incorporated by reference.

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A summary of our contractual obligations and commercial commitments as of February 26, 2012 is as follows:

| (in millions)                                      | Payments Due by Period                     |                     |              |              |                      |
|--|--|---------------------|--------------|--------------|----------------------|
|  | Total                                      | Less than<br>1 Year | 1-3<br>Years | 3-5<br>Years | More than<br>5 Years |
| Contractual Obligations                            |  |                     |              |              |                      |
| Short-term debt                                    | \$287.7                                    | \$287.7             | \$—          | \$—          | \$—                  |
| Long-term debt <sup>(1)</sup>                      | 2,962.7                                    | 457.6               | 175.1        | 264.1        | 2,065.9              |
| Operating leases                                   | 896.6                                      | 147.9               | 259.7        | 199.8        | 289.2                |
| Purchase obligations <sup>(2)</sup>                | 684.0                                      | 606.9               | 61.1         | 16.0         | —                    |
| Capital lease obligations <sup>(3)</sup>           | 96.0                                       | 5.2                 | 10.8         | 11.3         | 68.7                 |
| Benefit obligations <sup>(4)</sup>                 | 458.8                                      | 42.7                | 76.0         | 84.5         | 255.6                |
| Unrecognized income tax<br>benefits <sup>(5)</sup> | 18.8                                       | 2.0                 | 11.7         | 5.1          | —                    |
| Total contractual obligations<br>(in millions)     | \$5,404.6                                  | \$1,550.0           | \$594.4      | \$580.8      | \$2,679.4            |
| Other Commercial<br>Commitments                    | Amount of Commitment Expiration per Period |                     |              |              |                      |
|  | Total<br>Amounts<br>Committed              | Less than<br>1 Year | 1-3<br>Years | 3-5<br>Years | More than<br>5 Years |
| Standby letters of credit <sup>(6)</sup>           | \$118.8                                    | \$118.8             | \$—          | \$—          | \$—                  |
| Guarantees <sup>(7)</sup>                          | 5.7  | 1.2                 | 2.2          | 1.4          | 0.9                  |
| Total commercial<br>commitments                    | \$124.5                                    | \$120.0             | \$2.2        | \$1.4        | \$0.9                |

Includes interest payments associated with existing long-term debt, including the current portion. Variable-rate (1) interest payments associated with the ESOP loan were estimated based on an average interest rate of 1.6 percent. Excludes issuance discount of \$5.5 million.

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

(3) Capital lease obligations include imputed interest of \$39.6 million over the life of the obligations.

(4) Includes expected contributions associated with our defined benefit plans and payments associated with our postretirement benefit plan and our non-qualified deferred compensation plan through fiscal 2021.

(5) Includes interest on unrecognized income tax benefits of \$1.9 million, \$0.3 million of which relates to contingencies expected to be resolved within one year.

(6) Includes letters of credit for \$99.2 million of workers' compensation and general liabilities accrued in our consolidated financial statements, \$70.9 million of which are backed by our New Revolving Credit Agreement, letters of credit for \$0.9 million of lease payments included in the contractual operating lease obligation payments noted above and other letters of credit totaling \$18.7 million.

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

Our Board of Directors has authorized us to repurchase up to an aggregate of 187.4 million shares of our common stock. During the quarter and nine months ended February 26, 2012, we repurchased 1.8 million and 7.9 million shares of our common stock, respectively, compared to 2.3 million and 6.3 million shares of our common stock during the quarter and nine months ended February 27, 2011, respectively. As of February 26, 2012, we have repurchased a total of 170.5 million shares of our common stock. The repurchased common stock is reflected as a reduction of stockholders' equity.

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

Net cash flows provided by operating activities of continuing operations decreased to \$550.5 million for the first nine months of fiscal 2012, from \$662.7 million for the first nine months of fiscal 2011. The decrease was primarily due to



the timing of inventory purchases and the settlement of our October 2011 treasury-lock instruments. Net cash flows used in investing activities of continuing operations increased to \$559.8 million for the first nine months of fiscal 2012, from \$390.5 million for the first nine months of fiscal 2011, and included capital expenditures incurred principally for building new restaurants, remodeling existing restaurants, replacing equipment and technology initiatives. Capital expenditures were \$483.4 million for the first nine months of fiscal 2012, compared to \$390.1 million for the first nine months of fiscal 2011. The increased expenditures for the first nine months of fiscal 2012 resulted primarily from an increase in remodel activity and new restaurant construction during fiscal 2012. Net cash used in the acquisition of Eddie V's was \$58.6

million.

Net cash flows provided by financing activities of continuing operations were \$27.4 million for the first nine months of fiscal 2012, compared to net cash flows used in financing activities of \$432.3 million for the first nine months of fiscal 2011. During October 2011, we completed the offering of \$400.0 million of New Senior Notes, resulting in net proceeds of \$394.9 million which were used to effectively refinance the \$225.0 million of long-term notes that we repaid at maturity during fiscal 2011 and a portion of our outstanding short-term debt. Purchases of treasury stock were \$357.0 million during the first nine months of fiscal 2012, an increase from purchases of \$275.9 million during the first nine months of fiscal 2011. Net cash flows from financing activities for the first nine months of fiscal 2012 included the repayment of \$1.5 million of long-term debt as compared to \$151.5 million in the first nine months of fiscal 2011, net proceeds from the issuance of short-term debt of \$102.2 million in the first nine months of fiscal 2012, as compared to \$64.0 million in the first nine months of fiscal 2011. Net cash flows from financing activities also included \$168.6 million in dividends paid for the first nine months of fiscal 2012, compared to \$132.0 million in dividends paid for the first nine months of fiscal 2011. In June 2011, our Board of Directors approved an increase in the quarterly dividend to \$0.43 per share, which indicates an annual dividend of \$1.72 per share in fiscal 2012. In fiscal 2011, we paid quarterly dividends of \$0.32 per share.

We are not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, sales, costs or expenses, results of operations, liquidity, capital expenditures or capital resources. We are not aware of any trends or events that would materially affect our capital requirements or liquidity. We believe that our New Revolving Credit Agreement and internal cash generating capabilities will be sufficient to finance our ongoing capital expenditures, dividends, stock repurchase program and other operating activities through fiscal 2012.

It is possible that changes in circumstances, existing as of our annual impairment test on the first day of the fourth quarter of fiscal 2011 or at other times in the future, or in the numerous estimates associated with management's judgments, assumptions and estimates made in assessing the fair value of our goodwill, could result in an impairment loss of a portion or all of our goodwill or trademarks. If we recorded an impairment loss, our financial position and results of operations would be adversely affected and our leverage ratio for purposes of our credit agreement would increase. If such leverage ratio were to exceed the maximum permitted under our credit agreement, we would be in default under our credit agreement. As of February 26, 2012, a write down of goodwill, other indefinite-lived intangible assets, or any other assets in excess of approximately \$780.0 million would have been required to cause our leverage ratio to exceed the permitted maximum. Due to the seasonal nature of our business, a lesser amount of impairment in future quarters could cause our leverage ratio to exceed the permitted maximum.

#### FINANCIAL CONDITION

Our current assets totaled \$805.3 million as of February 26, 2012, compared to \$663.8 million as of May 29, 2011. The increase was primarily due to higher inventory levels related to the timing of inventory purchases.

Our current liabilities totaled \$1.90 billion as of February 26, 2012, compared to \$1.29 billion as of May 29, 2011. The increase was primarily due to an increase in short-term debt related to our use of short-term financing to repurchase shares of our common stock and capital expenditures, the reclassification of long-term debt maturing within the next year and an increase in unearned revenues primarily related to seasonal fluctuations in sales and redemptions of our gift cards.

#### CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales, costs and expenses during the reporting period. Actual results could differ from those estimates. We have discussed the development, selection and disclosure of those estimates with the Audit Committee. Our critical accounting policies have not changed materially from those previously reported in our Annual Report on Form 10-K for the fiscal year ended May 29, 2011.

#### APPLICATION OF NEW ACCOUNTING STANDARDS

Information regarding application of new accounting standards is incorporated by reference from Note 12 to our unaudited consolidated financial statements in Part I, Item 1 of this report.

**FORWARD-LOOKING STATEMENTS**

Statements set forth in or incorporated into this report regarding the expected net increase in the number of our

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restaurants, U.S. same-restaurant sales, total sales growth, diluted net earnings per share growth, and capital expenditures in fiscal 2012, and all other statements that are not historical facts, including without limitation statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of Darden Restaurants, Inc. and its subsidiaries that are preceded by, followed by or that include words such as “may,” “will,” “expect,” “intend,” “anticipate,” “continue,” “estimate,” “project,” “believe,” “plan” or similar expressions, a forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This statement is included for purposes of complying with the safe harbor provisions of that Act. Any forward-looking statements speak only as of the date on which such statements are made, and we undertake no obligation to update such statements for any reason to reflect events or circumstances arising after such date. By their nature, forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by such forward-looking statements. In addition to the risks and uncertainties of ordinary business obligations, and those described in information incorporated into this report, the forward-looking statements contained in this report are subject to the risks and uncertainties described in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended May 29, 2011, which are summarized as follows:

- Food safety and food-borne illness concerns throughout the supply chain;
- Litigation, including allegations of illegal, unfair or inconsistent employment practices, by employees, guests, suppliers, shareholders or others, regardless of whether the allegations made against us are valid or we are ultimately found liable;
- Unfavorable publicity, or a failure to respond effectively to adverse publicity, relating to food safety or other concerns that could harm our reputation;
  - Federal, state and local regulation of our business, including laws and regulations relating to food safety, minimum wage and other labor issues including unionization, health care reform, data privacy, immigration, taxes, menu labeling, building and zoning requirements, land use and environmental laws including climate change regulations, and liquor laws;
- Labor and insurance costs, including increased labor costs as a result of federal and state-mandated increases in minimum wage rates and increased insurance costs as a result of increases in our current insurance premiums;
- A material information technology failure, inadequacy, interruption or breach of security;
- Our inability or failure to execute a comprehensive business continuity plan following a major natural disaster such as a hurricane or manmade disaster, including terrorism;
- The health concerns arising from food-related pandemics, outbreaks of flu viruses or other diseases;
- The intensely competitive nature of the restaurant industry, especially pricing, service, location, personnel and type and quality of food;
- Factors impacting our ability to drive sufficient profitable sales growth through brand relevance, operating excellence, opening new restaurants and developing or acquiring new dining brands, including lower-than-expected sales of newly-opened restaurants and acquisition risks, including our ability to successfully integrate Eddie V's restaurant operations;
- The impact of the substantial indebtedness we incurred in connection with the acquisition of RARE;
- Our plans to expand smaller brands like Bahama Breeze and Seasons 52 that have not yet proven their long-term viability may not be successful and could require us to make substantial further investments in these brands and result in losses and impairments;
- A lack of suitable new restaurant locations or a decline in the quality of the locations of our current restaurants;
- Higher-than-anticipated costs to open, close, relocate or remodel restaurants;
- Increased advertising and marketing costs;
- A failure to develop and recruit effective leaders or the loss of key personnel;
- The price and availability of key food products, ingredients and utilities used by our restaurants and a failure to achieve economies of scale in purchasing;
- The impact of shortages or interruptions in the delivery of food and other products from third party vendors and suppliers;

•The impact of volatility in the market value of derivatives we use to hedge commodity prices;

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Economic and business factors specific to the restaurant industry and other general macroeconomic factors including unemployment, energy prices and interest rates, severe weather conditions including hurricanes, and public safety conditions, including actual or threatened armed conflicts or terrorist attacks;

The impact of disruptions in the financial markets, including the availability and cost of credit and an increase in pension plan expenses;

Risks associated with doing business with franchisees, business partners and vendors in foreign markets;

Failure to protect our service marks or other intellectual property;

The negative effect of a possible impairment in the carrying value of our goodwill or other intangible assets; and

A failure of our internal control over financial reporting and future changes in accounting standards.

Any of the risks described above or elsewhere in this report or our other filings with the SEC could have a material impact on our business, financial condition or results of operations. It is not possible to predict or identify all risk factors. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations. Therefore, the above is not intended to be a complete discussion of all potential risks or uncertainties.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of market risks, including fluctuations in interest rates, foreign currency exchange rates, compensation and commodity prices. To manage this exposure, we periodically enter into interest rate, foreign currency exchange rate, equity forward and commodity instruments for other than trading purposes (see Note 9 to our unaudited consolidated financial statements in Part I, Item 1 of this report).

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 February 26, 2012, our potential losses in future net earnings resulting from changes in floating rate debt interest rate, interest rate instrument, foreign currency exchange rate, equity forwards and commodity instrument exposures were approximately \$43.2 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 \$126.3 million. The fair value of our long-term fixed rate debt, including the amounts included in current liabilities, during the first nine months of fiscal 2012 averaged \$1.81 billion, with a high of \$2.04 billion and a low of \$1.55 billion. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows by targeting an appropriate mix of variable and fixed rate debt.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of February 26, 2012, the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of February 26, 2012.

During the fiscal quarter ended February 26, 2012, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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OTHER INFORMATION

## Item 1. Legal Proceedings

See the discussion of legal proceedings contained in the third paragraph of Note 11 to our unaudited consolidated financial statements in Part I, Item 1 of this report, which is incorporated herein by reference.

## Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended May 29, 2011.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below provides information concerning our repurchase of shares of our common stock during the quarter ended February 26, 2012. Since commencing repurchases in December 1995, we have repurchased a total of 170.5 million shares through February 26, 2012 under authorizations from our Board of Directors to repurchase an aggregate of 187.4 million shares.

|  | Total Number of<br>Shares Purchased (1) | Average<br>Price Paid<br>per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans<br>or Programs | Maximum Number of<br>Shares that May Yet<br>be Purchased<br>Under the Plans or<br>Programs (2) |
|--|---|------------------------------------|--|--|
| November 28, 2011 through January 1, 2012  | 1,744,438                               | \$43.85                            | 1,744,438  | 16,893,219   |
| January 2, 2012 through January 29, 2012   | 10,349                                  | \$45.72                            | 10,349   | 16,882,870   |
| January 30, 2012 through February 26, 2012 | 17,988                                  | \$49.33                            | 17,988   | 16,864,882   |
| Total                                      | 1,772,775                               | \$43.91                            | 1,772,775  | 16,864,882   |

All of the shares purchased during the quarter ended February 26, 2012 were purchased as part of our repurchase program. On December 17, 2010, our Board of Directors approved an additional share repurchase authorization of 25.0 million shares which was announced publicly in a press release issued on December 20, 2010, bringing the total shares authorized to be repurchased to 187.4 million shares. There is no expiration date for our program. The (1) number of shares purchased includes shares withheld for taxes on vesting of restricted stock, shares delivered or deemed to be delivered to us on tender of stock in payment for the exercise price of options, and shares reacquired pursuant to tax withholding on option exercises. These shares are included as part of our repurchase program and deplete the repurchase authority granted by our Board. The number of shares repurchased excludes shares we reacquired pursuant to forfeiture of restricted stock.

(2) Repurchases are subject to prevailing market prices, may be made in open market or private transactions and may occur or be discontinued at any time. There can be no assurance that we will repurchase any shares.

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Item 4.Mine Safety Disclosures

Not applicable.

Item 6.Exhibits

| Exhibit No. | Exhibit Title   |
|-------------|---|
| 12          | Computation of Ratio of Consolidated Earnings to Fixed Charges.                                     |
| 31(a)       | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31(b)       | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32(a)       | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32(b)       | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS     | XBRL Instance Document  |
| 101.SCH     | XBRL Schema Document  |
| 101.CAL     | XBRL Calculation Linkbase Document  |
| 101.DEF     | XBRL Definition Linkbase Document   |
| 101.LAB     | XBRL Label Linkbase Document  |
| 101.PRE     | XBRL Presentation Linkbase Document   |



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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DARDEN RESTAURANTS, INC.

Dated: April 2, 2012

By: /s/ C. Bradford Richmond  
C. Bradford Richmond  
Senior Vice President and Chief Financial Officer  
(Principal financial officer)

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