

# DARDEN RESTAURANTS.

## FISCAL 2006 MID-YEAR SHAREHOLDER REPORT



## TO OUR SHAREHOLDERS

We are delighted to update you on the first half of Fiscal Year 2006, which was highlighted by strong operating momentum across most of our businesses. We achieved industry-leading sales growth at Olive Garden and Red Lobster, and made good progress at Bahama Breeze, although it also became clear that meaningful additional work is needed to fully realize the potential of Smokey Bones.

We have tremendous confidence in our approach to the casual dining business. It starts with creating a strong culture where people share solid core values and an inspiring common purpose — in our case our desire to nourish and delight everyone we serve. Our approach is to leverage a strong culture by combining competitively superior leadership with a commitment to brand management and restaurant operating excellence. It's an approach that has served us well in the first half of Fiscal Year 2006 as it has for nearly 40 years now.

For the first half of fiscal 2006 sales of \$2.73 billion were 9.0% above last year and net earnings of \$140.6 million were \$26.4 million higher, a 23.3% increase. Net earnings per diluted share were 89 cents, up from 70 cents per diluted share the first half of last year, a 27.1% increase.

Olive Garden's first half sales were \$1.26 billion which is 10.2% above the prior year. On a same-restaurant basis, sales were up 7.0%, compared to an increase of 4.1% in the first half of last year. Olive Garden's performance reflects a 7.4% same-restaurant sales increase in the first quarter and a 6.4% increase in the second quarter, which was the 44th and 45th consecutive quarters of same-restaurant sales growth. By the end of the first half, Olive Garden operated 568 restaurants, compared to 547 restaurants at the same point last year. Olive Garden has also made good progress developing a stronger pipeline of high-quality sites and creating a portfolio of new prototypes, and this will help them accelerate new restaurant growth. Two of the new prototype designs will open in the fourth quarter of this fiscal year. Olive Garden plans to open 25 to 30 new restaurants next year.

Red Lobster's first half sales were \$1.22 billion which is 5.1% higher than last year. On a same-restaurant basis, sales were up 4.2%, compared to a 2.5% decrease in the first half of last year. Red Lobster has achieved five consecutive quarters of same restaurant sales growth with a 5.7% first quarter increase and a 2.7% increase in the second quarter. By the end of the first half, Red Lobster operated 678 restaurants, compared to 680 restaurants at the same point last year.

Looking ahead, Red Lobster has the opportunity for further growth in guest counts that will return them to their historic norms, roughly 10% above where they are today. As they do that, their profit growth opportunity is also very significant given how efficiently they are operating. To sustain profitable guest count growth, Red Lobster will further strengthen the appeal of the brand by excelling at what consumers want most from a seafood restaurant: fresh, delicious seafood, friendly, welcoming service, and an exceptionally clean restaurant.

Bahama Breeze delivered same-restaurant sales growth of 1.9% during the second quarter after posting a slight decline of 0.4% in the first quarter. In addition, key business fundamentals are improving, with their focus on delivering a more approachable Caribbean escape for their guests. We believe Bahama Breeze can maintain a positive same-restaurant sales trend by continuing to improve guest satisfaction and by introducing new approachable yet still distinctive dishes, like Fresh Fish Havana, Breeze Wood Grilled Chicken and Coconut Shrimp Dinner, which were introduced over the last few months. At the same time, Bahama Breeze

continues to improve their business model by eliminating cost and complexity that do not add value for their guests. While more progress is required before we are prepared to restart new restaurant growth, Bahama Breeze is clearly on the right path.

Smokey Bones' second quarter same-restaurant sales were much softer than we anticipated, declining 8.5% after nearly flat results in the first quarter. While it was a difficult economic environment, these results further emphasize our need to broaden the appeal of Smokey Bones, starting with extending the menu beyond barbeque. Seven new items were introduced this month after successful in-restaurant testing, including a new Mahi-Mahi Sandwich, Portobello Chicken Entrée, Pear and Spinach Salad and Flat Iron Steak. We also recognize the need to examine other key elements of the guest experience, beyond the menu, more fully in the future.

Fortunately, we start with very strong guest satisfaction among our current guests at Smokey Bones that still ranks at the top of all Darden brands. We need to build on this foundation in a way that broadens our occasion relevance and visit frequency beyond what is today too barbeque-centric, and we will.

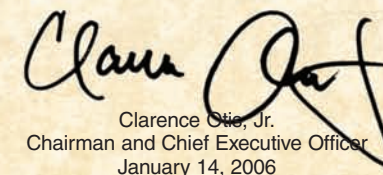
Seasons 52<sup>SM</sup>, Darden's newest test restaurant is also performing well. Seasons 52 currently operates two restaurants in metro-Orlando, one in Ft. Lauderdale and one in Palm Beach Gardens. We plan to open one restaurant in Boca Raton and two restaurants in metro-Atlanta in calendar 2006.

We continued our buyback of our common stock in the open market during the first half of the fiscal year, purchasing 5.8 million shares. Cumulatively, since initial authorization of our repurchase program in December 1995, we have now repurchased 126.4 million of our shares, a testament to our strong cash flows. And we have approximately 11 million shares remaining to be repurchased under current authorizations. We also increased our semi-annual dividend to 20 cents per share. This represents a 400% increase from the previous 4 cents per share semi-annual dividend.

In addition, we express our sincere appreciation to Darden's founding Chairman and CEO, Joe Lee, who retired as our Chairman in November. Joe provided over 37 years of inspired leadership, ever striving to nourish and delight everyone he served. His legacy as an industry pioneer, diversity champion, mentor, and enthusiastic community builder has been an inspiration to generations of industry leaders and a testament to his life's work.

We've got great momentum going into the second half of fiscal 2006. We believe that when you put it all together we've got a business that's well positioned to thrive in any environment, and we know that's critical in our very dynamic industry. At its core, our approach is about having a terrific team working on the right things.

We thank you for being a valued owner of Darden Restaurants. We encourage you to visit any of our restaurants and let us show you the exciting things that we are doing to earn the distinction of being the best in casual dining — now and for generations.

  
Clarence Otis, Jr.  
Chairman and Chief Executive Officer  
January 14, 2006



# CONSOLIDATED STATEMENTS OF EARNINGS

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA-UNAUDITED)

	Quarter Ended		Six Months Ended	
	11/27/2005	11/28/2004	11/27/2005	11/28/2004
Sales .....	\$1,325,093	\$1,229,373	\$2,734,260	\$2,508,017
Costs and expenses:				
Cost of sales:				
Food and beverage .....	389,575	368,036	808,770	759,457
Restaurant labor .....	440,956	400,714	890,115	806,530
Restaurant expenses .....	215,081	202,287	429,775	397,304
Total Cost of Sales <sup>(1)</sup> .....	\$1,045,612	\$ 971,037	\$2,128,660	\$1,963,291
Selling, general and administrative .....	132,181	130,785	265,216	245,365
Depreciation and amortization .....	54,761	53,176	108,899	105,936
Interest, net .....	11,670	11,007	22,618	21,971
Total costs and expenses .....	\$1,244,224	\$1,166,005	\$2,525,393	\$2,336,563
Earnings before income taxes .....	80,869	63,368	208,867	171,454
Income taxes .....	(25,812)	(20,393)	(68,296)	(57,467)
Net earnings .....	\$ 55,057	42,975	140,571	113,987
Net earnings per share:				
Basic .....	\$ 0.37	\$ 0.27	\$ 0.93	\$ 0.73
Diluted .....	\$ 0.35	\$ 0.26	\$ 0.89	\$ 0.70
Average number of common shares outstanding:				
Basic .....	149,600	156,800	151,400	157,200
Diluted .....	156,200	163,400	158,300	163,400
<sup>(1)</sup> Excludes restaurant depreciation and amortization as follows .....	\$ 50,600	\$ 49,486	\$ 101,020	\$ 98,705

# CONDENSED CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS-UNAUDITED)

ASSETS	11/27/2005	11/28/2004	5/29/2005
Current assets:			
Cash and cash equivalents .....	\$ 72,536	\$ 60,431	\$ 42,801
Inventories .....	247,353	236,441	235,444
Other current assets .....	143,402	114,802	129,021
Total current assets .....	463,291	411,674	407,266
Land, buildings and equipment .....	2,404,948	2,292,062	2,351,454
Other assets .....	187,270	184,182	179,051
Total assets .....	\$ 3,055,509	\$ 2,887,918	\$ 2,937,771
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Short-term debt .....	\$ 149,988	\$ 149,931	\$ 299,929
Other current liabilities .....	738,563	699,967	744,678
Total current liabilities .....	888,551	849,898	1,044,607
Long-term debt .....	645,830	502,574	350,318
Other liabilities .....	266,338	268,727	269,827
Total liabilities .....	1,800,719	1,621,199	1,664,752
Stockholders' equity .....	1,254,790	1,266,719	1,273,019
Total liabilities and stockholders' equity .....	\$ 3,055,509	\$ 2,887,918	\$ 2,937,771

## RESULTS OF 2005 ANNUAL MEETING OF SHAREHOLDERS

On September 21, 2005, Chairman Joe R. Lee welcomed shareholders to Darden's annual meeting in Orlando. Shareholders were asked to elect fourteen directors. Shareholders also were asked to ratify the Board's appointment of KPMG LLP to audit our consolidated financial statements for fiscal 2006. Over 86% of our outstanding shares were represented at the meeting. All of our director nominees were elected, and the appointment of KPMG was approved. Detailed voting results appear in Darden's Form 10-Q for the quarter ended November 27, 2005.

Darden Restaurants, Inc. is traded on the New York Stock Exchange under the stock symbol DRI. The Company's transfer agent is Wachovia Bank, 1525 West W.T. Harris Blvd, 3c3, Charlotte, NC 28288-1153, (800) 829-8432. Shareholders seeking information about Darden Restaurants may contact our Investor Relations Department at (800) 832-7336 or visit our website address at [www.darden.com](http://www.darden.com). Shareholders may request copies of press releases, the annual report on Form 10-K or quarterly reports on Form 10-Q free of charge.

Forward-looking statements in this mid-year report, if any, are made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Certain important factors could cause results to differ materially from those anticipated by the forward-looking statements, including the impact of intense competition, changing economic or business conditions, the price and availability of food, ingredients and utilities, labor and insurance costs, increased advertising and marketing costs, higher-than-anticipated costs to open or close restaurants, litigation, unfavorable publicity, a lack of suitable locations, government regulations, a failure to achieve growth objectives, weather conditions and other factors discussed from time to time in reports filed by the Company with the Securities and Exchange Commission.