DARDEN RESTAURANTS INC

FORM 10-K
(Annual Report)

Filed 07/18/14 for the Period Ending 05/25/14

Address	1000 DARDEN CENTER DRIVE ORLANDO, FL 32837
Telephone	4072454000
CIK	0000940944
Symbol	DRI
SIC Code	5812 - Eating Places
Industry	Restaurants
Sector	Services
Fiscal Year	05/25

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** For the fiscal year ended May 25, 2014

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** For the transition period from ___ to ___

Commission File Number: 1-13666

DARDEN RESTAURANTS, INC.

(Exact name of Registrant as specified in its charter)

Florida	**59-3305930**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1000 Darden Center Drive, Orlando, Florida	**32837**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(407) 245-4000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, without par value and Preferred Stock Purchase Rights	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark if 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 definition 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 ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

The aggregate market value of Common Stock held by non-affiliates of the Registrant based on the closing price of $53.87 per share as reported on the New York Stock Exchange on November 22, 2013, was approximately: $6,900,308,000.

Number of shares of Common Stock outstanding as of May 25, 2014 : 132,314,493 (excluding 1,286,019 shares held in the Company's treasury).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its Annual Meeting of Shareholders on September 30, 2014 , to be filed with the Securities and Exchange Commission no later than 120 days after May 25, 2014 , are incorporated by reference into Part III of this Report, and portions of the Registrant's Annual Report to Shareholders for the fiscal year ended May 25, 2014 are incorporated by reference into Parts I and II of this Report.

DARDEN RESTAURANTS, INC.
FORM 10-K
FISCAL YEAR ENDED MAY 25, 2014

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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 2015, 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 and are included, along with this statement, 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 Item 1A below under the heading "Risk Factors."

PART I

ITEM 1. BUSINESS

Introduction

Darden Restaurants, Inc. is the world's largest company-owned and operated full service restaurant company [1] , and served over 439 million meals in fiscal 2014 . As of May 25, 2014 , we operated through subsidiaries 2,207 restaurants in the United States and Canada. In the United States, we operated 2,174 restaurants in all 50 states, including 831 Olive Garden ®, 679 Red Lobster ®, 464 LongHorn Steakhouse ®, 54 The Capital Grille ®, 52 Yard House ®, 38 Seasons 52 ®, 37 Bahama Breeze ®, 12 Eddie V's Prime Seafood ®, four test "synergy restaurants" (which house both a Red Lobster and Olive Garden restaurant in the same building) and three Wildfish Seafood Grille ® restaurants. In Canada, we operated 33 restaurants, including 27 Red Lobster and six Olive Garden restaurants. Through subsidiaries, we own and operate all of our restaurants in the United States and Canada, except for three restaurants located in Central Florida and three restaurants in California which are owned jointly by us and third parties, and managed by us, seven franchised restaurants in Puerto Rico and one Atlanta, Georgia airport location. Of our 2,207 restaurants in the United States and Canada open on May 25, 2014 , 1,060 were located on owned sites and 1,147 were located on leased sites. As of May 25, 2014 , we had 52 restaurants operated by independent third parties pursuant to area development and franchise agreements, including 23 Red Lobster restaurants in Japan, seven LongHorn Steakhouse restaurants in Puerto Rico (mentioned above), seven Red Lobster restaurants, four Olive Garden restaurants, and one LongHorn Steakhouse restaurant in the Middle East region (two Red Lobster restaurants and one Olive Garden restaurant in United Arab Emirates, one Red Lobster restaurant in Qatar, two Red Lobster restaurants and three Olive Garden restaurants in Kuwait, two Red Lobster restaurants and a LongHorn Steakhouse restaurant in Saudi Arabia), and five Olive Garden restaurants, one Red Lobster restaurant and one The Capital Grille restaurant in Mexico, one Red Lobster restaurant and one Olive Garden restaurant in Brazil and one Olive Garden restaurant in Peru.

On May 15, 2014, we entered into an agreement to sell Red Lobster and certain other assets and associated liabilities for $2.11 billion in cash and we expect the transaction to close in the first quarter of fiscal 2015. Additionally, in the fourth quarter of fiscal 2014, in connection with the anticipated sale of Red Lobster, we closed two restaurants that housed both a Red Lobster and an Olive Garden in the same building ("synergy restaurants"). We have classified the results of operations and impairment charges of the Red Lobster business and the two closed synergy restaurants as discontinued operations in our consolidated statements of earnings and cash flows for all periods presented.

Darden Restaurants, Inc. is a Florida corporation incorporated in March 1995, and is the parent company of GMRI, Inc., also a Florida corporation. GMRI, Inc. and certain other of our subsidiaries own and operate our restaurants. GMRI, Inc. was originally incorporated in March 1968 as Red Lobster Inns of America, Inc. We were acquired by General Mills, Inc. in 1970 and became a separate publicly held company in 1995 when General Mills distributed all of our outstanding stock to the stockholders of General Mills. Our principal executive offices and restaurant support center are located at 1000 Darden Center Drive, Orlando, Florida 32837, telephone (407) 245-4000. Our corporate website address is www.darden.com . We make our reports on Forms 10-K, 10-Q and 8-K, and Section 16 reports on Forms 3, 4 and 5, and all amendments to those reports available free of charge on our website the same day as the reports are filed with or furnished to the Securities and Exchange Commission. Information on our website is not deemed to be incorporated by reference into this Form 10-K. Unless the context indicates otherwise, all references to "Darden," "we," "our" or "us" include Darden Restaurants, Inc., GMRI, Inc. and our respective subsidiaries.

We have a 52/53 week fiscal year ending the last Sunday in May. Our 2014 , 2013 and 2012 fiscal years, which ended May 25, 2014 , May 26, 2013 and May 27, 2012 , respectively, each had 52 weeks.

The following description of our business should be read in conjunction with the information in our Management's Discussion and Analysis of Financial Condition and Results of Operations incorporated by reference in Item 7 of this Form 10-K and our consolidated financial statements incorporated by reference in Item 8 of this Form 10-K.

Background

We opened our first restaurant, a Red Lobster seafood restaurant, in Lakeland, Florida in 1968. Red Lobster was founded by William B. Darden, for whom we are named. Red Lobster grew from six restaurants in operation at the end of fiscal 1970 to 706 restaurants in the United States and Canada by the end of fiscal 2014 . The number of Red Lobster restaurants open at the end of fiscal 2014 increased by one as compared to the end of fiscal 2013.

Olive Garden is an internally developed brand that offers a variety of authentic Italian foods featuring fresh ingredients and a broad selection of imported Italian wines. In fiscal 1983, Olive Garden opened its first restaurant in Orlando, Florida. At the end of fiscal 2014, Olive Garden had expanded to 837 restaurants in the United States and Canada. The number of Olive Garden restaurants at the end of fiscal 2014 increased by nine as compared to the end of fiscal 2013.

[1] Source: Nation's Restaurant News, "Top 100 Companies Ranked by U.S. Foodservice Revenue," June 30, 2014 (based on U.S. food and beverage revenue from company-owned restaurants) .

Bahama Breeze is an internally developed brand that provides a Caribbean escape, offering the food, drinks and atmosphere you would find in the islands. In fiscal 1996, Bahama Breeze opened its first restaurant in Orlando, Florida. At the end of fiscal 2014 , there were 37 Bahama Breeze restaurants in the United States, and the number of restaurants had increased by four as compared to the end of fiscal 2013 .

Seasons 52 is an internally developed brand that provides a casually sophisticated fresh grill and wine bar with seasonally inspired menus offering fresh ingredients to create great tasting meals that are lower in calories than comparable restaurant meals. In fiscal 2003, Seasons 52 opened its first restaurant in Orlando, Florida. At the end of fiscal 2014 , there were 38 Seasons 52 restaurants in the United States, and the number of restaurants had increased by seven as compared to the end of fiscal 2013 .

On October 1, 2007, we completed the acquisition of the common stock of RARE Hospitality International, Inc. ("RARE"). RARE owned and operated two principal restaurant brands, LongHorn Steakhouse and The Capital Grille, of which 288 and 29 locations, respectively, were in operation as of the date of the acquisition. LongHorn Steakhouse, with locations primarily in the Eastern half of the United States, is a leader in the full service dining steakhouse category with an atmosphere reminiscent of the American West, and The Capital Grille, with locations in major metropolitan cities in the United States, is a leader in the full service dining premium steakhouse category featuring relaxed and elegant style. At the end of fiscal 2014 , there were 464 LongHorn Steakhouse and 54 The Capital Grille restaurants in the United States, and the number of restaurants open had increased by 34 and five , respectively, as compared to the end of fiscal 2013 .

In March 2011, we opened a test "synergy restaurant." At the end of fiscal 2014 , we had four synergy restaurants in operation in the United States after having closed two locations during fiscal 2014, which have been included in discontinued operations. In connection with the anticipated Red Lobster sale, the remaining four synergy restaurants will be converted to Olive Garden restaurants by the end of the first quarter of fiscal 2015.

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"). Eddie V's is a leading luxury seafood brand providing a sophisticated and contemporary ambiance, with locations in Arizona, California and Texas at the time of the acquisition. The acquired operations are included in our financial statements from the date of the acquisition. At the end of fiscal 2014 , there were 15 Eddie V's restaurants in the United States, and the number of restaurants open had increased by three, as compared to the end of fiscal 2013.

On August 29, 2012, we completed the acquisition of Yard House USA, Inc. ("Yard House"). Yard House, which opened its first restaurant in 1996, offers contemporary American cuisine with chef-inspired recipes and ethnic flavors along with a wide range of draft beers and other beverages in a stylish and energetic setting. At the time of acquisition, Yard House had 40 restaurant locations in 13 states. The acquired operations are included in our financial statements from the date of the acquisition. At the end of fiscal 2014, there were 52 Yard House restaurants in the United States, and the number of restaurants open had increased by eight as compared to the end of fiscal 2013.

Our Specialty Restaurant Group was formed at the time of the RARE acquisition to support the operations of The Capital Grille, Seasons 52 and Bahama Breeze restaurants. Eddie V's and Yard House have joined the Specialty Restaurant Group as well. Our differentiated brands in this group focus on culinary and beverage innovation and exceptional service.

The following table shows our growth and lists the number of restaurants operated in the United States and Canada by each of our brands for the fiscal years indicated. The table excludes our restaurants operated by independent third parties pursuant to area development and franchise agreements. The table also excludes all Red Lobster restaurants held for sale and other restaurants that are included in discontinued operations. The final column in the table lists our total sales from continuing operations for the fiscal years indicated.

Company-Owned Restaurants in the United States and Canada Open at Fiscal Year End

Fiscal Year	Olive Garden	LongHorn Steakhouse	The Capital Grille	Bahama Breeze	Seasons 52	Eddie V's	Yard House	Total Restaurants (1)(2)	Total Sales ($ in Millions)
1995	477							477	1,172.6
1996	487			1				488	1,240.9
1997	477			2				479	1,285.2
1998	466			3				469	1,386.9
1999	464			6				470	1,490.2
2000	469			11				480	1,615.7
2001	477			16				493	1,780.0
2002	496			22				518	1,966.1
2003	524			25	1			550	2,097.5
2004	543			23	1			567	2,359.3
2005	563			23	3			589	2,542.4
2006	582			23	5			610	2,775.8
2007	614			23	7			644	2,965.2
2008	653	305	32	23	7			1,020	3,997.5
2009	691	321	37	24	8			1,081	4,593.1
2010	723	331	40	25	11			1,130	4,626.8
2011	754	354	44	26	17			1,196	4,980.3
2012	792	386	46	30	23	11		1,289	5,327.1
2013	828	430	49	33	31	12	44	1,431	5,921.0
2014	837	464	54	37	38	15	52	1,501	6,285.6

(1) Includes only restaurants included in continuing operations. Excludes other restaurant brands operated by us in these years that are no longer owned by us, and restaurants that were included in discontinued operations. See "Restaurant Brands - Discontinued Operations."

(2) Includes one test synergy restaurant in 2011, one synergy restaurant in 2012, four synergy restaurants in 2013, and four synergy restaurants in 2014, housing two restaurant brands in the same building. We expect to convert the four remaining synergy restaurants to Olive Garden restaurants by the end of the first quarter of fiscal 2015.

Strategy

The restaurant industry is generally considered to be comprised of three segments: quick service, fast casual and full service. Our restaurants are all within the full service segment, which is highly fragmented and includes many independent operators and small chains. We believe that capable operators of strong multi-unit brands have the opportunity to increase their share of the full service segment. We believe we have strong brands, and that the breadth and depth of our experience and expertise sets us apart in the full service restaurant industry. This collective capability is the product of investments over many years in areas that are critical to success in our business, including brand management excellence, restaurant operations excellence, supply chain, talent management and information technology, among other things.

During fiscal 2015, we are focused on progressing with our value creation priorities, which include: completion of the Red Lobster sale; continuation of the Olive Garden "brand renaissance"; continuation of new restaurant growth at our other brands, primarily driven by LongHorn; implementation of a new management incentive plan that more directly emphasizes same-restaurant sales, free cash flow and relative total shareholder return; continuation of the focus on our restaurant support platform costs; and improvement of capital allocation discipline.

The total sales growth we envision should increase the cost-effectiveness of our restaurant support platform. However, we also plan to supplement our conventional incremental year-to-year cost management efforts with an ongoing focus on identifying and pursuing transformational multi-year cost reduction opportunities.

While we are a leader in the full service dining segment, we know we cannot be successful without a clear sense of who we are. Our business is a people business, and our core purpose is “To nourish and delight everyone we serve.” This core purpose is supported by our core values:

- Integrity and fairness;
- Respect and caring;
- Diversity;
- Always learning/always teaching;
- Being “of service;”
- Teamwork; and
- Excellence.

Our mission is to be “The best, now and for generations... and a place where people can achieve their dreams.” We feel we have a compelling opportunity to create a company that's more valuable and valued - a company that matters. We believe we can achieve this goal by continuing to build on our strategy to be a brand-building company which is focused on:

- Brand relevance;
- Brand support;
- A vibrant business model;
- Competitively superior leadership; and
- A unifying, motivating culture.

Restaurant Brands - Continuing Operations

Olive Garden

Olive Garden is the largest full service dining Italian restaurant operator in the United States. Olive Garden’s menu includes a variety of authentic Italian foods featuring fresh ingredients and a wine list that includes a broad selection of wines imported from Italy. The updated menu includes new lighter Italian fare as well as classic Tuscan favorites, including flatbreads and other appetizers; soups, salad and garlic breadsticks; baked pastas; sautéed specialties with chicken, seafood and fresh vegetables; grilled meats; and a variety of desserts. Olive Garden also uses coffee imported from Italy for its espresso and cappuccino.

Most dinner menu entrée prices range from $10.00 to $20.00 , and most lunch menu entrée prices range from $7.00 to $17.00. The price of each entrée includes as much fresh salad or soup and breadsticks as a guest desires. During fiscal 2014 , the average check per person was approximately $16.50 to $17.00, with alcoholic beverages accounting for 7.0 percent of Olive Garden’s sales. Olive Garden maintains different menus for dinner and lunch and different menus across its trade areas to reflect geographic differences in consumer preferences, prices and selections, as well as a smaller portioned, lower-priced children’s menu.

LongHorn Steakhouse

LongHorn Steakhouse is a full service steakhouse restaurant with locations primarily in the eastern half of the United States, operating in an attractive and inviting atmosphere reminiscent of the classic American West. LongHorn Steakhouse restaurants feature a variety of top quality menu items including signature fresh steaks and chicken, as well as salmon, shrimp, ribs, pork chops, burgers and prime rib.

Most dinner menu entrée prices range from $12.00 to $24.00, and most lunch menu entrée prices range from $7.50 to $15.50. The price of most entrées includes a side and/or salad and as much freshly baked bread as a guest desires. During fiscal 2014 , the average check per person was approximately $19.00 to $19.50, with alcoholic beverages accounting for 9.5 percent of LongHorn Steakhouse’s sales. LongHorn Steakhouse maintains different menus for dinner and lunch and different menus across its trade areas to reflect geographic differences in consumer preferences, prices and selections, as well as a smaller portioned, lower-priced children’s menu.

The Capital Grille

The Capital Grille is a full service restaurant with locations in major metropolitan cities in the United States and features relaxed elegance and style. Nationally acclaimed for dry aging steaks on the premises, The Capital Grille is also known for fresh seafood flown in daily and culinary specials created by its chefs. The restaurants feature an award-winning wine list offering over 350 selections, personalized service, comfortable club-like atmosphere, and premiere private dining rooms.

Most dinner menu entrée prices range from $28.00 to $51.00 a nd most lunch menu entrée prices range from $12.00 to $39.00 . During fiscal 2014 , the average check per person was approximately $69.00 to $75.75 , with alcoholic beverages accounting for 29.9 percent of The Capital Grille’s sales. The Capital Grille offers different menus for dinner and lunch and varies its wine list to reflect geographic differences in consumer preferences, prices and selections.

Yard House

Yard House is a full service restaurant operating in metropolitan areas across the United States and is known for great food, classic rock and a draft beer offering that features over 125 craft ales and lagers. The American menu includes more than 100 chef driven items with a wide range of appetizers, snacks, natural burgers and steaks, street tacos, salads, sandwiches, fresh fish and a generous selection of vegetarian dishes.

Yard House design elements create a contemporary, yet casual, "come as you are" environment. Most dinner menu entrée prices at Yard House range from $8.00 to $35.00, and most lunch entrée prices range from $8.00 to $17.00. During fiscal 2014, the average check per person was approximately $30.00 to $30.50, with alcoholic beverages accounting for 38.9 percent of Yard House's sales. Yard House maintains different menus for dinner and lunch and different menus and selections of craft beers across its trade areas to reflect geographic differences in consumer preferences, prices and selections, as well as a smaller portioned, lower-priced children's menu.

Bahama Breeze

Bahama Breeze is a full service restaurant operating primarily in the Eastern half of the United States, that offers guests the feeling of a Caribbean escape, offering the food, drinks and atmosphere found in the islands. The menu features distinctive, Caribbean-inspired fresh seafood, chicken and steaks as well as signature specialty drinks.

Most dinner menu entrée prices at Bahama Breeze range from $10.00 to $30.00 , and most lunch entrée prices range from $7.15 to $21.00. During fiscal 2014 , the average check per person was approximately $23.75 to $25.00, with alcoholic beverages accounting for 22.4 percent of Bahama Breeze’s sales. Bahama Breeze maintains different menus for dinner and lunch and different menus across its trade areas to reflect geographic differences in consumer preferences, prices and selections, as well as a smaller portioned, lower-priced children’s menu.

Seasons 52

Seasons 52 is a full service restaurant operating primarily in the Eastern half of the United States, with a casually sophisticated, fresh grill and wine bar with seasonally inspired menus offering a fresh dining experience that celebrates living well. Nothing on the menu is more than 475 calories from the signature flat breads and popular Mini Indulgence desserts, to the entrée s that are inspired by the seasons and tastes of a farmer's market. It offers an international wine list of more than 90 wines, with approximately 60 available by the glass.

Most dinner menu entrée prices at Seasons 52 range from $11.00 to $28.00, and most lunch entrée prices range from $8.00 to $26.00. During fiscal 2014 , the average check per person was approximately $39.50 to $44.00, with alcoholic beverages accounting for 27.0 percent of Seasons 52's sales. Seasons 52 maintains different menus for dinner and lunch and different menus across its trade areas to reflect geographic differences in consumer preferences, prices and selections.

Eddie V's

Eddie V's is a full service restaurant with locations in major metropolitan cities in the United States with a sophisticated and contemporary ambiance, featuring live nightly music in the V-Lounge. The menu is inspired by the great classic restaurants of New Orleans, San Francisco and Boston, with an emphasis on prime seafood creations, USDA prime beef and chops, and fresh oyster bar selections. Guests are promised an intimate and comfortable dining experience "where your pleasure is our sole intention."

Most dinner menu entrée prices at Eddie V's range from $16.00 to $49.00. During fiscal 2014, the average check per person was approximately $88.00 to $91.50, with alcoholic beverages accounting for 33.5 percent of Eddie V's sales. Eddie V's maintains different menus for dinner and varies its wine list to reflect geographic differences in consumer preferences, prices and selections.

Restaurant Brands - Discontinued Operations

Red Lobster

Red Lobster is the largest full service dining seafood specialty restaurant operator in the United States. It offers an extensive menu featuring fresh fish, shrimp, crab, lobster, scallops and other seafood in a casual atmosphere. The menu includes a variety of specialty seafood and non-seafood entrées , appetizers and desserts.

Most dinner entrée prices range from $12.50 to $33.99, with certain lobster items available by the pound and seasonal/regional fresh fish selections available on a daily fresh fish menu. Most lunch entrée prices range from $7.50 to $12.50. The price of most entrées includes salad, side items and as many of our signature Cheddar Bay Biscuits as a guest desires. During fiscal 2014, the average check per person was approximately $21.00 to $21.50, with alcoholic beverages accounting for 7.8 percent of Red Lobster's sales. Red Lobster maintains different lunch and dinner menus and different menus across its trade areas to reflect geographic differences in consumer preferences, prices and selections, as well as a smaller portioned, lower-priced children's menu.

On May 15, 2014, we entered into an agreement to sell Red Lobster and certain other assets and associated liabilities for $2.11 billion in cash. These assets and liabilities are classified as held for sale on our consolidated balance sheet as of May 25, 2014. We have classified the results of operations of the Red Lobster business as discontinued operations in our consolidated statements of earnings and cash flows for all periods presented.

Synergy Restaurants

In March 2011, we opened a test “synergy restaurant” that housed both a Red Lobster and Olive Garden restaurant in the same building, but with separate front doors, dining rooms and brand-specific menus. We developed this concept to test expansion into smaller markets that would not meet our population density requirements to build a single brand. We opened a second synergy test location during fiscal 2012 and four locations during fiscal 2013. In connection with the anticipated sale of Red Lobster, we closed two synergy locations in the fourth fiscal quarter of 2014, leaving a total of four locations operating at the end of fiscal 2014. The results of operations and asset impairment charges of the two closed locations are included in discontinued operations. We expect to convert the four remaining restaurants to Olive Garden restaurants by the end of the first quarter of fiscal 2015.

Recent and Planned Restaurant Growth

During fiscal 2014 , we opened 70 net new restaurants in the United States and Canada. Our fiscal 2014 actual and fiscal 2015 projected net new openings in the U.S. and Canada from continuing operations by brand are shown below.

	Actual Net New Restaurant Openings Fiscal 2014 (1)	Projected Net New Restaurant Openings Fiscal 2015
Olive Garden	9	6
LongHorn Steakhouse	34	15
Specialty Restaurant Group		
The Capital Grille	5	1
Bahama Breeze	4	1
Seasons 52	7	5
Eddie V's	3	1
Yard House	8	8
Totals	70	37

(1) Excludes restaurants that were included in discontinued operations.

The actual number of openings for each of our brands will depend on many factors, including our ability to locate appropriate sites, negotiate acceptable purchase or lease terms, obtain necessary local governmental permits, complete construction, and recruit and train restaurant management and hourly personnel. Our objective is to continue to expand all of our restaurant brands.

We consider location to be a critical factor in determining a restaurant’s long-term success, and we devote significant effort to the site selection process. Prior to entering a market, we conduct a thorough study to determine the optimal number and placement of restaurants. Our site selection process incorporates a variety of analytical techniques to evaluate key factors. These factors include trade area demographics, such as target population density and household income levels; competitive influences in the trade area; the site’s visibility,

accessibility and traffic volume; and proximity to activity centers such as shopping malls, hotel/motel complexes, offices and universities. Members of senior management evaluate, inspect and approve each restaurant site prior to its acquisition. Constructing and opening a new restaurant typically takes approximately 180 days on average after permits are obtained and the site is acquired.

The following table illustrates the approximate average capital investment, square footage and dining capacity of the nine Olive Garden restaurants and the 34 LongHorn Steakhouse restaurants (33 new restaurants and one relocation) opened during fiscal 2014. The table excludes any rebuilt restaurants.

	Capital Investment(1)	Square Feet(2)	Dining Seats(3)	Dining Tables(4)
Olive Garden	$4,546,000	7,683	235	57
LongHorn Steakhouse	$3,519,000	6,365	228	49

(1) Estimated final cost includes net present value of lease obligations and working capital credit, but excludes internal overhead.

(2) Includes all space under the roof, including the coolers and freezers.

(3) Includes bar dining seats and patio seating, but excludes bar stools.

(4) Includes patio dining tables.

We systematically review the performance of our restaurants to ensure that each one meets our standards. When a restaurant falls below minimum standards, we conduct a thorough analysis to determine the causes, and implement marketing and operational plans to improve that restaurant’s performance. If performance does not improve to acceptable levels, the restaurant is evaluated for relocation, closing or conversion to one of our other brands.

During fiscal 2012, we permanently closed one Red Lobster and two LongHorn Steakhouse restaurants. During fiscal 2013, we temporarily closed one LongHorn Steakhouse and permanently closed one Red Lobster restaurant. During fiscal 2014, we permanently closed two synergy restaurants. Permanent closures are typically due to economic changes in trade areas, the expiration of lease agreements, or site concerns. Accordingly, we continue to evaluate our site locations in order to minimize the risk of future closures or asset impairment charges. As of May 25, 2014, there were two temporarily closed Olive Garden restaurants which we expect to reopen during fiscal 2015 and two permanently closed Olive Garden restaurants.

Restaurant Operations

We believe that high-quality restaurant management is critical to our long-term success. Our restaurant management structure varies by brand and restaurant size. We issue detailed operations manuals covering all aspects of restaurant operations, as well as food and beverage manuals which detail the preparation procedures of our recipes. The restaurant management teams are responsible for the day-to-day operation of each restaurant and for ensuring compliance with our operating standards.

Each typical Olive Garden restaurant is led by a general manager, and each LongHorn Steakhouse restaurant is led by a managing partner. Each also has three to five additional managers, depending on the operating complexity and sales volume of the restaurant. In addition, each restaurant typically employs an average of 50 to 120 hourly employees, most of whom work part-time. Restaurant general managers or managing partners report to a director of operations who is responsible for approximately six to ten restaurants. Restaurants are visited regularly by operations management, including officer level executives, to help ensure strict adherence to all aspects of our standards. Red Lobster's restaurant management is consistent with that of Olive Garden.

Since the completion of our new operations organizational structure during fiscal year 2013, each director of operations of Olive Garden and LongHorn Steakhouse reports to a Regional Vice President. The new Regional Vice President role, which typically supervises six to eight directors of operations, further strengthens our restaurant operations expertise by elevating the execution required to build guest loyalty and enhance our talent development capacity in the field. Four to five Regional Vice Presidents are supervised by a Senior Vice President of Operations which reduces the span of control for our Senior Vice Presidents of Operations. Our new operations organizational structure now allows our Senior Vice President of Operations role to focus on identifying new tools, support and operations strategies required to sustainably grow guest counts and sales in their particular division and better enable talent rotation and sharing across our brands.

Each Bahama Breeze and Yard House restaurant is led by a general manager, and each The Capital Grille, Seasons 52 and Eddie V's restaurant is led by a managing partner. Each also has one to six managers. Each The Capital Grille, Seasons 52 and Eddie V's restaurant has one to three executive chefs, and each Bahama Breeze and Yard House restaurant has one to three culinary managers. In addition, each restaurant typically employs an average of 65 to 150 hourly employees, most of whom work part-time. The general manager or managing partner of each restaurant reports directly to a director of operations, who has operational responsibility for approximately three to ten restaurants. Restaurants are visited regularly by operations management, including officer level executives, to help ensure strict adherence to all aspects of our standards.

Our Learning Center of Excellence in partnership with each brand's head of training, together with senior operations executives, are responsible for developing and maintaining our operations training programs. These efforts include a 12 to 13-week training program for management trainees (seven to nine weeks in the case of internal promotions) and continuing development programs for managers, supervisors and directors. The emphasis of the training and development programs varies by restaurant brand, but includes leadership, restaurant business management and culinary skills. We also use a highly structured training program to open new restaurants, including deploying training teams experienced in all aspects of restaurant operations. The opening training teams typically begin work one and a half weeks prior to opening and remain at the new restaurant for up to three weeks after the opening. They are re-deployed as appropriate to enable a smooth transition to the restaurant's operating staff.

We maintain performance measurement and incentive compensation programs for our management-level employees. We believe that our leadership position, strong success-oriented culture and various short-term and long-term incentive programs, including stock and stock-based compensation, help attract and retain highly motivated restaurant managers.

Quality Assurance

Our Total Quality Department helps ensure that all restaurants provide safe, high-quality food in a clean and safe environment. Through rigorous physical evaluation and testing at our North American laboratories and through "point source inspection" by our international team of quality specialists in several foreign countries, we purchase only seafood that meets or exceeds our specifications. We use independent third parties to inspect and evaluate commodity vendors. In addition, any commodity supplier that produces a "high-risk" product is subject to a food safety evaluation by Darden personnel at least annually. We require our suppliers to maintain sound manufacturing practices and operate with the comprehensive Hazard Analysis and Critical Control Point ("HACCP") food safety programs adopted by the U.S. Food and Drug Administration. The HACCP programs focus on preventing hazards that could cause food-borne illnesses by applying scientifically-based controls to analyze hazards, identify and monitor critical control points, and establish corrective actions when monitoring shows that a critical limit has not been met. Since 1976, we have required routine microbiological testing of seafood and other commodities for quality and microbiological safety. In addition, our total quality managers and third party auditors visit each restaurant periodically throughout the year to review food handling and to provide education and training in food safety and sanitation. The total quality managers also serve as a liaison to regulatory agencies on issues relating to food safety.

Purchasing and Distribution

Our ability to ensure a consistent supply of high-quality food and supplies at competitive prices to all of our restaurant brands depends on reliable sources of procurement. Our purchasing staff sources, negotiates and purchases food and supplies from more than 2,000 suppliers whose products originate in more than 30 countries. Suppliers must meet our requirements and strict quality control standards in the development, harvest, catch and production of food products. Competitive bids, long-term contracts and long-term vendor relationships are routinely used to manage availability and cost of products.

We believe that our seafood purchasing capabilities are a significant competitive advantage. Our purchasing staff travels routinely within the United States and internationally to source more than 100 varieties of top-quality seafood at competitive prices. We believe that we have established excellent long-term relationships with key seafood vendors and usually source our product directly from producers (not brokers or middlemen). While the supply of certain seafood species is volatile, we believe we have the ability to identify alternative seafood products and to adjust our menus as necessary.

All other essential food products are available, or can be made available upon short notice, from alternative qualified suppliers . We continue to progress in automating our supply chain allowing our suppliers, logistics partners and distributors to improve optimization with information visibility. Through our subsidiary, Darden Direct Distribution, Inc. ("Darden Direct"), and long-term agreements with our third party national distribution companies we maintain inventory ownership in dedicated environments where practical. Darden Direct further enables our purchasing staff to integrate demand forecasts into long-term agreements driving efficiencies in production economics when we collaborate with vendors. We continue to invest in new technologies to improve restaurant product orders, receiving, invoice approval and inventories across the supply chain. This improves the ability of our logistics infrastructure to replenish restaurants with the right products, at the right price and with just-in-time delivery. Because of the relatively rapid turnover of perishable food products, inventories in the restaurants have a modest aggregate dollar value in relation to sales.

Our supplier diversity initiative, which focuses on women- and minority-owned businesses, is the major driver behind Darden's efforts to bring about diversity awareness and opportunities within our supplier network. We actively support several national minority supplier organizations to ensure that Darden incorporates women- and minority-owned businesses in all of its purchasing decisions.

Advertising and Marketing

We believe we have developed significant marketing and advertising capabilities. Our size enables us to be a leading advertiser in the full service dining segment of the restaurant industry. Olive Garden leverages the efficiency of national network television advertising. Olive Garden supplements this with cable, local television and digital advertising. LongHorn Steakhouse began using national cable

television advertising in fiscal 2011. In addition, LongHorn Steakhouse uses local television and digital advertising to strengthen its brand awareness. The Capital Grille, Yard House, Bahama Breeze, Seasons 52 and Eddie V's do not use national television advertising. Our restaurants appeal to a broad spectrum of consumers and we use advertising to create awareness and to attract guests. We implement periodic promotions as appropriate to maintain and increase our sales and profits, as well as strengthen our brands. We also rely on outdoor billboard, direct mail and email advertising, as well as radio, newspapers, digital coupons, search engine marketing and social media such as Facebook ® and Twitter ®, as appropriate, to attract and retain guests. During fiscal 2013, we launched electronic gift cards that can be ordered on all of our brand websites and sent instantly online. Buyers can personalize these e-gift cards by recording their voices, attaching photos and letting Facebook friends know they have bought a card. We have developed and consistently use sophisticated consumer marketing research techniques to monitor guest satisfaction and evolving expectations.

In fiscal 2014, we began efforts to consolidate our brands into a single digital technology platform, strengthen brand relevance and drive longer-term sales growth. The new digital platform will enable our brands to tailor marketing programs to enhance consumer relevance and strengthen brand loyalty. We also developed and tested a new online ordering system for Olive Garden. We expect to implement this new system on a nationwide basis in fiscal 2015. In fiscal 2014, Olive Garden continued to develop Spanish language advertising to increase awareness and visits from Hispanic consumers.

Employees

At the end of fiscal 2014 , we employed approximately 206,000 people in the United States and Canada. Of these employees, approximately 196,000 were hourly restaurant personnel. The remainder were restaurant management personnel located in the restaurants or in the field, or were located at one of our restaurant support center facilities in Orlando, Florida or Irvine, California. Our executives have an average of 14 years of experience with us. The restaurant general managers and managing partners average 13 years with us. We believe that we provide working conditions and compensation that compare favorably with those of our competitors. Most employees, other than restaurant management and corporate management, are paid on an hourly basis. None of our employees are covered by a collective bargaining agreement. We consider our employee relations to be good.

In January 2014, we were recognized for the fourth consecutive year by FORTUNE magazine as one of the “100 Best Companies to Work For” in America. We are committed to fostering a strong, values-based culture where employees can learn, thrive and grow.

Consistent with our core value of diversity, we are committed to attracting, retaining, engaging and developing a workforce that mirrors the diversity of our guests. Approximately 47 percent of our restaurant team member employees are minorities and over 53 percent are female. According to the People Report's Human Capital Intelligence Report for April 2014, the diversity of our operations leadership teams exceed the industry averages by 7 percentage points for minority and 7 percentage points for female representation. Over 24 percent of our executives are minorities and 31 percent are female. The percentages of minority and female executives rank above average in our industry. In addition, we achieved a 100 percent score on the Human Rights Campaign's Corporate Equality Index for our business practices and policies toward our lesbian, gay, bisexual and transgender employees.

Consistent with our core values of respect and caring and teamwork, in fiscal 1999 we established a program called Darden Dimes to help fellow Darden colleagues in need. Darden Dimes has helped employees weather the after-effects of hurricanes and other natural disasters, severe medical problems and other personal difficulties. Participating employees donate at least 10 cents from each paycheck to the Darden Dimes fund, which raises more than $1.7 million annually.

Information Technology

We strive for leadership in the restaurant business by using technology as a competitive advantage and as an enabler of our strategy. Since 1975, computers located in the restaurants have been used to assist in the management of the restaurants. We have implemented technology-enabled business solutions targeted at improved financial control, cost management, enhanced guest service and improved employee effectiveness. These solutions are designed to be used across restaurant brands, yet are flexible enough to meet the unique needs of each restaurant brand. Our strategy is to fully integrate systems to drive operational efficiencies and enable restaurant teams to focus on restaurant operations excellence. Over the past few years, we completed the implementation of a talent acquisition system across all brands to help streamline the hiring process for front line employee candidates. Additionally, we implemented a new meal pacing system and a new table management system to enhance the guest experience by providing accurate wait times, pacing the preparation of menu items based on cook-times and enhancing restaurant capacity by increasing table turns.

In fiscal 2014, we continued a multi-year effort to implement new technology platforms that will allow us to digitally engage with our guests and employees and strengthen our marketing and analytics capabilities in this increasingly connected society. These technology platforms will be leveraged across all brands to build guest loyalty and employee engagement. Ultimately this multi-year effort will be integrated into all guest touch points including restaurant operating systems to enable compelling personalized guest experiences.

Restaurant hardware and software support for all of our restaurant brands is provided or coordinated from the restaurant support center facility in Orlando, Florida. A high-speed data network sends and receives critical business data to and from the restaurants throughout

the day and night, providing timely and extensive information on business activity in every location. Our data center contains sufficient computing power to process information from all restaurants quickly and efficiently. Our information is processed in a secure environment to protect both the actual data and the physical assets. We guard against business interruption by maintaining a disaster recovery plan, which includes storing critical business information off-site, testing the disaster recovery plan at a host-site facility and providing on-site power backup via a large diesel generator. We use internally developed proprietary software, as well as purchased software, with proven, non-proprietary hardware. This allows processing power to be distributed effectively to each of our restaurants.

Our management believes that our current systems and practice of implementing regular updates will position us well to support current needs and future growth. We are committed to maintaining an industry leadership position in information systems and computing technology. We use a strategic information systems planning process that involves senior management and is integrated into our overall business planning. Information systems projects are prioritized based upon strategic, financial, regulatory and other business advantage criteria.

Competition

The restaurant industry is intensely competitive with respect to the type and quality of food, price, service, restaurant location, personnel, brand, attractiveness of facilities, and effectiveness of advertising and marketing. The restaurant business is often affected by changes in consumer tastes; national, regional or local economic conditions; demographic trends; traffic patterns; the type, number and location of competing restaurants; and consumers' discretionary purchasing power. We compete within each market with national and regional chains and locally-owned restaurants for guests, management and hourly personnel and suitable real estate sites. We also face growing competition from the supermarket industry, which offers "convenient meals" in the form of improved entrées and side dishes from the deli section. In addition, improving product offerings at fast casual restaurants and quick-service restaurants, together with negative economic conditions, could cause consumers to choose less expensive alternatives. We expect intense competition to continue in all of these areas.

Other factors pertaining to our competitive position in the industry are addressed under the sections entitled "Purchasing and Distribution," "Advertising and Marketing" and "Information Technology" in this Item 1 and in our Risk Factors in Item 1A of this Form 10-K.

Trademarks and Service Marks

We regard our Darden ®, Darden Restaurants ®, Olive Garden ®, Red Lobster ®, LongHorn Steakhouse ®, The Capital Grille ®, Yard House ®, Bahama Breeze ®, Seasons 52 ®, Eddie V's Prime Seafood ® and Wildfish Seafood Grille ® service marks, and other service marks and trademarks related to our restaurant businesses, as having significant value and as being important to our marketing efforts. Our policy is to pursue registration of our important service marks and trademarks and to oppose vigorously any infringement of them. Generally, with appropriate renewal and use, the registration of our service marks and trademarks will continue indefinitely.

Franchises, Joint Ventures and New Business Development

As of May 25, 2014, we operated through subsidiaries 2,207 restaurants in the United States and Canada all of which are owned by us, except three restaurants located in Central Florida and three restaurants in California, seven franchised restaurants in Puerto Rico and one Atlanta, Georgia airport location. The three restaurants located in Florida and three restaurants located in California are owned by joint ventures managed by us. The joint ventures pay management fees to us, and we control the joint ventures' use of our service marks. In fiscal 2014, we entered into a license agreement with respect to the Atlanta, Georgia airport location. The seven LongHorn Steakhouse restaurants in Puerto Rico are franchised to an unaffiliated franchisee as part of an agreement that was executed prior to our fiscal 2007 acquisition of RARE. In April 2012, we entered into a new area development agreement with this same franchisee to develop and operate our Olive Garden and LongHorn Steakhouse brands in Puerto Rico. In January 2013, we amended the new area development agreement which now calls for the franchisee to initially develop a minimum of eight Olive Garden restaurants, three Red Lobster restaurants and three additional LongHorn Steakhouse restaurants in Puerto Rico by 2017.

Our restaurant operations outside of the United States and Canada are conducted through area development and franchise agreements. We have an agreement with an unaffiliated Japanese corporation that operated 23 Red Lobster restaurants in Japan as of May 25, 2014 . In October 2010, we entered into a formal agreement with an unaffiliated operator to develop and operate Olive Garden, Red Lobster and LongHorn Steakhouse restaurants in the Middle East. The agreement calls for the operator to develop a minimum of 60 restaurants in Bahrain, Egypt, Kuwait, Lebanon, Qatar, Saudi Arabia and the United Arab Emirates over the next five years. As of May 25, 2014 , we have 12 restaurants in the region (two Red Lobster restaurants and one Olive Garden restaurant in United Arab Emirates, one Red Lobster restaurant in Qatar, two Red Lobster restaurants and three Olive Garden restaurants in Kuwait and two Red Lobster restaurants and a LongHorn Steakhouse restaurant in Saudi Arabia), open under this agreement. In August 2011, we entered into an agreement with an unaffiliated operator to develop and operate Olive Garden, Red Lobster and The Capital Grille brands in Mexico. The agreement calls for the operator to initially develop a minimum of 37 restaurants in Mexico over the next five years. As of May 25, 2014, five Olive Garden restaurants, one Red Lobster restaurant and one The Capital Grille restaurant had been opened in Mexico under this agreement.

In February 2013, we entered into a formal agreement with an unaffiliated operator to develop and operate Olive Garden, Red Lobster and LongHorn Steakhouse brands in Central and South America. The agreement calls for the operator to develop a minimum of 57 restaurants in Brazil, Colombia, the Dominican Republic and Panama. As of May 25, 2014, one Red Lobster restaurant and one Olive Garden restaurant have been opened in Brazil under this agreement, and the rights to develop the Panama territory have been sold to the operator of our restaurant locations in Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica. In July 2013, we entered into separate formal agreements with two unaffiliated operators to develop and operate Olive Garden, Red Lobster and LongHorn Steakhouse restaurants in Central America and South America. One agreement calls for the operator to develop the restaurants in Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica (and, as amended, Panama). The other agreement calls for the second unaffiliated operator to develop the restaurants in Peru. As of May 25, 2014, one Olive Garden restaurant has been opened in Peru. All area development and franchise agreements to develop and operate Red Lobster restaurants are included in the anticipated sale of Red Lobster. We do not have an ownership interest in any of these franchisees, but we receive royalty income under the area development and franchise agreements. The amount of income we derive from our joint venture and franchise arrangements is not material to our consolidated financial statements.

During fiscal 2013, and continuing in fiscal 2014, we achieved distribution for several items at Walmart, including Olive Garden regular and light salad dressing, extra virgin olive oil, two sizes of Balsamic vinegar, LongHorn seasoning and Olive Garden seasoning. We also distributed certain Red Lobster-related products, including the cheddar bay biscuit mix and Red Lobster seasoning, that will all be included in the proposed Red Lobster sale. We have expanded Olive Garden salad dressing into broad distribution channels including most major grocery chains. We also are researching and developing proprietary technology for lobster aquaculture farming.

Seasonality

Our sales volumes fluctuate seasonally. Typically, our average sales per restaurant are highest in the spring and winter, 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.

Government Regulation

We are subject to various federal, state, local and international laws affecting our business. Each of our restaurants must comply with licensing requirements and regulations by a number of governmental authorities, which include health, safety and fire agencies in the state or municipality in which the restaurant is located. The development and operation of restaurants depend on selecting and acquiring suitable sites, which are subject to zoning, land use, environmental, traffic and other regulations. To date, we have not been significantly affected by any difficulty, delay or failure to obtain required licenses or approvals.

During fiscal 2014 , 11.0 percent of our sales were attributable to the sale of alcoholic beverages. Regulations governing their sale require licensure by each site (in most cases, on an annual basis), and licenses may be revoked or suspended for cause at any time. These regulations relate to many aspects of restaurant operation, including the minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control and handling, and storage and dispensing of alcoholic beverages. The failure of a restaurant to obtain or retain these licenses would adversely affect the restaurant’s operations. We also are subject in certain states to “dram-shop” statutes, which generally provide an injured party with recourse against an establishment that serves alcoholic beverages to an intoxicated person who then causes injury to himself or a third party. We carry liquor liability coverage as part of our comprehensive general liability insurance.

We also are subject to federal and state minimum wage laws and other laws governing such matters as overtime, tip credits, working conditions, safety standards, and hiring and employment practices. Changes in these laws during fiscal 2014 have not had a material effect on our operations.

We currently are operating under a Tip Rate Alternative Commitment (“TRAC”) agreement with the Internal Revenue Service. Through increased educational and other efforts in the restaurants, the TRAC agreement reduces the likelihood of potential chain-wide employer-only FICA assessments for unreported tips.

We are subject to federal and state environmental regulations, but these rules have not had a material effect on our operations. During fiscal 2014 , there were no material capital expenditures for environmental control facilities and no material expenditures for this purpose are anticipated.

Our facilities must comply with the applicable requirements of the Americans with Disabilities Act of 1990 (“ADA”) and related state accessibility statutes. Under the ADA and related state laws, we must provide equivalent service to disabled persons and make reasonable accommodation for their employment, and when constructing or undertaking significant remodeling of our restaurants, we must make those facilities accessible.

We continue to review the health care reform law enacted by Congress in March of 2010 (“Affordable Care Act”) and related rules and regulations. As part of that review, we evaluate the potential impacts of this law on our business, and accommodate various parts of the law as they take effect.

We are subject to laws and regulations relating to the preparation and sale of food, including regulations regarding product safety, nutritional content and menu labeling. We are or may become subject to laws and regulations requiring disclosure of calorie, fat, trans fat, salt and allergen content. The Affordable Care Act requires restaurant companies such as ours to disclose calorie information on their menus. The Food and Drug Administration has proposed rules to implement this provision that would require restaurants to post the number of calories for most items on menus or menu boards and to make available more detailed nutrition information upon request.

We are subject to laws relating to information security, privacy, cashless payments and consumer credit, protection and fraud. An increasing number of governments and industry groups worldwide have established data privacy laws and standards for the protection of personal information, including social security numbers, financial information (including credit card numbers), and health information.

See Item 1A “Risk Factors” below for a discussion of risks relating to federal, state and local regulation of our business, including in the areas of health care reform, data privacy and environmental matters.

Sustainability

Darden's commitment to sustainability has evolved over time to become a key component of our industry leadership, an element that separates us from our competitors, and a contributor to our business success. Our approach is both integrated and strategic and spans the enterprise from the commodities we source to the operation of our restaurants. Conservation is a competitive advantage - it will lower our operating costs, insulate our supply chain, help us attract and retain employees - all increasing the success of our business.

More information about our sustainability strategy, how we are implementing that strategy and our progress to date is available through our sustainability report available on our website at www.darden.com/sustainability.

Health and Wellness

In September 2011, we announced a comprehensive health and wellness commitment to reduce our calorie and sodium footprints and to provide greater choice and variety on our children's menus. Across our brands, we are working toward a 10 percent reduction of calories and sodium over five years and a 20 percent reduction of calories and sodium over 10 years. And we are establishing specific nutrition standards to guide the development of our children's meals to simplify parental search for healthier options that their children enjoy.

Darden Foundation and Community Affairs

We are recognized for a culture that rewards caring for and responding to people. That defines service for Darden. The Darden Restaurants, Inc. Foundation ("Foundation") works to bring to life this spirit of service through its philanthropic support of charitable organizations across the country as well as the volunteer involvement of our employees. The Foundation does this by focusing its philanthropic efforts on the following key program areas: access to postsecondary education; preservation of natural resources; and good neighbor grants.

In April 2014, the Foundation announced it was awarding more than $2.1 million to nearly 900 nonprofit organizations in communities across the U.S. and Canada as part of its Darden Restaurants Community Grants Program. The local grants program is intended to help support nonprofit organizations in the hundreds of communities we serve. Each of our restaurants had the opportunity to help award a $1,000 grant to a nonprofit organization in its local community.

More information about the Foundation and its efforts to enhance the quality of life in the communities where we do business, including its annual Community Service Report, is available on our website at www.darden.com.

Executive Officers of the Registrant

Our executive officers as of the date of this report are listed below.

Clarence Otis, Jr., age 58, has been our Chairman of the Board since November 2005, Chief Executive Officer since November 2004, and a Director since September 2004. Mr. Otis was our Executive Vice President from March 2002 until November 2004 and President of Smokey Bones Barbeque & Grill from December 2002 until November 2004. He served as our Senior Vice President from December 1999 until March 2002, and our Chief Financial Officer from December 1999 until December 2002. He joined us in 1995 as Vice President and Treasurer. He served as our Senior Vice President, Investor Relations from July 1997 to August 1998, and as Senior Vice President, Finance and Treasurer from August 1998 until December 1999. From 1991 to 1995, he was employed by Chemical

Securities, Inc. (now J.P. Morgan Securities, Inc.), an investment banking firm, where he had been Managing Director and Manager of Public Finance.

Eugene I. (Gene) Lee, Jr., age 53, has been our President and Chief Operating Officer since September 2013. He served as President of our Specialty Restaurant Group since our acquisition of RARE on October 1, 2007. Prior to the acquisition, he served as RARE's President and Chief Operating Officer from January 2001 to October 2007. From January 1999 until January 2001, he served as RARE's Executive Vice President and Chief Operating Officer.

David C. George, age 58, has been our President of Olive Garden since January 2013. He served as our President of LongHorn Steakhouse from October 2007, when we acquired RARE, until January 2013. Prior to the acquisition, he served as RARE's President of LongHorn Steakhouse from May 2003 until October 2007. From October 2001 until May 2003, he was RARE's Senior Vice President of Operations for LongHorn Steakhouse and from May 2000 until October 2001 was RARE's Vice President of Operations for The Capital Grille .

Valerie Insignares, age 46, has been our President of LongHorn Steakhouse since January 2013. She served as our Chief Restaurant Operations Officer from March 2011 to January 2013 and our Executive Vice President of Olive Garden from October 2004 until March 2011. She joined us in January 1997 as Director of Food and Smallwares for the commodities purchasing department and held progressively more responsible positions including Senior Vice President of Operations for Olive Garden's Dallas division prior to becoming Executive Vice President of Olive Garden in 2004.

Harald E. Herrmann, age 48, was named our President of Darden's Specialty Restaurant Group in January 2014. He previously served as our President of Yard House, a brand he helped launch in 1996, since we acquired the company in August 2012. Prior to the acquisition, he served as President of Yard House from May 2002 to January 2014.

Kim A. Lopdrup, age 56, has been our Chief Executive Officer-Elect for Red Lobster since January 2014. He served as our Senior Vice President, Business Development since June 2011 until January 2014 and our President of Darden's Specialty Restaurant Group from September 2013 to January 2014. He served as our President, Red Lobster from May 2004 until June 2011. He joined us in November 2003 as Executive Vice President of Marketing for Red Lobster. From 2001 until 2002, he served as Executive Vice President and Chief Operating Officer for North American operations of Burger King Corporation, an operator and franchiser of fast food restaurants. From 1985 until 2001, he worked for Allied Domecq Quick Service Restaurants (ADQSR), a franchiser of quick service restaurants including Dunkin' Donuts, Baskin-Robbins and Togo's Eateries, where he held progressively more responsible positions in marketing, strategic and general management roles, eventually serving as Chief Executive Officer of ADQSR International.

Dave Lothrop, age 53, has been our Senior Vice President and Corporate Controller since May 2012, and was our Senior Vice President of Finance and Strategy from June 2010 until May 2012. He was Senior Vice President, Finance for Olive Garden from 2006 until June 2010. He joined Darden in 1984 as a corporate accountant. He joined the Olive Garden team in 1986 as a Senior Operations Analyst, and was promoted to Assistant Controller in 1991. After several years in a variety of finance roles at Darden, Red Lobster and Smokey Bones Barbeque & Grill, he was promoted to Senior Vice President, Finance and Controller for Olive Garden in 2006.

Robert McAdam, age 56, has been our Senior Vice President of Government and Community Affairs since December 2006. Prior to joining us, he was employed by retailer Wal-Mart, Inc. as Vice President, Corporate Affairs from 2004 to 2006, and Vice President, State and Local Governmental Relations from 2000 to 2004. From 1997 to 2000, he served as Senior Vice President of Fleishman-Hillard, an international public relations firm.

Daisy Ng, age 56, has been our Senior Vice President, Chief Human Resources Officer since June 2009. From October 2005 to June 2009, she was our Senior Vice President of Talent Management. Prior to joining us, she was Chief Learning Officer and Vice President, Workforce Development for Hewlett-Packard, a technology company, from November 2003 to August 2005.

C. Bradford (Brad) Richmond, age 55, has been our Senior Vice President and Chief Financial Officer since December 2006. From August 2005 to December 2006, he served as our Senior Vice President and Corporate Controller. He served as Senior Vice President Finance, Strategic Planning and Controller of Red Lobster from January 2003 to August 2005, and previously was Senior Vice President, Finance and Controller at Olive Garden from August 1998 to January 2003. He joined us in 1982 as a food and beverage analyst for Casa Gallardo, a restaurant concept formerly owned and operated by us, and from June 1985 to August 1998 held progressively more responsible finance and marketing analysis positions with our York Steak House, Red Lobster and Olive Garden operating companies in both the United States and Canada.

Teresa M. Sebastian, age 56, has been our Senior Vice President, General Counsel and Secretary since October 2010. In 2014, she assumed the additional role of Chief Compliance Officer. Prior to joining us, she served as Vice President, General Counsel and Corporate Secretary for Veyance Technologies, Inc., a manufacturer of industrial rubber products and exclusive manufacturer and marketer of

Goodyear Engineered Products from May 2008 until September 2010. She also served as Senior Vice President and General Counsel for Information Resources, Inc. from May 2007 to May 2008, Assistant General Counsel and Assistant Corporate Secretary for DTE Energy Company from September 2001 to May 2007, and Senior Corporate Counsel for CMS Energy Corporation from September 1994 to September 2001.

Salli A. Setta, age 49, has been our President of Red Lobster since July 2013. She served as our Executive Vice President of Marketing at Red Lobster from April 2005 to July 2013 and our Senior Vice President Culinary & Beverage of Olive Garden from December 2000 until April 2005. She joined us in April 1990 as a sales promotion assistant at Olive Garden and held positions of increasing responsibility prior to becoming Vice President Brand Management of Olive Garden in September 1998.

Item 1A. RISK FACTORS

Various risks and uncertainties could affect our business. Any of the risks described below or elsewhere in this report or our other filings with the Securities and Exchange Commission 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 following is not intended to be a complete discussion of all potential risks or uncertainties.

Unsuccessful implementation of our strategic plan could materially and adversely affect our financial condition and results of operations.

Our strategic plan to enhance shareholder value, including the proposed Red Lobster Sale (the “Red Lobster Sale”), may not be realized fully or may take longer to realize than expected. There can be no assurance that we will realize the anticipated benefits of the strategic plan, including any benefits from the Red Lobster Sale. Any inability to realize the anticipated benefits from the strategic plan could materially and adversely affect our financial condition and results of operations.

The delay or termination of the proposed Red Lobster Sale may adversely affect our financial condition and our business.

In May 2014, we entered into an agreement for the Red Lobster Sale. The closing of the transaction is subject to customary closing conditions. While closing of the transaction is expected in the first quarter of our fiscal 2015, there can be no assurance that the closing will in fact occur or that significant delays in closing the transaction will not result. An event, change or other circumstances could give rise to the termination of the agreement for the Red Lobster Sale. Certain shareholders have expressed opposition to the Red Lobster Sale. There can be no assurance regarding the outcome of any legal proceeding that may be instituted against us in connection with the Red Lobster Sale. A failure to close the transaction, significant delays in doing so or potential litigation may negatively impact the trading price of our securities and our financial condition and our business.

Our business could be negatively affected as a result of actions of activist shareholders, and such activism could impact the trading value of the Company’s securities.

Certain shareholders have expressed opposition to the Company’s strategic plan and their intent to take actions designed to prevent full implementation of our strategic plan and, in particular, the proposed Red Lobster Sale. Responding to actions by activist shareholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. Such activities could interfere with our ability to execute our strategic plan. The perceived uncertainties as to our future direction also could affect the market price and volatility of our securities.

Certain activist shareholders have made, or indicated they will in the future make, strategic proposals, suggestions or requested changes concerning the Company's operations, strategy, management, businesses or other matters. We cannot predict, and no assurances can be given, as to the outcome or timing of any matters relating to the foregoing, and any such matters may impact the value of the Company's securities.

A potential proxy contest for the election of directors at our annual meeting could distract our management, divert our resources and, absent Board action, trigger a change of control under our indebtedness, resulting in acceleration and have a material adverse impact on our business, liquidity and financial condition.

On May 22, 2014, Starboard Value LP and its affiliates (“Starboard”) delivered a letter to us nominating 12 director candidates for election to the Board at our 2014 annual meeting of shareholders (the “2014 Annual Meeting”). It is possible that Starboard-nominated directors could constitute a majority of the Board following the 2014 Annual Meeting.

A proxy contest would require us to incur significant legal fees and proxy solicitation expenses and require significant time and attention by management and the Board. Further, any perceived uncertainties as to our future direction and control could result in the loss of potential business opportunities and may make it more difficult to attract and retain qualified personnel and business partners, any of which could adversely affect our business and operating results.

In addition, the terms of our revolving credit facility and our term loan agreement include change of control triggers regarding a turnover of a majority of our Board, resulting in a potential event of default. Such an event of default would also give rise to an event of default under our Indenture dated as of January 1, 1996, pursuant to which we have $1.9 billion of debt currently outstanding. However, the terms of such change of control provisions generally enable the Board to take technical actions or make determinations that would avoid such change of control provisions from being triggered in the event a majority of the Board changes in connection with a proxy contest. In the event Starboard proceeds with its threatened election contest, the Board will undertake an appropriate review and consider what determinations or actions could or should be made to address the potential adverse consequences to the Company from a change of control, including with respect to any outstanding indebtedness.

Certain outstanding series of our debt require that we make a change of control offer upon a change of control triggering event. As with the change of control provisions in our revolving credit facility and term loan agreement, these provisions likewise generally enable the Board to take technical actions or make determinations that would avoid such change of control offers from being triggered. Our 6.200% Senior Notes due 2017, our 4.50% Senior Notes due 2021, our 3.350% Senior Notes due 2022 and our 6.800% Senior Notes due 2037 all require us to make a change of control offer at 101% of the principal amount thereof plus accrued interest when there is both (i) a “change of control” (as defined therein) and (ii) a “Below Investment Grade Rating Event” (as defined therein). Further, our 3.79% Senior Notes due 2019 and our 4.52% Senior Notes due 2024 (together, the “Private Notes”) also require that we make a change of control offer upon a “change of control” (as defined therein) at 100% of the principal amount thereof plus accrued interest. We have recently agreed to repurchase $80 million (of $80 million originally outstanding) and $210 million (of $220 million originally outstanding) aggregate principal amount of our 3.79% Senior Notes due 2019 and our 4.52% Senior Notes due 2024, respectively. Our agreement to repurchase the Private Notes is conditioned upon closing of the anticipated Red Lobster Sale. If we are obligated to make any change of control offer, we might not have sufficient funds to pay the required price for our notes following a change of control.

We are engaged in discussions with certain of our lenders with regard to these provisions.

Absent the technical Board action described above, acceleration of the obligations under certain of our indebtedness, or our obligation to make change of control offers pursuant to the terms of certain series of our notes could have a material adverse effect on our liquidity and ability to conduct our business and could adversely affect our business, results of operations and financial condition.

Further, a change in a majority of the Board may, under certain circumstances, result in a change of control under management continuity agreements we have with our executive management. Pursuant to the agreements, certain payments may be triggered following a change of control, but only upon a qualifying termination that occurs within 24 months of any such change of control.

A change in a majority of the Board may also result in a change of control under certain contracts with third parties, if we are unable to secure appropriate waivers or amendments to any such contracts. The occurrence of any of the foregoing events could adversely affect our business, results of operations and financial condition.

A failure to maintain food safety throughout the supply chain and food-borne illness concerns may have an adverse effect on our business.

Food safety is a top priority, and we dedicate substantial resources to ensuring that our guests enjoy safe, quality food products. However, food safety issues could be caused at the point of source or by food suppliers or distributors and, as a result, be out of our control. In addition, regardless of the source or cause, any report of food-borne illnesses such as E. coli, hepatitis A, trichinosis or salmonella, and other food safety issues including food tampering or contamination, at one of our restaurants could adversely affect the reputation of our brands and have a negative impact on our sales. Even instances of food-borne illness, food tampering or food contamination occurring solely at restaurants of our competitors could result in negative publicity about the food service industry generally and adversely impact our sales. The occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, resulting in higher costs and lower margins.

Litigation, including allegations of illegal, unfair or inconsistent employment practices, may adversely affect our business, financial condition and results of operations.

Our business is subject to the risk of litigation by employees, guests, suppliers, shareholders, government agencies or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. These actions and proceedings may involve allegations of illegal, unfair or inconsistent employment practices, including wage and hour violations and employment discrimination; guest discrimination; food safety issues including poor food quality, food-borne illness, food tampering, food contamination, and adverse health effects from consumption of various food products or high-calorie foods (including obesity); other personal injury; violation of "dram shop" laws (providing an injured party with recourse against an establishment that serves alcoholic beverages to an intoxicated party who then causes injury to himself or a third party); trademark infringement; violation of the federal securities laws; or other concerns. The outcome of litigation, particularly class action lawsuits and regulatory actions, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. The cost to defend litigation may be significant. There may also be adverse publicity associated with litigation that could decrease guest acceptance of our brands, regardless of whether the allegations are valid or we ultimately are found liable. Litigation could impact our operations in other ways as well. Allegations of illegal, unfair or inconsistent employment practices, for example, could adversely affect employee acquisition and retention. As a result, litigation may adversely affect our business, financial condition and results of operations.

Unfavorable publicity, or a failure to respond effectively to adverse publicity, could harm our reputation and adversely impact our guest counts and sales.

The good reputation of our restaurant brands is a key factor in the success of our business. Actual or alleged incidents at any of our restaurants could result in negative publicity that could harm our brands. Even incidents occurring at restaurants operated by our competitors or in the supply chain generally could result in negative publicity that could harm the restaurant industry overall and, indirectly, our own brands. Negative publicity may result from allegations of illegal, unfair or inconsistent employment practices, employee dissatisfaction, guest discrimination, illness, injury, or any of the other matters discussed above that could give rise to litigation. Regardless of whether the allegations or complaints are valid, unfavorable publicity relating to a limited number of our restaurants, or only to a single restaurant, could adversely affect public perception of the entire brand. Negative publicity also may result from health concerns including food safety and flu outbreaks, publication of government or industry findings concerning food products, environmental disasters, crime incidents, data privacy breaches, scandals involving our employees, or operational problems at our restaurants, all of which could make our brands and menu offerings less appealing to our guests and negatively impact our guest counts and sales. Adverse publicity and its effect on overall consumer perceptions of our brands, or our failure to respond effectively to adverse publicity, could have a material adverse effect on our business.

We are subject to a number of risks relating to public policy changes and federal, state and local regulation of our business, including in the areas of health care reform, environmental matters, minimum wage, unionization, data privacy, menu labeling, immigration requirements and taxes, and an insufficient or ineffective response to government regulation may impact our cost structure, operational efficiencies and talent availability.

The restaurant industry is subject to extensive federal, state, local and international laws and regulations. The development and operation of restaurants depend to a significant extent on the selection and acquisition of suitable sites, which are subject to building, zoning, land use, environmental, traffic and other regulations and requirements. We are subject to licensing and regulation by state and local authorities relating to health, sanitation, safety and fire standards and the sale of alcoholic beverages. We are subject to laws and regulations relating to the preparation and sale of food, including regulations regarding product safety, nutritional content and menu labeling. We are subject to federal and state laws governing minimum wages, unionization and other labor issues. These include the Fair Labor Standards Act of 1938 and requirements concerning overtime, paid or family leave, tip credits, working conditions and safety standards. They also include the Immigration Reform and Control Act of 1986, which requires among other things the preparation of Form I-9 to verify that employees are authorized to accept employment in the United States.

We also are subject to federal and state laws which prohibit discrimination and other laws regulating the design and operation of facilities, such as the ADA. Compliance with these laws and regulations can be costly and increase our exposure to litigation and governmental proceedings, and a failure or perceived failure to comply with these laws could result in negative publicity that could harm our reputation. New or changing laws and regulations relating to union organizing rights and activities may impact our operations at the restaurant level and increase our labor costs.

The Affordable Care Act was enacted in March 2010. We have continued to evaluate the potential impacts of this law on our business, and accommodate various parts of the law and related rules and regulations as they take effect. There are no assurances that a combination of cost management and price increases can accommodate all of the costs associated with compliance. We did not receive tax-free subsidies for providing prescription drugs to retirees under Medicare Part D. Therefore, we have no deferred tax assets associated with our retiree medical plan that would be impacted by this law. The Affordable Care Act also requires restaurant companies such as ours to disclose calorie information on their menus. Although the FDA published proposed regulations to implement the nutritional menu labeling provisions, it has delayed release of final regulations. We do not expect to incur any

material costs from compliance with this provision, but cannot anticipate any changes in guest behavior resulting from the implementation of this portion of the law, which could have an adverse effect on our sales or results of operations. We are also reviewing the potential impacts of new laws associated with health care passed by various state and local governments.

We are subject to a variety of federal, state and local laws and regulations relating to the use, storage, discharge, emission and disposal of hazardous materials. There also has been increasing focus by United States and overseas governmental authorities on other environmental matters, such as climate change, the reduction of greenhouse gases and water consumption. This increased focus may lead to new initiatives directed at regulating a yet to be specified array of environmental matters, such as the emission of greenhouse gases, where “cap and trade” initiatives could effectively impose a tax on carbon emissions. Legislative, regulatory or other efforts to combat climate change or other environmental concerns could result in future increases in the cost of raw materials, taxes, transportation and utilities, which could decrease our operating profits and necessitate future investments in facilities and equipment.

We are subject to laws relating to information security, privacy, cashless payments and consumer credit, protection and fraud. An increasing number of governments and industry groups worldwide have established data privacy laws and standards for the protection of personal information, including social security numbers, financial information (including credit card numbers), and health information. Compliance with these laws and regulations can be costly, and any failure or perceived failure to comply with those laws could harm our reputation or lead to litigation, which could adversely affect our financial condition.

The impact of current laws and regulations, the effect of future changes in laws or regulations that impose additional requirements and the consequences of litigation relating to current or future laws and regulations, or an insufficient or ineffective response to significant regulatory or public policy issues, could increase our cost structure, operational efficiencies and talent availability, and therefore have an adverse effect on our results of operations. Failure to comply with the laws and regulatory requirements of federal, state and local authorities could result in, among other things, revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability. Compliance with these laws and regulations can be costly and can increase our exposure to litigation or governmental investigations or proceedings.

We may be subject to increased labor and insurance costs.

Our restaurant operations are subject to United States and Canadian federal and state laws governing such matters as minimum wages, working conditions, overtime and tip credits. As federal and state minimum wage rates increase, we may need to increase not only the wages of our minimum wage employees, but also the wages paid to employees at wage rates that are above minimum wage. Labor shortages, increased employee turnover and health care mandates could also increase our labor costs. This in turn could lead us to increase prices which could impact our sales. Conversely, if competitive pressures or other factors prevent us from offsetting increased labor costs by increases in prices, our profitability may decline. In addition, the current premiums that we pay for our insurance (including workers’ compensation, general liability, property, health, and directors’ and officers’ liability) may increase at any time, thereby further increasing our costs. The dollar amount of claims that we actually experience under our workers’ compensation and general liability insurance, for which we carry high per-claim deductibles, may also increase at any time, thereby further increasing our costs. Further, the decreased availability of property and liability insurance has the potential to negatively impact the cost of premiums and the magnitude of uninsured losses.

We rely heavily on information technology in our operations, and insufficient guest or employee facing technology, or a failure to maintain a continuous and secure cyber network, free from material failure, interruption or security breach could harm our ability to effectively operate our business and/or result in the loss of respected relationships with our guests or employees.

We rely heavily on information systems across our operations, including for marketing programs, employee engagement, management of our supply chain, point-of-sale processing system in our restaurants, and various other processes and transactions. Our ability to effectively manage our business and coordinate the production, distribution and sale of our products depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, problems with transitioning to upgraded or replacement systems, a material network breach in the security of these systems as a result of a cyber attack, or any other failure to maintain a continuous and secure cyber network could result in substantial harm or inconvenience to us or an individual. This could include the theft of our intellectual property or trade secrets, or the improper use of personal information or other “identity theft.” Each of these situations or data privacy breaches may cause delays in guest service, reduce efficiency in our operations, require significant capital investments to remediate the problem, or result in negative publicity that could harm our reputation and we could be subjected to litigation or the imposition of penalties.

Our inability or failure to execute on a comprehensive business continuity plan following a major natural disaster such as a hurricane or manmade disaster, including terrorism, at our corporate facility could have a materially adverse impact on our business.

Many of our corporate systems and processes and corporate support for our restaurant operations are centralized at one Florida location. We have disaster recovery procedures and business continuity plans in place to address most events of a crisis nature, including hurricanes and other natural disasters, and back up and off-site locations for recovery of electronic and other forms of data and information. However, if we are unable to fully implement our disaster recovery plans, we may experience delays in recovery of data, inability to perform vital corporate functions, tardiness in required reporting and compliance, failures to adequately support field operations and other breakdowns in normal communication and operating procedures that could have a material adverse effect on our financial condition, results of operation and exposure to administrative and other legal claims.

Health concerns arising from food-related pandemics, outbreaks of flu viruses or other diseases may have an adverse effect on our business.

The United States and other countries have experienced, or may experience in the future, outbreaks of viruses, such as norovirus, avian flu or “SARS”, and H1N1 or “swine flu”, or other diseases such as bovine spongiform encephalopathy, commonly known as “mad cow disease.” To the extent that a virus or disease is food-borne, or perceived to be food-borne, future outbreaks may adversely affect the price and availability of certain food products and cause our guests to eat less of a product, or could reduce public confidence in food handling and/or public assembly. For example, health concerns relating to the consumption of beef or to specific events such as an outbreak of “mad cow disease” may adversely impact sales at LongHorn Steakhouse and The Capital Grille restaurants that offer beef as a primary menu item. In addition, public concern over avian flu may cause fear about the consumption of chicken, eggs and other products derived from poultry. The inability to serve beef or poultry-based products would restrict our ability to provide a variety of menu items to our guests. If we change a restaurant menu in response to such concerns, we may lose guests who do not prefer the new menu, and we may not be able to attract a sufficient new guest base to produce the sales needed to make the restaurant profitable. We also may have different or additional competitors for our intended guests as a result of such a change and may not be able to successfully compete against such competitors. If a virus is transmitted by human contact, our employees or guests could become infected, or could choose, or be advised, to avoid gathering in public places, any of which could adversely affect our restaurant guest traffic, and our ability to adequately staff our restaurants, receive deliveries on a timely basis or perform functions at the corporate level. We also could be adversely affected if jurisdictions in which we have restaurants impose mandatory closures, seek voluntary closures or impose restrictions on operations. Even if such measures are not implemented and a virus or other disease does not spread significantly, the perceived risk of infection or significant health risk may adversely affect our business.

We face intense competition, and if we have an insufficient focus on competition and the consumer landscape, our business, financial condition and results of operations would be adversely affected.

The full service dining sector of the restaurant industry is intensely competitive with respect to pricing, service, location, personnel and type and quality of food, and there are many well-established competitors. We compete within each market with national and regional restaurant chains and locally-owned restaurants. We also face growing competition as a result of the trend toward convergence in grocery, deli and restaurant services, particularly in the supermarket industry which offers “convenient meals” in the form of improved entrées and side dishes from the deli section. We compete primarily on the quality, variety and value perception of menu items. The number and location of restaurants, type of brand, quality and efficiency of service, attractiveness of facilities and effectiveness of advertising and marketing programs are also important factors. We anticipate that intense competition will continue with respect to all of these factors. If we are unable to continue to compete effectively, our business, financial condition and results of operations would be adversely affected.

Our failure to drive both short-term and long-term profitable sales growth through brand relevance, operating excellence, and opening new restaurants of existing brands could result in poor financial performance.

As part of our business strategy, we intend to drive profitable sales growth by increasing same-restaurant sales at existing restaurants. This strategy involves numerous risks, and we may not be able to achieve our growth objectives.

At existing brands, we may not be able to maintain brand relevance and restaurant operating excellence to achieve sustainable same-restaurant sales growth and warrant new unit growth. Existing brand short-term sales growth could be impacted if we are unable to drive near term guest count growth, and long-term sales growth could be impacted if we fail to extend our existing brands in ways that are relevant to our guests. A failure to define and deliver clear, relevant brands that generate sustainable same-restaurant traffic growth and produce non-traditional sales and earnings growth opportunities, or to evolve in-restaurant and brand support cost structures so that competitively strong sales growth results in stable and improving profit margins, could have an adverse effect on our results of operations. In addition, we may not be able to support sustained new unit growth or open all of our planned new restaurants, and the new restaurants that we open may not be profitable or as profitable as our existing restaurants. New restaurants typically experience an adjustment period before sales levels and operating margins normalize, and even sales at successful newly-opened restaurants generally do not make a significant contribution to profitability in their initial months of operation. The opening of new restaurants can also have an adverse effect on sales levels at existing restaurants.

The ability to open and profitably operate restaurants is subject to various risks, such as the identification and availability of suitable and economically viable locations, the negotiation of acceptable lease or purchase terms for new locations, the need to obtain all required governmental permits (including zoning approvals and liquor licenses) on a timely basis, the need to comply with other regulatory requirements, the availability of necessary contractors and subcontractors, the ability to meet construction schedules and budgets, the ability to manage union activities such as picketing or hand billing which could delay construction, increases in labor and building material costs, the availability of financing at acceptable rates and terms, changes in weather or other acts of God that could result in construction delays and adversely affect the results of one or more restaurants for an indeterminate amount of time, our ability to hire and train qualified management personnel and general economic and business conditions. At each potential location, we compete with other restaurants and retail businesses for desirable development sites, construction contractors, management personnel, hourly employees and other resources. If we are unable to successfully manage these risks, we could face increased costs and lower than anticipated sales and earnings in future periods.

Our plans to expand our smaller brands Bahama Breeze, Seasons 52 and Eddie V's, and the testing of other new business ventures that have not yet proven their long-term viability, may not be successful, which could require us to make substantial further investments in those brands and new business ventures and result in losses and impairments.

While each of our restaurant brands, as well as each of our individual restaurants, are subject to the risks and uncertainties described above, there is an enhanced level of risk and uncertainty related to the operation and expansion of our smaller brands such as Bahama Breeze, Seasons 52 and Eddie V's, and the lobster aquaculture farming activities. These brands and new business ventures have not yet proven their long-term viability or growth potential. We have made substantial investments in the development and expansion of each of these brands and further investment is required. While we have implemented a number of changes to operations at Bahama Breeze, and believe we have improved the guest experience and unit economics sufficiently to restart modest unit growth, there can be no assurance that these changes will continue to be successful or that additional new unit growth will occur. Seasons 52 and Eddie V's also are in the early stages of their development and will require additional resources to support further growth. Our other new business initiatives such as the sale of consumer packaged goods and lobster aquaculture farming have not yet proved their long-term viability and may not be successful.

In each case, these brands and business initiatives will continue to be subject to the risks and uncertainties that accompany any emerging restaurant brand or new business initiative.

A lack of availability of suitable locations for new restaurants or a decline in the quality of the locations of our current restaurants may adversely affect our sales and results of operations.

The success of our restaurants depends in large part on their locations. As demographic and economic patterns change, current locations may not continue to be attractive or profitable. Possible declines in neighborhoods where our restaurants are located or adverse economic conditions in areas surrounding those neighborhoods could result in reduced sales in those locations. In addition, desirable locations for new restaurant openings or for the relocation of existing restaurants may not be available at an acceptable cost when we identify a particular opportunity for a new restaurant or relocation. The occurrence of one or more of these events could have a significant adverse effect on our sales and results of operations.

We may experience higher-than-anticipated costs associated with the opening of new restaurants or with the closing, relocating and remodeling of existing restaurants, which may adversely affect our results of operations.

Our sales and expenses can be impacted significantly by the number and timing of the opening of new restaurants and the closing, relocating and remodeling of existing restaurants. We incur substantial pre-opening expenses each time we open a new restaurant and other expenses when we close, relocate or remodel existing restaurants. The expenses of opening, closing, relocating or remodeling any of our restaurants may be higher than anticipated. An increase in such expenses could have an adverse effect on our results of operations.

A failure to identify and execute innovative marketing and guest relationship tactics, ineffective or improper use of other marketing initiatives, and increased advertising and marketing costs, could adversely affect our results of operations.

If our competitors increase their spending on advertising and promotions, if our advertising, media or marketing expenses increase, or if our advertising and promotions become less effective than those of our competitors, or if we do not adequately leverage technology and data analytic capabilities needed to generate concise competitive insight, we could experience a material adverse effect on our results of operations. A failure to sufficiently innovate, develop guest relationship initiatives, or maintain adequate and effective advertising could inhibit our ability to maintain brand relevance and drive increased sales.

As part of our marketing efforts, we rely on search engine marketing and social media platforms to attract and retain guests, and will begin efforts to consolidate our brands into a single digital technology platform. These initiatives may not be successful,

and pose a variety of other risks, as discussed below under the heading: "Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could materially adversely impact our business".

A failure to recruit, develop and retain effective leaders, the loss or shortage of personnel with key capacities and skills, or an inability to adequately monitor and proactively respond to employee dissatisfaction could jeopardize our ability to meet our growth targets.

Our future growth depends substantially on the contributions and abilities of key executives and other employees. Our future growth also depends substantially on our ability to recruit and retain high-quality employees to work in and manage our restaurants. We must continue to recruit, retain and motivate management and other employees in order to maintain our current business and support our projected growth. A failure to maintain appropriate organizational capacity and capability to support leadership excellence (adequate resources, innovative skill sets and expectations) and build adequate bench strength required for growth, a loss of key employees or a significant shortage of high-quality restaurant employees, and an inability to adequately monitor and proactively respond to employee dissatisfaction which could lead to poor guest satisfaction, higher turnover, litigation and unionization which could jeopardize our ability to meet our growth targets.

A failure to address cost pressures, including rising costs for commodities, health care and utilities used by our restaurants, and a failure to effectively deliver cost management activities and achieve economies of scale in purchasing, could compress our margins and adversely affect our sales and results of operations.

Our results of operations depend significantly on our ability to anticipate and react to changes in the price and availability of food, ingredients, health care, utilities, unemployment and other related costs over which we may have little control. Operating margins for our restaurants are subject to changes in the price and availability of food commodities, including shrimp, lobster, crab and other seafood, as well as beef, pork, chicken, cheese and produce. The introduction of or changes to tariffs on imported shrimp or other food products could increase our costs and possibly impact the supply of those products. We attempt to leverage our size to achieve economies of scale in purchasing, but there can be no assurances that we can always do so effectively. We are subject to the general risks of inflation. Our restaurants' operating margins are also affected by fluctuations in the price of utilities such as electricity and natural gas, whether as a result of inflation or otherwise, on which the restaurants depend for their energy supply. In addition, interruptions to the availability of gas, electric, water or other utilities, whether due to aging infrastructure, weather conditions, fire, animal damage, trees, digging accidents or other reasons largely out of our control, may adversely affect our operations. Our inability to anticipate and respond effectively to an adverse change in any of these factors could have a significant adverse effect on our sales and results of operations.

We may lose sales or incur increased costs if our restaurants experience shortages or interruptions in the delivery of food and other products from our third party vendors and suppliers.

Shortages or interruptions in the supply of food items and other supplies to our restaurants may be caused by inclement weather; natural disasters such as hurricanes, tornadoes, floods, droughts and earthquakes; the inability of our vendors to obtain credit in a tightened credit market or remain solvent given disruptions in the financial markets; or other conditions beyond our control. Such shortages or interruptions could adversely affect the availability, quality and cost of the items we buy and the operations of our restaurants. We may have a limited number of suppliers for certain of our products. Supply chain risk could increase our costs and limit the availability of products that are critical to our restaurant operations. If we raise prices as a result of increased food costs or shortages, it may negatively impact our sales. If we temporarily close a restaurant or remove popular items from a restaurant's menu, that restaurant may experience a significant reduction in sales during the time affected by the shortage or thereafter as a result of our guests changing their dining habits.

Adverse weather conditions and natural disasters could adversely affect our restaurant sales.

Adverse weather conditions can impact guest traffic at our restaurants, cause the temporary underutilization of outdoor patio seating and, in more severe cases such as hurricanes, tornadoes or other natural disasters, cause temporary closures, sometimes for prolonged periods, which would negatively impact our restaurant sales. Changes in weather could result in construction delays, interruptions to the availability of utilities, and shortages or interruptions in the supply of food items and other supplies, which could increase our costs. Some climatologists predict that the long-term effects of climate change and global warming may result in more severe, volatile weather or extended droughts, which could increase the frequency and duration of weather impacts on our operations.

Volatility in the market value of derivatives we use to hedge exposures to fluctuations in commodity prices may cause volatility in our gross margins and net earnings.

We use or may use derivatives to hedge price risk for some of our principal ingredient and energy costs, including but not limited to coffee, butter, wheat, soybean oil, pork, beef, diesel fuel, gasoline and natural gas. Changes in the values of these

derivatives are recorded in earnings currently, resulting in volatility in both gross margin and net earnings. These gains and losses are reported as a component of cost of sales in our Consolidated Statements of Earnings included in our consolidated financial statements. We may experience volatile earnings as a result of these market factors.

Certain economic and business factors specific to the restaurant industry and other general macroeconomic factors including unemployment, energy prices and interest rates that are largely beyond our control may adversely affect consumer behavior and our results of operations.

Our business results depend on a number of industry-specific and general economic factors, many of which are beyond our control. The full service dining sector of the restaurant industry is affected by changes in international, national, regional and local economic conditions, seasonal fluctuation of sales volumes, consumer spending patterns and consumer preferences, including changes in consumer tastes and dietary habits, and the level of consumer acceptance of our restaurant brands. The performance of individual restaurants may also be adversely affected by factors such as demographic trends, severe weather including hurricanes, traffic patterns and the type, number and location of competing restaurants.

General economic conditions may also adversely affect our results of operations. Recessionary economic cycles, a protracted economic slowdown, a worsening economy, increased unemployment, increased energy prices, rising interest rates, a downgrade of the U.S. government's long-term credit rating, the European debt crisis, or other industry-wide cost pressures could affect consumer behavior and spending for restaurant dining occasions and lead to a decline in sales and earnings. Job losses, foreclosures, bankruptcies and falling home prices could cause guests to make fewer discretionary purchases, and any significant decrease in our guest traffic or average profit per transaction will negatively impact our financial performance. In addition, if gasoline, natural gas, electricity and other energy costs increase, and credit card, home mortgage and other borrowing costs increase with rising interest rates, our guests may have lower disposable income and reduce the frequency with which they dine out, may spend less on each dining out occasion, or may choose more inexpensive restaurants.

Furthermore, we cannot predict the effects that actual or threatened armed conflicts, terrorist attacks, efforts to combat terrorism, heightened security requirements, or a failure to protect information systems for critical infrastructure, such as the electrical grid and telecommunications systems, could have on our operations, the economy or consumer confidence generally. Any of these events could affect consumer spending patterns or result in increased costs for us due to security measures.

Unfavorable changes in the above factors or in other business and economic conditions affecting our guests could increase our costs, reduce traffic in some or all of our restaurants or impose practical limits on pricing, any of which could lower our profit margins and have a material adverse effect on our financial condition and results of operations.

Disruptions in the financial and credit markets may adversely impact consumer spending patterns, affect the availability and cost of credit and increase pension plan expenses.

Our ability to make scheduled payments or to refinance our debt and to obtain financing for acquisitions or other general corporate and commercial purposes will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and to financial, business and other factors beyond our control. Global credit markets and the financial services industry have been experiencing a period of unprecedented turmoil over the last few years, characterized by the bankruptcy, failure or sale of various financial institutions and an unprecedented level of intervention from the United States and other governments. These events may adversely impact the availability of credit already arranged, and the availability and cost of credit in the future. There can be no assurances that we will be able to arrange credit on terms we believe are acceptable or that permit us to finance our business with historical margins. The lack of credit, along with the macroeconomic factors previously discussed, may have an adverse impact on certain of our suppliers, landlords and other tenants in retail centers in which we are located. If these issues continue or worsen, they could further materially impact these parties, which in turn could negatively affect our financial results. Any new or continuing disruptions in the financial markets may also adversely affect the U.S. and world economy, which could negatively impact consumer spending patterns. There can be no assurances as to how or when this period of turmoil will be resolved. Changes in the capital markets could also have significant effects on our pension plan. Our pension income or expense is affected by factors including the market performance of the assets in the master pension trust maintained for the pension plans for some of our employees, the weighted average asset allocation and long-term rate of return of our pension plan assets, the discount rate used to determine the service and interest cost components of our net periodic pension cost and assumed rates of increase in our employees’ future compensation. If our pension plan assets do not achieve positive rates of return, or if our estimates and assumed rates are not accurate, our earnings may decrease because net periodic pension costs would rise and we could be required to provide additional funds to cover our obligations to employees under the pension plan.

We face a variety of risks associated with doing business with franchisees, business partners and vendors in foreign markets.

Our expansion into international markets could create risks to our brands and reputation. We believe that we have selected high-caliber international operating partners and franchisees with significant experience in restaurant operations, and are providing

them with training and support. However, the probability of opening, ultimate success and quality of any franchise restaurant rests with the franchisee. If the franchisee does not successfully open or operate its restaurants in a manner consistent with our standards, or guests have negative experiences due to issues with food quality or operational execution, our brand values could suffer, which could have an adverse effect on our business.

There also is no assurance that international operations will be profitable or that international growth will continue. Our international operations are subject to all of the same risks associated with our domestic operations, as well as a number of additional risks. These include, among other things, international economic and political conditions, foreign currency fluctuations, and differing cultures and consumer preferences.

We also are subject to governmental regulations throughout the world that impact the way we do business with our international franchisees, vendors and conduct our affairs with lobster aquaculture farming. These include antitrust and tax requirements, anti-boycott regulations, import/export/customs regulations and other international trade regulations, the USA Patriot Act, the Foreign Corrupt Practices Act, and applicable local law. Failure to comply with any such legal requirements could subject us to monetary liabilities and other sanctions, which could harm our business, results of operations and financial condition.

Failure to protect our service marks or other intellectual property could harm our business.

We regard our Darden ®, Darden Restaurants ®, Olive Garden ®, Red Lobster ®, LongHorn Steakhouse ®, The Capital Grille ®, Yard House ®, Bahama Breeze ®, Seasons 52 ®, Eddie V's Prime Seafood ® and Wildfish Seafood Grille ® service marks, and other service marks and trademarks related to our restaurant businesses, as having significant value and being important to our marketing efforts. We rely on a combination of protections provided by contracts, copyrights, patents, trademarks, service marks and other common law rights, such as trade secret and unfair competition laws, to protect our restaurants and services from infringement. We have registered certain trademarks and service marks in the United States and foreign jurisdictions. However, we are aware of names and marks identical or similar to our service marks being used from time to time by other persons. Although our policy is to oppose any such infringement, further or unknown unauthorized uses or other misappropriation of our trademarks or service marks could diminish the value of our brands and adversely affect our business. In addition, effective intellectual property protection may not be available in every country in which we have or intend to open or franchise a restaurant. Although we believe we have taken appropriate measures to protect our intellectual property, there can be no assurance that these protections will be adequate, and defending or enforcing our service marks and other intellectual property could result in the expenditure of significant resources.

Impairment of the carrying value of our goodwill or other intangible assets could adversely affect our financial condition and consolidated results of operations.

Goodwill represents the difference between the purchase price of acquired companies and the related fair values of net assets acquired. We test goodwill for impairment annually and whenever events or changes in circumstances indicate that impairment may have occurred. We compare the carrying value of a reporting unit, including goodwill, to the fair value of the unit. Carrying value is based on the assets and liabilities associated with the operations of that reporting unit. If the carrying value is less than the fair value, no impairment exists. If the carrying value is higher than the fair value, there is an indication of impairment. A significant amount of judgment is involved in determining if an indication of impairment exists. Factors may include, among others: a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; the testing for recoverability of a significant asset group within a reporting unit; and slower growth rates. Any adverse change in these factors would have a significant impact on the recoverability of these assets and negatively affect our financial condition and consolidated results of operations. We compute the amount of impairment by comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. We are required to record a non-cash impairment charge if the testing performed indicates that goodwill has been impaired.

We evaluate the useful lives of our other intangible assets, primarily the LongHorn Steakhouse ®, The Capital Grille ®, Yard House ® and Eddie V's Prime Seafood ® trademarks, to determine if they are definite or indefinite-lived. Reaching a determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, demand, competition, other economic factors (such as the stability of the industry, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures, and the expected lives of other related groups of assets.

As with goodwill, we test our indefinite-lived intangible assets (primarily trademarks) for impairment annually and whenever events or changes in circumstances indicate that their carrying value may not be recoverable. We estimate the fair value of the trademarks based on an income valuation model using the relief from royalty method, which requires assumptions related to projected sales from our annual long-range plan, assumed royalty rates that could be payable if we did not own the trademarks and a discount rate.

We cannot accurately predict the amount and timing of any impairment of assets. Should the value of goodwill or other intangible assets become impaired, there could be an adverse effect on our financial condition and consolidated results of operations.

Failure of our internal controls over financial reporting and future changes in accounting standards may cause adverse unexpected operating results, affect our reported results of operations or otherwise harm our business and financial results.

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Our growth and acquisition of other restaurant companies with procedures not identical to our own could place significant additional pressure on our system of internal control over financial reporting. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. A significant financial reporting failure or material weakness in internal control over financial reporting could cause a loss of investor confidence and decline in the market price of our common stock.

A change in accounting standards can have a significant effect on our reported results and may affect our reporting of transactions before the change is effective. New pronouncements and varying interpretations of pronouncements have occurred and may occur in the future. Changes to existing accounting rules or the questioning of current accounting practices may adversely affect our reported financial results. Additionally, our assumptions, estimates and judgments related to complex accounting matters could significantly affect our financial results. Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including but not limited to, revenue recognition, fair value of investments, impairment of long-lived assets, leases and related economic transactions, derivatives, pension and post-retirement benefits, intangibles, self-insurance, income taxes, property and equipment, unclaimed property laws and litigation, and stock-based compensation are highly complex and involve many subjective assumptions, estimates and judgments by us. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by us could significantly change our reported or expected financial performance.

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could materially adversely impact our business.

There has been a marked increase in the use of social media platforms and similar devices, including weblogs (blogs), social media websites, and other forms of Internet-based communications which allow individuals access to a broad audience of consumers and other interested persons. Many social media platforms immediately publish the content their subscribers and participants can post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to our interests or may be inaccurate, each of which may harm our performance, prospects, or business. The harm may be immediate without affording us an opportunity for redress or correction. The dissemination of information online could harm our business, prospects, financial condition, and results of operations, regardless of the information's accuracy.

As part of our marketing efforts, we rely on search engine marketing and social media platforms such as Facebook® and Twitter® to attract and retain guests. We have initiated a multi-year effort to implement new technology platforms that will allow us to digitally engage with our guests and employees and strengthen our marketing and analytics capabilities in this increasingly connected society. These initiatives may not be successful, resulting in expenses incurred without the benefit of higher revenues or increased employee engagement. In addition, a variety of risks are associated with the use of social media, including the improper disclosure of proprietary information, negative comments about us, exposure of personally identifiable information, fraud, or out-of-date information. The inappropriate use of social media vehicles by our guests or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Restaurant Properties – Continuing Operations

As of May 25, 2014 , we operated 1,501 restaurants in the United States and Canada (consisting of 837 Olive Garden, 464 LongHorn Steakhouse, 54 The Capital Grille, 52 Yard House, 38 Seasons 52, 37 Bahama Breeze, and 15 Eddie V's), in the following locations:

Alabama (12)	Illinois (48)	Montana (2)	Rhode Island (3)
Alaska (2)	Indiana (32)	Nebraska (6)	South Carolina (29)
Arkansas (31)	Iowa (12)	Nevada (15)	South Dakota (3)
Arizona (38)	Kansas (20)	New Hampshire (10)	Tennessee (43)
California (102)	Kentucky (18)	New Jersey (46)	Texas (132)
Colorado (20)	Louisiana (16)	New Mexico (7)	Utah (15)
Connecticut (15)	Maine (9)	New York (42)	Vermont (2)
Delaware (5)	Maryland (31)	North Carolina (53)	Virginia (44)
District of Columbia (1)	Massachusetts (40)	North Dakota (6)	Washington (22)
Florida (172)	Michigan (33)	Ohio (69)	West Virginia (9)
Georgia (99)	Minnesota (15)	Oklahoma (13)	Wisconsin (18)
Hawaii (1)	Mississippi (12)	Oregon (9)	Wyoming (2)
Idaho (5)	Missouri (34)	Pennsylvania (72)	Canada (6)

Of these 1,501 restaurants open on May 25, 2014 , 586 were located on owned sites and 915 were located on leased sites. The leases are classified as follows:

Land-Only Leases (we own buildings and equipment)	668
Ground and Building Leases	46
Space/In-Line/Other Leases	201
Total	915

Restaurant Properties - Discontinued Operations

As of May 25, 2014, we operated 706 Red Lobster restaurants in the United States and Canada in the following locations that are reported as a component of discontinued operations:

Alabama (12)	Indiana (21)	Nevada (4)	Tennessee (18)
Arkansas (8)	Iowa (8)	New Jersey (17)	Texas (61)
Arizona (18)	Kansas (7)	New Mexico (7)	Utah (5)
California (44)	Kentucky (10)	New York (31)	Virginia (25)
Colorado (15)	Louisiana (4)	North Carolina (17)	Washington (10)
Connecticut (4)	Maryland (15)	North Dakota (3)	West Virginia (4)
Delaware (3)	Michigan (27)	Ohio (40)	Wisconsin (8)
Florida (64)	Minnesota (12)	Oklahoma (10)	Wyoming (2)
Georgia (32)	Mississippi (6)	Oregon (5)	Canada (27)
Hawaii (1)	Missouri (16)	Pennsylvania (33)	
Idaho (4)	Montana (1)	South Carolina (13)	
Illinois (27)	Nebraska (5)	South Dakota (2)	

Of these 706 restaurants open on May 25, 2014, 474 were located on owned sites and 232 were located on leased sites. The leases are classified as follows:

Land-Only Leases (we own buildings and equipment)	172
Ground and Building Leases	25
Space/In-Line/Other Leases	35
Total	232

Properties – General

During fiscal 1999, we formed two subsidiary corporations, each of which elected to be taxed as a Real Estate Investment Trust (“REIT”) under Sections 856 through 860 of the Internal Revenue Code. These elections limit the activities of both

corporations to holding certain real estate assets. The formation of these two REITs is designed primarily to assist us in managing our real estate portfolio and possibly to provide a vehicle to access capital markets in the future. Both REITs were structured as non-public REITs.

During fiscal 2013, we merged one of the REIT entities into another subsidiary of Darden Restaurants, Inc. The second REIT was merged into GMRI, Inc., our wholly-owned subsidiary, during fiscal 2014. As a result of these mergers, all restaurant property that was previously owned by the merged REITs was returned to Darden corporate entities that operate the corresponding restaurants at the sites. For financial reporting purposes, the second REIT is included in our consolidated financial statements during a portion of fiscal 2014.

In connection with the sale and lease back of our former Restaurant Support Center buildings, we purchased several adjacent parcels of vacant land in Orange County, Florida, and relocated our headquarters to this site during the second quarter of fiscal 2010. The site includes a main headquarters building, data center and parking deck. The Restaurant Support Center campus at this new location offers a more collaborative and unified environment with additional room for future growth. During fiscal year 2013, we commenced the first phase of hotel/retail development on the adjacent parcels of land to our Restaurant Support Center buildings. The first phase of hotel/retail development includes construction of a 128-room hotel by an unaffiliated third party hotel operator. The hotel will be utilized as lodging for those attending training sessions at our Restaurant Support Center.

Except in limited instances, our present restaurant sites and other facilities are not subject to mortgages or encumbrances securing money borrowed by us from outside sources. In our opinion, our current buildings and equipment generally are in good condition, suitable for their purposes and adequate for our current needs. See also Note 5 “Land, Buildings and Equipment, Net” and Note 14 “Leases” under Notes to Consolidated Financial Statements in our 2014 Annual Report to Shareholders, which is incorporated herein by reference.

Item 3. LEGAL PROCEEDINGS

See the discussion of legal proceedings contained in the third, fourth and fifth paragraphs of Note 19 “Commitments and Contingencies” under Notes to Consolidated Financial Statements in our 2014 Annual Report to Shareholders, which is incorporated herein by reference.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The principal United States market on which our common shares are traded is the New York Stock Exchange, where our shares are traded under the symbol DRI. As of June 30, 2014, there were approximately 41,859 registered holders of record of our common shares. The information concerning the dividends and high and low intraday sales prices for our common shares traded on the New York Stock Exchange for each full quarterly period during fiscal 2014 and 2013 contained in Note 21 “Quarterly Data (Unaudited)” under Notes to Consolidated Financial Statements in our 2014 Annual Report to Shareholders is incorporated herein by reference. We have not sold any equity securities during the last fiscal year that were not registered under the Securities Act of 1933, as amended.

The table below provides information concerning our repurchase of shares of our common stock during the quarter ended May 25, 2014 . Since commencing our repurchase program in December 1995, we have repurchased a total of 171.9 million shares through May 25, 2014 under authorizations from our Board of Directors to repurchase an aggregate of 187.4 million shares.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (2)
February 24, 2014 through March 30, 2014	—	—	—	15,453,642
March 31, 2014 through April 27, 2014	—	—	—	15,453,642
April 28, 2014 through May 25, 2014	47	$50.47	47	15,453,595
Total	47	$50.47	47	15,453,595

(1) All of the shares purchased during the quarter ended May 25, 2014 were purchased as part of our repurchase program, the most recent authority for which was announced in a press release issued on December 20, 2010. There is no expiration date for our program. The 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 reduce 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 additional shares.

Item 6. SELECTED FINANCIAL DATA

The information for fiscal 2010 through 2014 contained in the Five-Year Financial Summary in our 2014 Annual Report to Shareholders is incorporated herein by reference.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information set forth in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2014 Annual Report to Shareholders is incorporated herein by reference.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth in the section entitled "Quantitative and Qualitative Disclosures About Market Risk" contained within "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2014 Annual Report to Shareholders is incorporated herein by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Report of Management Responsibilities, Management's Report on Internal Control Over Financial Reporting, Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting, Report of Independent Registered Public Accounting Firm, Consolidated Statements of Earnings, Consolidated Statements of Comprehensive Income, Consolidated Balance Sheets, Consolidated Statements of Changes in Stockholders' Equity, Consolidated Statements of Cash Flows, and Notes to Consolidated Financial Statements in our 2014 Annual Report to Shareholders are incorporated herein by reference.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no changes in or disagreements with accountants on accounting and financial disclosure requiring disclosure under this Item.

Item 9A. 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 (the "Exchange Act")) as of May 25, 2014 , 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 May 25, 2014 .

During the fiscal quarter ended May 25, 2014 , 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.

The annual report of our management on internal control over financial reporting, and the audit report of KPMG LLP, our independent registered public accounting firm, regarding our internal control over financial reporting included in our 2014 Annual Report to Shareholders, are incorporated herein by reference.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information contained in the sections entitled "Proposal 1 – Election of Directors," "Meetings of the Board of Directors and Its Committees," "Corporate Governance and Board Administration" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement for our 2014 Annual Meeting of Shareholders is incorporated herein by reference. Information regarding executive officers is contained in Part I above under the heading "Executive Officers of the Registrant."

All of our employees are subject to our Code of Business Conduct and Ethics. Appendix A to the Code provides a special Code of Ethics with additional provisions that apply to our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions (the "Senior Financial Officers"). Appendix B to the Code provides a Code of Business Conduct and Ethics for members of our Board of Directors. These documents are posted on our internet website at www.darden.com and are available in print free of charge to any shareholder who requests them. We will disclose any amendments to or waivers of these Codes for directors, executive officers or Senior Financial Officers on our website.

We also have adopted a set of Corporate Governance Guidelines and charters for all of our Board committees: the Executive Committee, Audit Committee, which was established in accordance with Section 5(a)(58)(A) of the Exchange Act, Compensation Committee, Nominating and Governance Committee and Finance Committee. The Corporate Governance Guidelines and committee charters are available on our website at www.darden.com under the Investors - Corporate Governance tab and in print free of charge to any shareholder who requests them. Written requests for our Code of Business Conduct and Ethics, Corporate Governance Guidelines and committee charters should be addressed to Darden Restaurants, Inc., 1000 Darden Center Drive, Orlando, Florida 32837, Attention: Corporate Secretary.

Item 11. EXECUTIVE COMPENSATION

The information contained in the sections entitled "Director Compensation," "Executive Compensation," "Compensation Discussion and Analysis," "Compensation Committee Report" and "Corporate Governance and Board Administration" in our definitive Proxy Statement for our 2014 Annual Meeting of Shareholders is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information contained in the sections entitled "Stock Ownership of Principal Shareholders," "Stock Ownership of Management" and "Equity Compensation Plan Information" in our definitive Proxy Statement for our 2014 Annual Meeting of Shareholders is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information contained in the sections entitled "Related Party Transactions," "Meetings of the Board of Directors and Its Committees" and "Corporate Governance and Board Administration" in our definitive Proxy Statement for our 2014 Annual Meeting of Shareholders is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information contained in the section entitled “Independent Registered Public Accounting Firm Fees and Services” in our definitive Proxy Statement for our 2014 Annual Meeting of Shareholders is incorporated herein by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements:

Report of Management Responsibilities.

Management’s Report on Internal Control over Financial Reporting.

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting.

Report of Independent Registered Public Accounting Firm.

Consolidated Statements of Earnings for the fiscal years ended May 25, 2014, May 26, 2013 and May 27, 2012.

Consolidated Balance Sheets at May 25, 2014 and May 26, 2013.

Consolidated Statements of Comprehensive Income for the fiscal years ended May 25, 2014, May 26, 2013 and May 27, 2012.

Consolidated Statements of Changes in Stockholders’ Equity for the fiscal years ended May 25, 2014, May 26, 2013 and May 27, 2012.

Consolidated Statements of Cash Flows for the fiscal years ended May 25, 2014, May 26, 2013 and May 27, 2012.

Notes to Consolidated Financial Statements.

2. Financial Statement Schedules:

Not applicable.

3. Exhibits:

The exhibits listed in the accompanying Exhibit Index are filed as part of this Form 10-K and incorporated herein by reference. Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of certain instruments defining the rights of holders of certain of our long-term debt are not filed, and in lieu thereof, we agree to furnish copies thereof to the Securities and Exchange Commission upon request. The Exhibit Index specifically identifies with an asterisk each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K. We will furnish copies of any exhibit listed on the Exhibit Index upon request upon the payment of a reasonable fee to cover our expenses in furnishing such exhibits.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: July 18, 2014

DARDEN RESTAURANTS, INC.

By: /s/ Clarence Otis, Jr.
Clarence Otis, Jr., Chairman of the Board
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Clarence Otis, Jr. Clarence Otis, Jr.	Director, Chairman of the Board and Chief Executive Officer (Principal executive officer)	July 18, 2014
/s/ C. Bradford Richmond C. Bradford Richmond	Senior Vice President and Chief Financial Officer (Principal financial and accounting officer)	July 18, 2014
/s/ Michael W. Barnes* Michael W. Barnes	Director	
/s/ Leonard L. Berry* Leonard L. Berry	Director	
/s/ Christopher J. Fraleigh* Christopher J. Fraleigh	Director	
/s/ Victoria D. Harker* Victoria D. Harker	Director	
/s/ David H. Hughes* David H. Hughes	Director	
/s/ Charles A. Ledsinger, Jr.* Charles A. Ledsinger, Jr.	Director	
/s/ William M. Lewis, Jr.* William M. Lewis, Jr.	Director	
/s/ Cornelius McGillicuddy, III* ** Cornelius McGillicuddy, III	Director	
/s/ Michael D. Rose* Michael D. Rose	Director	
/s/ Maria A. Sastre* Maria A. Sastre	Director	
/s/ William S. Simon* William S. Simon	Director	

* By: /s/ Teresa M. Sebastian

Teresa M. Sebastian, Attorney-In-Fact

July 18, 2014

** Popularly known as Senator Connie Mack, III. Senator Mack signs legal documents, including this Form 10-K, under his legal name of Cornelius McGillicuddy, III.

EXHIBIT INDEX

Exhibit Number	Title
2(a)	Asset and Stock Purchase Agreement, dated as of May 15, 2014, by and between Darden Restaurants, Inc. and RL Acquisition LLC (incorporated herein by reference to Exhibit 2.1 to our Current Report on Form 8-K/A filed May 23, 2014).
2(b)	Agreement and Plan of Merger, dated as of July 12, 2012, by and among Darden Restaurants, Inc., Stout Acquisition Corp., Yard House USA, Inc., and certain stockholders of Yard House USA, Inc. (incorporated herein by reference to Exhibit 2.1 to our Current Report on Form 8-K filed July 12, 2012).
3(a)	Articles of Incorporation as amended May 26, 2005 (incorporated by reference to Exhibit 3(a) to our Annual Report on Form 10-K (Commission File No. 000-19924) for the fiscal year ended May 29, 2005 filed July 29, 2005).
3(b)	Bylaws as amended effective March 19, 2014 (incorporated by reference to Exhibit 3 to our Current Report on Form 8-K filed March 24, 2014).
4(a)	Rights Agreement dated as of May 16, 2005, by and between Darden Restaurants, Inc. and Wachovia Bank, National Association, as Rights Agent (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed May 16, 2005).
4(b)	Amendment to Rights Agreement dated as of June 2, 2006, by and between Darden Restaurants, Inc., Wachovia Bank, National Association and Wells Fargo Bank, National Association, as successor Rights Agent (incorporated by reference to Exhibit 4 to our Current Report on Form 8-K filed June 5, 2006).
4(c)	Indenture dated as of January 1, 1996, between Darden Restaurants, Inc. and Wells Fargo Bank, National Association (as successor to Wells Fargo Bank Minnesota, National Association, formerly known as Norwest Bank Minnesota, National Association) (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-3 (Commission File No. 333-146582) filed October 9, 2007).
4(d)	Officers' Certificate and Authentication Order, dated August 9, 2005, for the 6.000% Senior Notes due 2035 (which includes the form of Note) issued pursuant to the Indenture dated as of January 1, 1996, between Darden Restaurants, Inc. and Wells Fargo Bank, National Association (as successor to Wells Fargo Bank Minnesota, National Association, formerly known as Norwest Bank Minnesota, National Association), as Trustee (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed August 11, 2005).
4(e)	Officers' Certificate and Authentication Order, dated October 10, 2007, for the 6.200% Senior Notes due 2017 (which includes the form of Note) issued pursuant to the Indenture dated as of January 1, 1996, between Darden Restaurants, Inc. and Wells Fargo Bank, National Association (as successor to Wells Fargo Bank Minnesota, National Association, formerly known as Norwest Bank Minnesota, National Association), as Trustee (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed October 16, 2007).
4(f)	Officers' Certificate and Authentication Order, dated October 10, 2007, for the 6.800% Senior Notes due 2037 (which includes the form of Note) issued pursuant to the Indenture dated as of January 1, 1996, between Darden Restaurants, Inc. and Wells Fargo Bank, National Association (as successor to Wells Fargo Bank Minnesota, National Association, formerly known as Norwest Bank Minnesota, National Association), as Trustee (incorporated by reference to Exhibit 4.3 to our Current Report on Form 8-K filed October 16, 2007).
4(g)	Officers' Certificate and Authentication Order, dated October 5, 2011, for the 4.50% Senior Notes due 2021 (which includes the form of Note) issued pursuant to the Indenture dated as of January 1, 1996, between Darden Restaurants, Inc. and Wells Fargo Bank. National Association (as successor to Wells Fargo Bank Minnesota, National Association, formerly known as Norwest Bank Minnesota, National Association), as Trustee (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed October 11, 2011).

4(h) Officers' Certificate and Authentication Order, dated October 4, 2012, for the 3.350% Senior Notes due 2022 (which includes the form of Note) issued pursuant to the Indenture dated as of January 1, 1996, between Darden Restaurants, Inc. and Wells Fargo Bank, National Association (as successor to Wells Fargo Bank Minnesota, National Association, formerly known as Norwest Bank Minnesota, National Association), as Trustee (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed October 4, 2012).

4(i) Note Purchase Agreement dated June 18, 2012, between Darden Restaurants, Inc. and the purchasers named therein (incorporated herein by reference to Exhibit 4.1 to our Current Report on Form 8-K filed June 20, 2012).

*10(a)	Darden Restaurants, Inc. Stock Option and Long-Term Incentive Plan of 1995, as amended March 19, 2003 (incorporated herein by reference to Exhibit 10(b) to our Quarterly Report on Form 10-Q (Commission File No. 000-19924) for the fiscal quarter ended February 23, 2003).
*10(b)	Darden Restaurants, Inc. FlexComp Plan, as amended (incorporated herein by reference to Exhibit 10(a) to our Quarterly Report on Form 10-Q (Commission File No. 000-19924) for the quarter ended November 23, 2008).
*10(c)	Darden Restaurants, Inc. Stock Plan for Directors, as amended (incorporated by reference to Exhibit 10(c) to our Quarterly Report on Form 10-Q (Commission File No. 000-19924) for the fiscal quarter ended November 23, 2008).
*10(d)	Darden Restaurants, Inc. Compensation Plan for Non-Employee Directors, as amended (incorporated herein by reference to Exhibit 10(d) to our Quarterly Report on Form 10-Q (Commission File No. 000-19924) for the fiscal quarter ended November 23, 2008).
*10(e)	Darden Restaurants, Inc. Management and Professional Incentive Plan, as amended (incorporated herein by reference to Exhibit 10(e) to our Annual Report on Form 10-K (Commission File No. 000-19924) for the fiscal year ended May 31, 2009, filed July 24, 2009).
*10(f)	Amended and Restated Darden Restaurants, Inc. Benefits Trust Agreement dated as of March 23, 2011, between Darden Restaurants, Inc. and Wells Fargo Bank, National Association (as successor to Wells Fargo Bank Minnesota, National Association, formerly known as Norwest Bank Minnesota, National Association) (incorporated herein by reference to Exhibit 10 to our Quarterly Report on Form 10-Q (Commission File No. 000-19924) for the quarter ended February 27, 2011).
*10(g)	Form of Amended and Restated Management Continuity Agreement between Darden Restaurants, Inc. and our executive officers (incorporated herein by reference to Exhibit 10(i) to our Annual Report on Form 10-K (Commission File No. 000-19924) for the fiscal year ended May 31, 2009, filed July 24, 2009).
*10(h)	Darden Restaurants, Inc. Restaurant Management and Employee Stock Plan of 2000, as amended June 19, 2003 (incorporated by reference to Exhibit 10(l) to our Annual Report on Form 10-K (Commission File No. 000-19924) for the fiscal year ended May 25, 2003, filed August 22, 2003).
*10(i)	Darden Restaurants, Inc. 2002 Stock Incentive Plan, as amended (incorporated herein by reference to Exhibit 10 to our Current Report on Form 8-K filed September 20, 2013).
10(j)	Credit Agreement, dated as of October 3, 2011, among Darden Restaurants, Inc., certain lenders party thereto and Bank of America, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed October 3, 2011).
10(k)	First Amendment to Credit Agreement, dated as of October 24, 2013, among Darden Restaurants, Inc., certain lenders party thereto and Bank of America, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed October 30, 2013).
*10(l)	Darden Restaurants, Inc. Director Compensation Program, as amended (incorporated herein by reference to Exhibit 10(b) to our Quarterly Report on Form 10-Q (Commission File No. 000-19924) for the fiscal quarter ended November 23, 2008).
*10(m)	Form of Non-Qualified Stock Option Award Agreement under the Darden Restaurants, Inc. 2002 Stock Incentive Plan, as amended (incorporated herein by reference to Exhibit 10(o) to our Annual Report on Form 10-K (Commission File No. 000-19924) for the fiscal year ended May 31, 2009, filed July 24, 2009).
*10(n)	Form of fiscal 2010 Performance Stock Units Award Agreement under the Darden Restaurants, Inc. 2002 Stock Incentive Plan, as amended (incorporated herein by reference to Exhibit 10(p) to our Annual Report on Form 10-K (Commission File No. 000-19924) for the fiscal year ended May 31, 2009, filed July 24, 2009).
*10(o)	Form of fiscal 2014 Performance Stock Units Award Agreement under the Darden Restaurants, Inc. 2002 Stock Incentive Plan, as amended (United States) (incorporated herein by reference to Exhibit 10(n) to our Annual Report on Form 10-K (Commission File No. 000-19924) for the fiscal year ended May 26, 2013, filed July 19, 2013).

*10(p)	Form of Amendment to Exhibit A to the form of fiscal 2009 Performance Stock Unit Award Agreements under the Darden Restaurants, Inc. 2002 Stock Incentive Plan, as amended (incorporated herein by reference to Exhibit 10(t) to our Annual Report on Form 10-K (Commission File No. 000-19924) for the fiscal year ended May 31, 2009, filed July 24, 2009).
*10(q)	Employment Agreement dated April 28, 2003 between RARE Hospitality International, Inc. and Eugene I. Lee, Jr. (incorporated herein by reference from Exhibit 10.2 of the RARE Hospitality International, Inc. Quarterly Report on Form 10-Q (Commission File No. 000-19924) for the fiscal quarter ended June 29, 2003).

*10(r)	First Amendment of Employment Agreement dated October 27, 2004 between RARE Hospitality International, Inc. and Eugene I. Lee, Jr. (incorporated herein by reference from Exhibit 10.2 of the RARE Hospitality International, Inc. Quarterly Report on Form 10-Q (Commission File No. 000-19924) for the fiscal quarter ended September 26, 2004).
*10(s)	Second Amendment of Employment Agreement, dated October 27, 2005 between RARE Hospitality International, Inc. and Eugene I. Lee, Jr. (incorporated herein by reference from Exhibit 10.2 of the RARE Hospitality International, Inc. Quarterly Report on Form 10-Q (Commission File No. 000-19924) for the fiscal quarter ended September 25, 2005).
*10(t)	Third Amendment of Employment Agreement, dated October 27, 2006 between RARE Hospitality International, Inc. and Eugene I. Lee, Jr. (incorporated herein by reference from Exhibit 10.2 of the RARE Hospitality International, Inc. Quarterly Report on Form 10-Q (Commission File No. 000-19924) for the fiscal quarter ended October 1, 2006).
*10(u)	Fourth Amendment of Employment Agreement, dated December 15, 2006 between RARE Hospitality International, Inc. and Eugene I. Lee, Jr. (incorporated herein by reference from Exhibit 10(24) of the RARE Hospitality International, Inc. Annual Report filed on Form 10-K (Commission File No. 000-19924) for fiscal year ended December 31, 2006).
*10(v)	Letter Agreement, dated August 16, 2007, between us and Eugene I. Lee, Jr. (incorporated herein by reference from Exhibit (e)(22) of the RARE Hospitality International, Inc. Schedule 14D-9 (Commission File No. 000-19924) filed August 31, 2007).
*10(w)	RARE Hospitality International, Inc. Amended and Restated 2002 Long-Term Incentive Plan, as amended (incorporated herein by reference to Exhibit 10(aa) to our Annual Report on Form 10-K (Commission File No. 000-19924)for the fiscal year ended May 31, 2009, filed July 24, 2009).
10(x)	Form of Non-Qualified Stock Option Award Agreement under the RARE Hospitality International, Inc. Amended and Restated 2002 Long-Term Incentive Plan, as amended (incorporated herein by reference to Exhibit 10(bb) to our Annual Report on Form 10-K (Commission File No. 000-19924) for the fiscal year ended May 31, 2009, filed July 24, 2009).
10(y)	Term Loan Agreement, dated as of August 22, 2012, among Darden Restaurants, Inc. and certain lenders parties thereto and Bank of America, N.A., as administrative agent (incorporated herein by reference to Exhibit 99 to our Current Report on Form 8-K filed August 28, 2012).
*10(z)	Agreement, dated November 22, 2013, between Darden Restaurants, Inc. and Andrew H. Madsen (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed November 27, 2013).
*10(aa)	Letter Agreement, dated December 18, 2013, between Darden Restaurants, Inc. and C. Bradford Richmond (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed December 24, 2013).
*10(bb)	Agreement, dated May 23, 2014, between Darden Restaurants, Inc. and David T. Pickens (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed May 30, 2014).
12	Computation of Ratio of Consolidated Earnings to Fixed Charges.
13	Portions of 2014 Annual Report to Shareholders.
21	Subsidiaries of Darden Restaurants, Inc.
23	Consent of Independent Registered Public Accounting Firm.
24	Powers of Attorney.
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

* Items marked with an asterisk are management contracts or compensatory plans or arrangements required to be filed as an exhibit pursuant to Item 15 of Form 10-K and Item 601(b)(10)(iii)(A) of Regulation S-K.

EXHIBIT 12

DARDEN RESTAURANTS, INC.
COMPUTATION OF RATIO OF CONSOLIDATED EARNINGS TO FIXED CHARGES
(Dollar amounts in millions)

	Fiscal Year Ended				
	May 25, 2014	May 26, 2013	May 27, 2012	May 29, 2011	May 30, 2010
Consolidated earnings from continuing operations before income taxes	$ 174.6	$ 274.0	$ 355.1	$ 341.1	$ 274.7
Plus fixed charges:					
Gross interest expense [1]	137.5	129.8	106.4	97.5	99.6
40% of restaurant and equipment minimum rent expense	58.6	50.3	40.2	36.4	33.2
Total fixed charges	196.1	180.1	146.6	133.9	132.8
Less capitalized interest	(2.6)	(2.9)	(3.4)	(2.6)	(4.2)
Consolidated earnings from continuing operations before income taxes available to cover fixed charges	$ 368.1	$ 451.2	$ 498.3	$ 472.4	$ 403.3
Ratio of consolidated earnings from continuing operations to fixed charges	1.9	2.5	3.4	3.5	3.0

(1) Gross interest expense includes interest recognized in connection with our unrecognized income tax benefits

Exhibit 13

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

This discussion and analysis below for Darden Restaurants, Inc. (Darden, the Company, we, us or our) should be read in conjunction with our consolidated financial statements and related financial statement notes found elsewhere in this report. We operate on a 52/53 week fiscal year, which ends on the last Sunday in May. Fiscal 2014 , 2013 and 2012 each consisted of 52 weeks of operation.

OVERVIEW OF OPERATIONS

Our business operates in the full-service dining segment of the restaurant industry, primarily in the United States. At May 25, 2014 , we operated 2,207 Olive Garden ®, Red Lobster ®, LongHorn Steakhouse ®, The Capital Grille ®, Yard House ®, Bahama Breeze ®, Seasons 52 ®, Eddie V's Prime Seafood ® and Wildfish Seafood Grille ® restaurants in the United States and Canada. Through subsidiaries, we own and operate all of our restaurants in the United States and Canada, except for three restaurants located in Central Florida and three restaurants in California that are owned jointly by us and third parties, and managed by us, one franchised restaurant in Atlanta and seven franchised restaurants in Puerto Rico. We also have area development and franchise agreements with unaffiliated operators to develop and operate our brands in Asia, the Middle East and Latin America. Pursuant to these agreements, as of May 25, 2014 , 45 franchised restaurants were in operation in Japan, the Middle East, Mexico, Brazil and Peru. All significant inter-company balances and transactions have been eliminated in consolidation.

On May 15, 2014, we entered into an agreement to sell Red Lobster and certain related assets and associated liabilities for $2.11 billion in cash and we expect the transaction to close during the first quarter of fiscal 2015. These assets and liabilities are classified as held for sale on our consolidated balance sheet as of May 25, 2014 . Additionally, in the fourth quarter of fiscal 2014 , in connection with the sale of Red Lobster, we closed two restaurants that housed both a Red Lobster and an Olive Garden in the same building (synergy restaurants). We have classified the results of operations and impairment charges of the Red Lobster business and the two closed synergy restaurants as discontinued operations in our consolidated statements of earnings and cash flows for all periods presented. No amounts for shared general and administrative operating support expense or interest expense were allocated to discontinued operations.

Our mission is to be the best in full-service dining, now and for generations. We believe we can achieve this goal by continuing to build on our strategy to be a multi-brand restaurant growth company, which is grounded in:

- Brand relevance;
- Brand support;
- A vibrant business model;
- Competitively superior leadership; and
- A unifying, motivating culture.

Further, we believe the sale of Red Lobster will allow us to enhance our focus on our mission with respect to our remaining brands.

We seek to increase profits by leveraging our fixed and semi-fixed costs with sales from new restaurants and increased guest traffic and sales at existing restaurants. To evaluate our operations and assess our financial performance, we monitor a number of operating measures, with a special focus on two key factors:

- Same-restaurant sales – which is a year-over-year comparison of each period's sales volumes for restaurants open at least 16 months, including recently acquired restaurants, regardless of when the restaurants were acquired; and
- Restaurant earnings – which is restaurant-level profitability (restaurant sales, less restaurant-level cost of sales, marketing and depreciation).

Increasing same-restaurant sales can improve restaurant earnings because these incremental sales provide better leverage of our fixed and semi-fixed restaurant-level costs. A restaurant brand can generate same-restaurant sales increases through increases in guest traffic, increases in the average guest check, or a combination of the two. The average guest check can be impacted by menu price changes and by the mix of menu items sold. For each restaurant brand, we gather daily sales data and regularly analyze the guest traffic counts and the mix of menu items sold to aid in developing menu pricing, product offerings and promotional strategies. We focus on balancing our pricing and product offerings with other initiatives to produce sustainable same-restaurant sales growth.

We compute same-restaurant sales using restaurants open at least 16 months because this period is generally required for new restaurant sales levels to normalize. Sales at newly opened restaurants generally do not make a significant contribution to profitability in their initial months of operation due to operating inefficiencies. Our sales and expenses can be impacted significantly by the number and timing of new restaurant openings and closings, relocations and remodeling of existing restaurants. Pre-opening expenses each period reflect the costs associated with opening new restaurants in current and future periods.

Fiscal 2014 Financial Highlights

Our sales from continuing operations were $6.29 billion in fiscal 2014 compared to $5.92 billion in fiscal 2013 . The 6.2 percent increase in sales from continuing operations was primarily driven by the addition of 70 net new company-owned restaurants, a 1.6 percent blended same-restaurant sales increase for The Capital Grille, Bahama Breeze, Seasons 52, Eddie V's and Yard House, and a 2.7 percent same-restaurant sales increase for LongHorn Steakhouse, partially offset by a 3.4 percent same-restaurant sales decrease for Olive Garden.

Net earnings from continuing operations for fiscal 2014 were $183.2 million ($1.38 per diluted share) compared with net earnings from continuing operations for fiscal 2013 of $237.3 million ($1.80 per diluted share). Net earnings from continuing operations for fiscal 2014 decreased 22.8 percent and diluted net earnings per share from continuing operations decreased 23.3 percent compared with fiscal 2013 .

Our net earnings from discontinued operations were $103.0 million ($0.77 per diluted share) for fiscal 2014 , compared with net earnings from discontinued operations of $174.6 million ($1.33 per diluted share) for fiscal 2013 . When combined with results from continuing operations, our diluted net earnings per share were $2.15 and $3.13 for fiscal 2014 and 2013 , respectively.

During the second quarter of fiscal 2014, a comprehensive review of operations resulted in a strategic action plan with three primary components. The first was a decision to reduce operating support costs through a combination of workforce reductions and program spending cuts which primarily impacted our selling, general and administrative expenses. The second was the announcement in December 2013, to separate the Red Lobster business. The third was a commitment to slow down new unit growth.

Outlook and Strategy

We expect same-restaurant sales in fiscal 2015 to range from flat to an increase of 1.0 percent for Olive Garden and an increase of 1.0 percent to 2.0 percent for LongHorn Steakhouse. We expect a blended same-restaurant sales increase for The Capital Grille, Bahama Breeze, Seasons 52, Eddie V's and Yard House of approximately 2.0 percent. Total sales from continuing operations in fiscal 2015 are expected to increase between 5.0 percent and 7.0 percent, including the impact of the 53 rd week in fiscal 2015. We expect food and beverage expenses to be higher as a percent of sales based on our expectations of food cost inflation. We also expect restaurant labor expenses to be higher as a percent of sales based on our expectations that manager incentive compensation will return to normal levels. Excluding the impact of costs we expect to incur in connection with the Red Lobster separation in fiscal 2015, as well as costs related to our lobster aquaculture research and development project, we expect general and administrative expenses as a percent of sales to remain consistent with fiscal 2014. This is primarily due to cost savings generated from actions taken as a result of our restaurant support platform review. We expect our remaining expense line items, restaurant expenses and depreciation expense, to be relatively flat as a percent of sales. We expect diluted net earnings per share from continuing operations for fiscal 2015 to be above fiscal 2014 by between 30.0 percent and 35.0 percent, including the impact of the 53 rd week. In fiscal 2015 , we expect to add approximately 35 - 40 net new restaurants, and we expect capital expenditures incurred to build new restaurants and remodel existing restaurants to be between $325.0 million and $350.0 million.

In June 2014 , we announced a quarterly dividend of $0.55 per share, payable on August 1, 2014 . Based on the $0.55 quarterly dividend declaration, our expected annual dividend is $2.20 per share, which is consistent with our fiscal 2014 annual dividend. Dividends are subject to the approval of our Board of Directors and, accordingly, the timing and amount of our dividends are subject to change.

During fiscal 2015, we are focused on progressing with our value creation priorities, which include: completion of the Red Lobster sale; continuation of the Olive Garden “brand renaissance”; continuation of new restaurant growth at our other brands, primarily driven by LongHorn; implementation of a new management incentive plan that more directly emphasizes same-restaurant sales, free cash flow and relative total shareholder return; continuation of the focus on our restaurant support platform costs; and improvement on capital allocation discipline.

The total sales growth we envision should increase the cost-effectiveness of our restaurant support platform. However, we also plan to supplement our conventional incremental year-to-year cost management efforts with an ongoing focus on identifying and pursuing transformational multi-year cost reduction opportunities.

There are significant risks and challenges that could impact our operations and ability to increase sales and earnings. The full-service restaurant industry is intensely competitive and sensitive to economic cycles and other business factors, including changes in consumer tastes and dietary habits. Other risks and uncertainties are discussed and referenced in the subsection below entitled “Forward-Looking Statements.”

RESULTS OF OPERATIONS FOR FISCAL 2014 , 2013 AND 2012

The following table sets forth selected operating data as a percent of sales from continuing operations for the fiscal years ended May 25, 2014 , May 26, 2013 and May 27, 2012 . This information is derived from the consolidated statements of earnings found elsewhere in this report. Additionally, this information and the following analysis have been presented with the results of operations, costs incurred in connection with the planned separation and impairment charges for Red Lobster and the two closed synergy restaurants classified as discontinued operations for all periods presented.

	Fiscal Years		
	2014	2013	2012
Sales	100.0 %	100.0%	100.0%
Costs and expenses:			
Cost of sales:			
Food and beverage	30.1	29.4	29.2
Restaurant labor	32.1	32.0	31.6
Restaurant expenses	17.2	16.6	15.9
Total cost of sales, excluding restaurant depreciation and amortization of 4.5%, 4.3% and 4.1%, respectively	79.4 %	78.0%	76.7%
Selling, general and administrative	10.6	10.6	10.2
Depreciation and amortization	4.8	4.7	4.5
Interest, net	2.1	2.1	1.9
Asset impairment, net	0.3	—	—
Total costs and expenses	97.2 %	95.4%	93.3%
Earnings before income taxes	2.8	4.6	6.7
Income taxes	(0.1)	0.6	1.5
Earnings from continuing operations	2.9	4.0	5.2
Earnings from discontinued operations, net of taxes	1.7	3.0	3.7
Net earnings	4.6 %	7.0%	8.9%

The following table details the number of company-owned restaurants currently reported in continuing operations and the Red Lobster restaurants currently reported in discontinued operations that were open at the end of fiscal 2014 , compared with the number open at the end of fiscal 2013 and the end of fiscal 2012 .

	May 25, 2014	May 26, 2013	May 27, 2012
Olive Garden – USA	831	822	786
Olive Garden – Canada	6	6	6
Total	837	828	792
LongHorn Steakhouse	464	430	386
The Capital Grille	54	49	46
Bahama Breeze	37	33	30
Seasons 52	38	31	23
Eddie V's [(1)]	15	12	11
Yard House [(1)]	52	44	—
Other [(2)]	4	4	1
Total - continuing operations	1,501	1,431	1,289
Red Lobster – USA	679	678	677
Red Lobster – Canada	27	27	27
Other [(3)]	—	2	1
Total - discontinued operations	706	707	705
Total Darden	2,207	2,138	1,994

(1) Includes the 11 Eddie V's and Wildfish restaurants acquired on November 14, 2011 and the 40 Yard House restaurants acquired on August 29, 2012.

(2) Represents synergy restaurants in operation. We expect to convert all remaining synergy restaurants into stand-alone Olive Garden restaurants by the end of the first quarter of fiscal 2015.

(3) Represents synergy restaurants closed as of May 25, 2014 and classified as discontinued operations.

SALES

Sales from continuing operations were $6.29 billion in fiscal 2014 , $5.92 billion in fiscal 2013 and $5.33 billion in fiscal 2012 . The 6.2 percent increase in sales from continuing operations for fiscal 2014 was driven by the addition of 70 net new company-owned restaurants, a 1.6 percent blended same-restaurant sales increase for The Capital Grille, Bahama Breeze, Seasons 52, Eddie V's and Yard House, and a 2.7 percent same-restaurant sales increase for LongHorn Steakhouse, partially offset by a 3.4 percent same-restaurant sales decrease for Olive Garden.

Olive Garden’s sales of $3.64 billion in fiscal 2014 were 1.1 percent below fiscal 2013 , driven primarily by a U.S. same-restaurant sales decrease of 3.4 percent partially offset by revenue from nine net new restaurants. The decrease in U.S. same-restaurant sales resulted from a 4.2 percent decrease in same-restaurant guest counts partially offset by a 0.8 percent increase in average check. Average annual sales per restaurant for Olive Garden were $4.4 million in fiscal 2014 compared to $4.6 million in fiscal 2013 .

LongHorn Steakhouse’s sales of $1.38 billion in fiscal 2014 were 12.4 percent above fiscal 2013 , driven primarily by revenue from 34 net new restaurants combined with a same-restaurant sales increase of 2.7 percent . The increase in same-restaurant sales resulted from a 0.3 percent increase in same-restaurant guest counts combined with a 2.4 percent increase in average guest check. Average annual sales per restaurant for LongHorn Steakhouse were $3.1 million in fiscal 2014 compared to $3.0 million in fiscal 2013 .

In total, The Capital Grille, Bahama Breeze, Seasons 52, Eddie V's and Yard House generated sales of $1.23 billion in fiscal 2014 , which were 25.2 percent above fiscal 2013 , primarily driven by the incremental sales from 27 net new restaurants since the end of fiscal 2013 in addition to the 40 Yard House restaurants acquired in the second quarter of fiscal 2013 . Sales growth also reflected same-restaurant sales increases of 3.4 percent at The Capital Grille, 4.1 percent at Bahama Breeze, 1.1 percent at Eddie V's and 0.3 percent at Yard House, and a same-restaurant sales decrease of 2.2 percent at Seasons 52. Average annual sales per restaurant for The Capital Grille were $7.1 million in fiscal 2014 compared to $7.0 million in fiscal 2013 . Average annual sales per restaurant for Bahama Breeze were $5.6 million in fiscal 2014 compared to $5.5 million in fiscal 2013 . Average annual sales per restaurant for Seasons 52 were $5.7 million in fiscal 2014 compared to $6.2 million in fiscal 2013 .

Average annual sales per restaurant for Eddie V's were $6.0 million in fiscal 2014 compared to $5.8 million in fiscal 2013 . Average annual sales per restaurant for Yard House were $8.2 million in fiscal 2014 and fiscal 2013 .

The 11.1 percent increase in sales from continuing operations for fiscal 2013 was driven by the addition of 102 net new company-owned restaurants plus the addition of 40 Yard House purchased restaurants, a 2.1 percent blended same-restaurant sales increase for The Capital Grille, Bahama Breeze and Seasons 52, and a 1.2 percent same-restaurant sales increase for LongHorn Steakhouse partially offset by a 1.5 percent same-restaurant sales decrease for Olive Garden.

Olive Garden’s sales of $3.68 billion in fiscal 2013 were 2.9 percent above fiscal 2012, driven primarily by revenue from 36 net new restaurants partially offset by a U.S. same-restaurant sales decrease of 1.5 percent. The decrease in U.S. same-restaurant sales resulted from a 2.8 percent decrease in same-restaurant guest counts partially offset by a 1.3 percent increase in average check. Average annual sales per restaurant for Olive Garden were $4.6 million in fiscal 2013 compared to $4.7 million in fiscal 2012.

LongHorn Steakhouse’s sales of $1.23 billion in fiscal 2013 were 10.3 percent above fiscal 2012, driven primarily by revenue from 44 net new restaurants combined with a same-restaurant sales increase of 1.2 percent. The increase in same-restaurant sales resulted from a 1.1 percent increase in same-restaurant guest counts combined with a 0.1 percent increase in average guest check. Average annual sales per restaurant for LongHorn Steakhouse were $3.0 million in fiscal 2013 and fiscal 2012.

In total, The Capital Grille, Bahama Breeze, Seasons 52, Eddie V's and Yard House generated sales of $986.4 million in fiscal 2013, which were 58.3 percent above fiscal 2012, primarily driven by the Yard House acquisition. Additionally, Seasons 52 added eight new restaurants, Yard House added four new restaurants, The Capital Grille added three new restaurants, Bahama Breeze added three new restaurants, and Eddie V's added one new restaurant. Sales growth also reflected same-restaurant sales increases of 3.3 percent at The Capital Grille, 1.2 percent at Seasons 52 and 0.2 percent at Bahama Breeze. Average annual sales per restaurant for The Capital Grille were $7.0 million in fiscal 2013 compared to $6.8 million in fiscal 2012. Average annual sales per restaurant for Bahama Breeze were $5.5 million in fiscal 2013 compared to $5.6 million in fiscal 2012. Average annual sales per restaurant for Seasons 52 were $6.2 million in fiscal 2013 compared to $6.4 million in fiscal 2012. Average annual sales per restaurant for Eddie V's were $5.8 million in fiscal 2013 compared to $5.9 million in fiscal 2012.

COSTS AND EXPENSES

Total costs and expenses from continuing operations were $6.11 billion in fiscal 2014 , $5.65 billion in fiscal 2013 and $4.97 billion in fiscal 2012 . As a percent of sales, total costs and expenses from continuing operations were 97.2 percent in fiscal 2014 , 95.4 percent in fiscal 2013 and 93.3 percent in fiscal 2012 .

Food and beverage costs increased $148.6 million , or 8.5 percent , from $1.74 billion in fiscal 2013 to $1.89 billion in fiscal 2014 . Food and beverage costs increased $189.9 million , or 12.2 percent , from $1.55 billion in fiscal 2012 to $1.74 billion in fiscal 2013 . As a percent of sales, food and beverage costs increased from fiscal 2013 to fiscal 2014 primarily as a result of food cost inflation partially offset by pricing. As a percent of sales, food and beverage costs increased from fiscal 2012 to fiscal 2013 primarily as a result of food cost inflation and unfavorable menu-mix, partially offset by pricing.

Restaurant labor costs increased $125.0 million , or 6.6 percent , from $1.89 billion in fiscal 2013 to $2.02 billion in fiscal 2014 . Restaurant labor costs increased $209.0 million , or 12.4 percent , from $1.68 billion in fiscal 2012 to $1.89 billion in fiscal 2013 . As a percent of sales, restaurant labor costs increased in fiscal 2014 primarily as a result of wage-rate inflation and decreased labor efficiency, partially offset by sales leverage. As a percent of sales, restaurant labor costs increased in fiscal 2013 primarily as a result of decreased labor efficiency and wage-rate inflation.

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) increased $100.3 million , or 10.2 percent , from $980.4 million in fiscal 2013 to $1.08 billion in fiscal 2014 . Restaurant expenses increased $129.4 million , or 15.2 percent , from $851.0 million in fiscal 2012 to $980.4 million in fiscal 2013 . As a percent of sales, restaurant expenses increased in fiscal 2014 as compared to fiscal 2013 due to an increase in rent expense and higher repairs and maintenance expenses. As a percent of sales, restaurant expenses increased in fiscal 2013 as compared to fiscal 2012 primarily as a result of Yard House's higher restaurant expenses as a percentage of sales compared to our consolidated average prior to the acquisition. Additionally, restaurant expenses as a percentage of sales increased due to lost sales leverage, partially offset by lower utilities expenses.

Selling, general and administrative expenses increased $38.1 million , or 6.1 percent , from $625.4 million in fiscal 2013 to $663.5 million in fiscal 2014 . Selling, general and administrative expenses increased $85.3 million , or 15.8 percent , from $540.1 million in fiscal 2012 to $625.4 million in fiscal 2013 . As a percent of sales, selling, general and administrative

expenses increased from fiscal 2013 to fiscal 2014 primarily as a result of the costs related to implementation of the strategic action plan and workforce reductions mentioned above, partially offset by sales leverage. As a percent of sales, selling, general and administrative expenses increased from fiscal 2012 to fiscal 2013 primarily due to higher media costs and acquisition and integration costs associated with the Yard House acquisition, partially offset by sales leverage.

Depreciation and amortization expense increased $26.1 million , or 9.4 percent , from $278.3 million in fiscal 2013 to $304.4 million in fiscal 2014 . Depreciation and amortization expense increased $37.0 million , or 15.3 percent , from $241.3 million in fiscal 2012 to $278.3 million in fiscal 2013 . As a percent of sales, depreciation and amortization expense increased in fiscal 2014 and fiscal 2013 primarily due to an increase in depreciable assets related to new restaurants and remodel activities.

Net interest expense increased $8.3 million , or 6.6 percent , from $126.0 million in fiscal 2013 to $134.3 million in fiscal 2014 . Net interest expense increased $23.9 million , or 23.4 percent , from $102.1 million in fiscal 2012 to $126.0 million in fiscal 2013 . As a percent of sales, net interest expense was flat in fiscal 2014 compared to fiscal 2013 . As a percent of sales, net interest expense increased in fiscal 2013 compared to fiscal 2012 due to higher average debt balances in fiscal 2013 , principally driven by the acquisition of Yard House.

INCOME TAXES

The effective income tax rates for fiscal 2014 , 2013 and 2012 for continuing operations were (4.9) percent , 13.4 percent and 21.4 percent , respectively. The decrease in our effective rate for fiscal 2014 compared to fiscal 2013 is primarily due to an increase in the impact of certain tax credits on lower earnings before income taxes and a favorable adjustment related to the deduction of ESOP dividends for the current and prior years, partially offset by the impact of market-driven changes in the value of our trust-owned life insurance that are excluded for tax purposes. The decrease in our effective rate for fiscal 2013 compared to fiscal 2012 is primarily attributable to an increase in the impact of FICA tax credits for employee reported tips on lower earnings before income taxes and the tax impact of market-driven changes in the value of our trust-owned life insurance that are excluded for tax purposes, partially offset by a decrease in federal income tax credits related to the HIRE Act.

The effective income tax rates for fiscal 2014 , 2013 and 2012 for discontinued operations were 23.9 percent , 29.4 percent and 30.2 percent , respectively. The decrease in the effective rate for fiscal 2014 compared to fiscal 2013 and for fiscal 2013 compared to fiscal 2012 is primarily due to an increase in the impact of certain tax credits on lower earnings before income taxes.

NET EARNINGS AND NET EARNINGS PER SHARE FROM CONTINUING OPERATIONS

Net earnings from continuing operations for fiscal 2014 were $183.2 million ($1.38 per diluted share) compared with net earnings from continuing operations for fiscal 2013 of $237.3 million ($1.80 per diluted share) and net earnings from continuing operations for fiscal 2012 of $279.2 million ($2.10 per diluted share).

Net earnings from continuing operations for fiscal 2014 decreased 22.8 percent and diluted net earnings per share from continuing operations decreased 23.3 percent compared with fiscal 2013 , primarily due to higher food and beverage costs and restaurant expenses as a percent of sales, partially offset by increased sales and a lower effective income tax rate. Our diluted net earnings per share from continuing operations for fiscal 2014 were adversely impacted by approximately $0.23, comprised of approximately $0.10 due to legal, financial advisory and other costs related to implementation of the strategic action plan announced in December 2013, approximately $0.08 due to asset impairment charges and approximately $0.05 due to costs associated with our September 2013 workforce reduction.

Net earnings from continuing operations for fiscal 2013 decreased 15.0 percent and diluted net earnings per share from continuing operations decreased 14.3 percent compared with fiscal 2012 primarily due to higher selling, general and administrative expenses, restaurant expenses, depreciation and amortization expenses and net interest expense as a percent of sales, partially offset by increased sales and a lower effective income tax rate. Costs associated with the Yard House acquisition adversely affected diluted net earnings per share from continuing operations by approximately $0.09.

EARNINGS FROM DISCONTINUED OPERATIONS

Red Lobster’s sales of $2.46 billion in fiscal 2014 were 6.2 percent below fiscal 2013 , driven primarily by a U.S. same-restaurant sales decrease of 6.0 percent , partially offset by revenue from one net new restaurant. The decrease in U.S. same-restaurant sales resulted from a 9.3 percent decrease in same-restaurant guest counts, partially offset by a 3.3 percent increase in average guest check. Average annual sales per restaurant for Red Lobster were $3.5 million in fiscal 2014 compared to $3.7 million in fiscal 2013 .

Red Lobster's sales of $2.62 billion in fiscal 2013 were 1.7 percent below fiscal 2012, driven primarily by a U.S. same-restaurant sales decrease of 2.2 percent partially offset by revenue from one net new restaurant. The decrease in U.S. same-restaurant sales resulted from a 1.8 percent decrease in same-restaurant guest counts combined with a 0.4 percent decrease in average guest check. Average annual sales per restaurant for Red Lobster were $3.7 million in fiscal 2013 compared to $3.8 million in fiscal 2012.

On an after-tax basis, earnings from discontinued operations for fiscal 2014 were $103.0 million ($0.77 per diluted share) compared with earnings from discontinued operations for fiscal 2013 of $174.6 million ($1.33 per diluted share) and fiscal 2012 of $196.3 million ($1.47 per diluted share). The decrease in earnings from discontinued operations in fiscal 2014 and fiscal 2013 was primarily driven by a decrease in sales and overall performance at Red Lobster in addition to separation-related costs (approximately $0.10 per diluted share) and impairments recorded for the two closed synergy locations (approximately $0.04 per diluted share).

SEASONALITY

Our sales volumes fluctuate seasonally. Typically, our average sales per restaurant are highest in the spring and winter, 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.

IMPACT OF INFLATION

We attempt to minimize the annual effects of inflation through appropriate planning, operating practices and menu price increases. We experienced higher than normal inflationary costs during fiscal 2014 and fiscal 2012 and were able to partially reduce the annual impact utilizing these strategies. We do not believe inflation had a significant overall effect on our annual results of operations during fiscal 2013 .

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 and expenses during the reporting period. Actual results could differ from those estimates.

Our significant accounting policies are more fully described in Note 1 to the consolidated financial statements. However, certain of our accounting policies that are considered critical are those we believe are both most important to the portrayal of our financial condition and operating results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Judgments and uncertainties affecting the application of those policies may result in materially different amounts being reported under different conditions or using different assumptions. We consider the following policies to be most critical in understanding the judgments that are involved in preparing our consolidated financial statements.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost less accumulated depreciation. Building components are depreciated over estimated useful lives ranging from 7 to 40 years using the straight-line method. Leasehold improvements, which are reflected on our consolidated balance sheets as a component of buildings in land, buildings and equipment, net, are amortized over the lesser of the expected lease term, including cancelable option periods, or the estimated useful lives of the related assets using the straight-line method. Equipment is depreciated over estimated useful lives ranging from 2 to 10 years, also using the straight-line method.

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

Leases

We are obligated under various lease agreements for certain restaurants. For operating leases, we recognize rent expense on a straight-line basis over the expected lease term, including option periods as described below. Capital leases are recorded as an asset and an obligation at an amount equal to the present value of the minimum lease payments during the lease term.

Within the provisions of certain of our leases, there are rent holidays and escalations in payments over the base lease term, as well as renewal periods. The effects of the holidays and escalations have been reflected in rent expense on a straight-line basis over the expected lease term, which includes cancelable option periods we are reasonably assured to exercise because failure to exercise such options would result in an economic penalty to the Company. The lease term commences on the date when we have the right to control the use of the leased property, which is typically before rent payments are due under the terms of the lease. The leasehold improvements and property held under capital leases for each restaurant facility are amortized on the straight-line method over the shorter of the estimated life of the asset or the same expected lease term used for lease accounting purposes. Many of our leases have renewal periods totaling 5 to 20 years, exercisable at our option, and require payment of property taxes, insurance and maintenance costs in addition to the rent payments. The consolidated financial statements reflect the same lease term for amortizing leasehold improvements as we use to determine capital versus operating lease classifications and in calculating straight-line rent expense for each restaurant. Percentage rent expense is generally based upon sales levels and is accrued when we determine that it is probable that such sales levels will be achieved. Landlord allowances are recorded based on contractual terms and are included in accounts receivable, net and as a deferred rent liability and amortized as a reduction of rent expense on a straight-line basis over the expected lease term.

Our judgments related to the probable term for each restaurant affect the classification and accounting for leases as capital versus operating, the rent holidays and escalation in payments that are included in the calculation of straight-line rent and the term over which leasehold improvements for each restaurant facility are amortized. These judgments may produce materially different amounts of depreciation, amortization and rent expense than would be reported if different assumed lease terms were used.

Impairment of Long-Lived Assets

Land, buildings and equipment and certain other assets, including definite-lived intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the assets. Identifiable cash flows are measured at the lowest level for which they are largely independent of the cash flows of other groups of assets and liabilities, generally at the restaurant level. If these assets are determined to be impaired, the amount of impairment recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Fair value is generally determined by appraisals or sales prices of comparable assets. Restaurant sites and certain other assets to be disposed of are reported at the lower of their carrying amount or fair value, less estimated costs to sell. Restaurant sites and certain other assets to be disposed of are included in assets held for sale within prepaid expenses and other current assets in our consolidated balance sheets when certain criteria are met. These criteria include the requirement that the likelihood of disposing of these assets within one year is probable. For assets that meet the held-for-sale criteria, we separately evaluate whether those assets also meet the requirements to be reported as discontinued operations. Principally, if we discontinue cash flows and no longer have any significant continuing involvement with respect to the operations of the assets, we classify the assets and related results of operations as discontinued. We consider guest transfer (an increase in guests at another location as a result of the closure of a location) as continuing cash flows and evaluate the significance of expected guest transfer when evaluating a restaurant for discontinued operations reporting. To the extent we dispose of enough assets where classification between continuing operations and discontinued operations would be material to our consolidated financial statements, we utilize the reporting provisions for discontinued operations. Assets whose disposal is not probable within one year remain in land, buildings and equipment until their disposal within one year is probable.

We account for exit or disposal activities, including restaurant closures, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 420, Exit or Disposal Cost Obligations. Such costs include the cost of disposing of the assets as well as other facility-related expenses from previously closed restaurants. These costs are generally expensed as incurred. Additionally, at the date we cease using a property under an operating lease, we record a liability for the net present value of any remaining lease obligations, net of estimated sublease income. Any subsequent adjustments to that liability as a result of lease termination or changes in estimates of sublease income are recorded in the period incurred. Upon disposal of the assets, primarily land, associated with a closed restaurant, any gain or loss is recorded in the same caption within our consolidated statements of earnings as the original impairment.

The judgments we make related to the expected useful lives of long-lived assets and our ability to realize undiscounted cash flows in excess of the carrying amounts of these assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in economic conditions, changes in usage or operating performance, desirability of the restaurant sites and other factors, such as our ability to sell our assets held for sale. As we assess the ongoing expected cash flows and carrying amounts of our long-lived assets, significant adverse changes in these factors could cause us to realize a material impairment loss. During fiscal 2014 , 2013 and 2012 we recognized long-lived asset impairment charges of $18.3 million ($11.3 million net of tax), $0.7 million ($0.4 million net of tax) and $0.2 million ($0.1 million net of tax), respectively. Impairment charges resulted primarily from the carrying value of restaurant assets exceeding the estimated fair market value, which is based on projected cash flows. These costs are included in asset impairments, net as a component of earnings from continuing operations in the accompanying consolidated statements of earnings for fiscal 2014 , 2013 and 2012 . Impairment charges were measured based on the amount by which the carrying amount of these assets exceeded their fair value. Fair value is generally determined based on appraisals or sales prices of comparable assets and estimates of future cash flows.

Valuation and Recoverability of Goodwill and Trademarks

We review our goodwill and trademarks for impairment annually, as of the first day of our fiscal fourth quarter, or more frequently if indicators of impairment exist. Goodwill and trademarks are not subject to amortization and have been assigned to reporting units for purposes of impairment testing. The reporting units are our restaurant brands. At May 25, 2014 and May 26, 2013 , we had goodwill of $872.5 million and $908.3 million , respectively. At May 25, 2014 and May 26, 2013 , we had trademarks of $574.6 million and $573.8 million , respectively.

A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others: a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; the testing for recoverability of a significant asset group within a reporting unit; and slower growth rates. Any adverse change in these factors could have a significant impact on the recoverability of these assets and could have a material impact on our consolidated financial statements.

The goodwill impairment test involves a two-step process. The first step is a comparison of each reporting unit’s fair value to its carrying value. We estimate fair value using the best information available, including market information and discounted cash flow projections (also referred to as the income approach). The income approach uses a reporting unit’s projection of estimated operating results and cash flows that is discounted using a weighted-average cost of capital that reflects current market conditions. The projection uses management’s best estimates of economic and market conditions over the projected period including growth rates in sales, costs and number of units, estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements. We validate our estimates of fair value under the income approach by comparing the values to fair value estimates using a market approach. A market approach estimates fair value by applying cash flow and sales multiples to the reporting unit’s operating performance. The multiples are derived from comparable publicly traded companies with similar operating and investment characteristics of the reporting units.

If the fair value of the reporting unit is higher than its carrying value, goodwill is deemed not to be impaired, and no further testing is required. If the carrying value of the reporting unit is higher than its fair value, there is an indication that impairment may exist and the second step must be performed to measure the amount of impairment loss. The amount of impairment is determined by comparing the implied fair value of reporting unit goodwill to the carrying value of the goodwill in the same manner as if the reporting unit was being acquired in a business combination. Specifically, fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, we would record an impairment loss for the difference.

Consistent with our accounting policy for goodwill and trademarks, we performed our annual impairment test of our goodwill and trademarks as of the first day of our fiscal fourth quarter. As of the beginning of our fiscal fourth quarter, we had eight reporting units, six of which had goodwill: Red Lobster, Olive Garden, LongHorn Steakhouse, The Capital Grille, Eddie V's, and Yard House. As part of our process for performing the step one impairment test of goodwill, we estimated the fair value of our reporting units utilizing the income and market approaches described above to derive an enterprise value of the Company. We reconciled the enterprise value to our overall estimated market capitalization. The estimated market capitalization considers recent trends in our market capitalization and an expected control premium, based on comparable recent and historical transactions. Based on the results of the step one impairment test, no impairment of goodwill was indicated.

Given the significance of goodwill relative to the size of the LongHorn Steakhouse ($49.4 million), The Capital Grille ($401.7 million), Eddie V's ($22.0 million) and Yard House ($369.2 million) reporting units, we also performed sensitivity analyses on our estimated fair value of these reporting units using the income approach. A key assumption in our fair value estimate is the weighted-average cost of capital utilized for discounting our cash flow estimates in our income approach. We selected a weighted-average cost of capital of 10.0 percent for LongHorn Steakhouse and The Capital Grille, 15.0 percent for Eddie V's and 13.0 percent for Yard House . An increase in the weighted-average cost of capital of approximately 518 basis points, 254 basis points, 249 basis points and 187 basis points would result in an impairment of a portion of the goodwill of LongHorn Steakhouse, The Capital Grille, Eddie V's and Yard House, respectively. The estimated fair values of LongHorn Steakhouse, The Capital Grille, Eddie V's and Yard House exceeded their carrying values by approximately 103 percent, 35 percent, 51 percent and 25 percent, respectively.

The fair value of trademarks are estimated and compared to the carrying value. We estimate the fair value of trademarks using the relief-from-royalty method, which requires assumptions related to projected sales from our annual long-range plan; assumed royalty rates that could be payable if we did not own the trademarks; and a discount rate. We recognize an impairment loss when the estimated fair value of the trademarks is less than the carrying value. We completed our impairment test and concluded as of the date of the test, there was no impairment of the trademarks for LongHorn Steakhouse, The Capital Grille, Eddie V's and Yard House. The estimated fair value of LongHorn Steakhouse's trademark exceeded its carrying value of $307.8 million by approximately 91 percent. The estimated fair value of The Capital Grille's trademark exceeded its carrying value of $147.0 million by approximately 34 percent. The estimated fair value of Eddie V's trademark exceeded its carrying value of $10.5 million by approximately 100 percent. The estimated fair value of Yard House trademark exceeded its carrying value of $109.3 million by approximately 21 percent. A key assumption in our fair value estimate is the discount rate utilized in the relief-from-royalty method. We selected a discount rate of 11.0 percent for LongHorn Steakhouse and The Capital Grille, 16.0 percent for Eddie V's and 14.0 percent for Yard House. An increase in the discount rate of approximately 630 basis points, 240 basis points, 800 basis points and 187 basis points would result in impairment of a portion of the trademarks of LongHorn Steakhouse, The Capital Grille, Eddie V's and Yard House, respectively.

We determined that there was no goodwill or trademark impairment as of the first day of our fiscal 2014 fourth quarter and no additional indicators of impairment were identified through the end of our fiscal fourth quarter that would require us to test further for impairment. However, declines in our market capitalization (reflected in our stock price) as well as in the market capitalization of other companies in the restaurant industry, declines in sales at our restaurants, and significant adverse changes in the operating environment for the restaurant industry may result in a future impairment loss.

Changes in circumstances, existing at the measurement date or at other times in the future, or in the numerous estimates associated with management’s judgments and assumptions 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. A leverage ratio exceeding the maximum permitted under our credit agreement would be a default under our credit agreement. At May 25, 2014 , a write-down of goodwill, other indefinite-lived intangible assets, or any other assets in excess of approximately $850.0 million would have been required to cause our leverage ratio to exceed the permitted maximum. As our leverage ratio is determined on a quarterly basis and 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.

We evaluate the useful lives of our other intangible assets, primarily intangible assets associated with our acquisitions, to determine if they are definite or indefinite-lived. Reaching a determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, demand, competition, other economic factors (such as the stability of the industry, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures, and the expected lives of other related groups of assets.

Insurance Accruals

Through the use of insurance program deductibles and self-insurance, we retain a significant portion of expected losses under our workers’ compensation, certain employee medical and general liability programs. However, we carry insurance for individual workers’ compensation and general liability claims that exceed $0.5 million . Accrued liabilities have been recorded based on our estimates of the anticipated ultimate costs to settle all claims, both reported and not yet reported.

Our accounting policies regarding these insurance programs include our judgments and independent actuarial assumptions about economic conditions, the frequency or severity of claims and claim development patterns and claim reserve, management

and settlement practices. Unanticipated changes in these factors may produce materially different amounts of reported expense under these programs.

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. Changing our breakage-rate assumption on unredeemed gift cards by 25 basis points would result in an adjustment in our unearned revenues of approximately $15.0 million.

Income Taxes

We estimate certain components of our provision for income taxes. These estimates include, among other items, depreciation and amortization expense allowable for tax purposes, allowable tax credits for items such as taxes paid on reported employee tip income, effective rates for state and local income taxes and the tax deductibility of certain other items. We adjust our annual effective income tax rate as additional information on outcomes or events becomes available.

FASB ASC Topic 740, Income Taxes, requires that a position taken or expected to be taken in a tax return be recognized (or derecognized) in the financial statements when it is more likely than not (i.e., a likelihood of more than 50 percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

We provide for federal and state income taxes currently payable as well as for those deferred because of temporary differences between reporting income and expenses for financial statement purposes versus tax purposes. Federal income tax credits are recorded as a reduction of income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Interest recognized on reserves for uncertain tax positions is included in interest, net in our consolidated statements of earnings. A corresponding liability for accrued interest is included as a component of other current liabilities on our consolidated balance sheets. Penalties, when incurred, are recognized in selling, general and administrative expenses.

We base our estimates on the best available information at the time that we prepare the provision. We generally file our annual income tax returns several months after our fiscal year end. For U.S. federal income tax purposes, we participate in the Internal Revenue Service's (IRS) Compliance Assurance Process (CAP) whereby our U.S. federal income tax returns are reviewed by the IRS both prior to and after their filing. Income tax returns are subject to audit by state and local governments, generally years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws. The major jurisdictions in which the Company files income tax returns include the U.S. federal jurisdiction, Canada, and all states in the U.S. that have an income tax. With a few exceptions, the Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before fiscal 2013, and state and local, or non-U.S. income tax examinations by tax authorities for years before fiscal 2010.

Included in the balance of unrecognized tax benefits at May 25, 2014 is $27.4 million related to tax positions for which it is reasonably possible that the total amounts could change during the next 12 months based on the outcome of examinations. The $27.4 million relates to items that would impact our effective income tax rate.

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, remodel existing restaurants, pay dividends to our shareholders and 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 “Baa3” (Moody’s Investors Service), “BBB-” (Standard & Poor’s) and “BBB-” (Fitch) ratings. Our commercial paper has ratings of “P-3” (Moody’s Investors Service), “A-3” (Standard & Poor’s) and “F-3” (Fitch). These ratings are as of the date of the filing of this annual report and have been obtained with the understanding that Moody’s Investors Service, Standard & Poor’s and Fitch will continue to monitor our credit and make future adjustments to these ratings to the extent warranted. The ratings 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.

On May 15, 2014, we entered into an agreement to sell Red Lobster. We expect to receive net cash proceeds from the sale, after tax and transaction costs, of approximately $1.60 billion, of which approximately $1.00 billion will be used to retire outstanding long-term debt. We expect to use the remaining net proceeds of approximately $500.0 million to $600.0 million in fiscal 2015 for our share repurchase program which is currently up to $700.0 million. In addition to strengthening our credit metrics, with the lower debt levels and reduced outstanding share count, we expect to maintain our current quarterly dividend of $0.55 cents per share, or $2.20 annually. The transaction is expected to close in the first quarter of fiscal 2015.

We maintain a $750.0 million revolving Credit Agreement (Revolving Credit Agreement), with Bank of America, N.A. (BOA) as administrative agent, and the lenders and other agents party thereto. The 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 May 25, 2014 , we were in compliance with the covenants under the Revolving Credit Agreement.

On October 24, 2013, we entered into an amendment (First Amendment) to the Revolving Credit Agreement, which extended the maturity date from October 3, 2016 to October 24, 2018 , and gives us the option to request a further extension of the maturity date for up to two additional one-year periods. Additionally, interest rates on borrowings and fees under the Revolving Credit Agreement are determined by reference to a ratings-based pricing grid, which was amended by the First Amendment.

The Revolving Credit Agreement 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. Loans under the 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 highest of the BOA prime rate, the Federal Funds rate plus 0.500 percent , and the Eurocurrency Rate plus 1.00 percent) plus the Applicable Margin. Assuming a “BBB-” equivalent credit rating level, the Applicable Margin under the Revolving Credit Agreement will be 1.300 percent for LIBOR loans and 0.300 percent for base rate loans.

As of May 25, 2014 , we had no outstanding balances under the Revolving Credit Agreement. As of May 25, 2014 , $207.6 million of commercial paper was outstanding, which was backed by this facility. After consideration of commercial paper backed by the Revolving Credit Agreement, as of May 25, 2014 , we had $542.4 million of credit available under the Revolving Credit Agreement.

At May 25, 2014 , our long-term debt consisted principally of:

- $100.0 million of unsecured 7.125 percent debentures due in February 2016;
- $285.0 million unsecured, variable-rate amortizing term loan maturing in August 2017;
- $500.0 million of unsecured 6.200 percent senior notes due in October 2017;
- $80.0 million of unsecured 3.790 percent senior notes due in August 2019;
- $400.0 million of unsecured 4.500 percent senior notes due in October 2021;

- $450.0 million of unsecured 3.350 percent senior notes due in November 2022;
- $220.0 million of unsecured 4.520 percent senior notes due in August 2024;
- $150.0 million of unsecured 6.000 percent senior notes due in August 2035; and
- $300.0 million of unsecured 6.800 percent senior notes due in October 2037.

We also have $15.0 million included in current liabilities as current portion of long-term debt associated with the term loan, which reflects the annual principal amortization payment due in August 2014.

The interest rates on our $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 May 25, 2014 , no adjustments to these interest rates had been made.

The aggregate contractual maturities of long-term debt for each of the five fiscal years subsequent to May 25, 2014 and thereafter are $15.0 million in fiscal 2015 , $115.0 million in fiscal 2016 , $15.0 million in fiscal 2017 , $755.0 million in fiscal 2018 , $0.0 million in fiscal 2019 and $1.60 billion thereafter. However, as mentioned above, we expect to use approximately $1.00 billion of the cash proceeds from the anticipated sale of Red Lobster to retire outstanding long-term debt. On June 30, 2014, we commenced cash tender offers for up to $600.0 million (which subsequently increased to $610.0 million) aggregate principal amount of our outstanding 4.500 percent senior notes due 2021, 3.350 percent senior notes due 2022, 6.000 percent senior notes due 2035 and 6.200 percent senior notes due 2017. Additionally, we have agreed to repurchase $80.0 million and $210.0 millio n aggregate principal amount of our 3.790 percent senior notes due 2019 and our 4.520 percent senior notes due 2024, respectively. We also intend to call for redemption approximately $100.0 million aggregate principal amount of our outstanding 7.125 percent debentures due 2016. Our a bility to retire the long-term debt is dependent upon the acceptance of our tender offer, in addition to the closing of the Red Lobster sale.

From time to time, we enter into interest rate derivative instruments to manage interest rate risk inherent in our operations. See Note 10 to our consolidated financial statements in Part II, Item 8 of this report, incorporated herein by reference.

Through our shelf registration statement on file with the SEC, depending on conditions prevailing in the public capital markets, we may issue unsecured debt securities from time to time in one or more series, which may consist of notes, debentures or other evidences of indebtedness in one or more offerings.

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

A summary of our contractual obligations and commercial commitments at May 25, 2014 , is as follows:

(in millions)	*Payments Due by Period*				
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Short-term debt	$ 207.6	$ 207.6	$ —	$ —	$ —
Long-term debt [1]	3,697.0	133.8	361.2	922.1	2,279.9
Operating leases	1,233.8	204.7	368.0	285.9	375.2
Purchase obligations [2]	526.1	501.6	24.5	—	—
Capital lease obligations [3]	85.7	5.6	11.5	12.0	56.6
Benefit obligations [4]	429.4	34.4	70.7	78.8	245.5
Unrecognized income tax benefits [5]	20.3	9.0	5.8	5.5	—
Total contractual obligations	$ 6,199.9	$ 1,096.7	$ 841.7	$ 1,304.3	$ 2,957.2

(in millions)	*Amount of Commitment Expiration per Period*				
Other Commercial Commitments	**Total Amounts Committed**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Standby letters of credit [6]	$ 131.3	$ 131.3	$ —	$ —	$ —
Guarantees [7]	3.4	1.2	1.5	0.5	0.2
Total commercial commitments	$ 134.7	$ 132.5	$ 1.5	$ 0.5	$ 0.2

(1) Includes interest payments associated with existing long-term debt, including the current portion. Variable-rate interest payments associated with the term loan were estimated based on an average interest rate of 2.0 percent. Excludes issuance discount of $5.2 million .

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

(3) Includes total imputed interest of $31.4 million over the life of the capital lease 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 2024 .

(5) Includes interest on unrecognized income tax benefits of $3.2 million , $2.7 million of which relates to contingencies expected to be resolved within one year.

(6) Includes letters of credit for $113.5 million of workers' compensation and general liabilities accrued in our consolidated financial statements, letters of credit for $0.5 million of lease payments included in the contractual operating lease obligation payments noted above and other letters of credit totaling $17.3 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 fixed-charge coverage ratio, which measures the number of times each year that we earn enough to cover our fixed charges, amounted to 1.9 times and 2.5 times, on a continuing operations basis, for the fiscal years ended May 25, 2014 and May 26, 2013 , respectively. Our adjusted debt to adjusted total capital ratio (which includes 6.25 times the total annual minimum rent on a consolidated basis of $ 186.4 million and $ 164.3 million for the fiscal years ended May 25, 2014 and May 26, 2013 , respectively, as components of adjusted debt and adjusted total capital) was 65 percent as of May 25, 2014 and May 26, 2013 . We include the lease-debt equivalent and contractual lease guarantees in our adjusted debt to adjusted total capital ratio reported to shareholders, as we believe its inclusion better represents the optimal capital structure that we target from period to period and because it is consistent with the calculation of the covenant under our Revolving Credit Agreement.

Based on these ratios, we believe our financial condition is strong. The composition of our capital structure is shown in the following table.

(In millions, except ratios)	May 25, 2014	May 26, 2013
CAPITAL STRUCTURE		
Short-term debt	$ 207.6	$ 164.5
Current portion long-term debt	15.0	—
Long-term debt, excluding unamortized discounts	2,486.6	2,501.9
Capital lease obligations	54.3	54.4
Total debt	$ 2,763.5	$ 2,720.8
Stockholders' equity	2,156.9	2,059.5
Total capital	$ 4,920.4	$ 4,780.3
CALCULATION OF ADJUSTED CAPITAL		
Total debt	$ 2,763.5	$ 2,720.8
Lease-debt equivalent	1,165.0	1,026.9
Guarantees	3.4	4.2
Adjusted debt	$ 3,931.9	$ 3,751.9
Stockholders' equity	2,156.9	2,059.5
Adjusted total capital	$ 6,088.8	$ 5,811.4
CAPITAL STRUCTURE RATIOS		
Debt to total capital ratio	56%	57%
Adjusted debt to adjusted total capital ratio	65%	65%

Net cash flows provided by operating activities from continuing operations were $555.4 million , $594.4 million and $513.5 million in fiscal 2014 , 2013 and 2012 , respectively. Net cash flows provided by operating activities include net earnings from continuing operations of $183.2 million , $237.3 million and $279.2 million in fiscal 2014 , 2013 and 2012 , respectively. Net cash flows provided by operating activities from continuing operations decreased in fiscal 2014 primarily due to lower net earnings, current period activity of taxable timing differences and the timing of inventory purchases. Net cash flows provided by operating activities reflect income tax payments of $90.0 million , $98.5 million and $123.5 million in fiscal 2014 , 2013 and 2012 , respectively. The lower tax payments in fiscal 2014, as compared with tax payments in fiscal 2013 and 2012, primarily relates to the recognition of tax benefits related to the timing of deductions for fixed-asset related expenditures and the application of the overpayment of income taxes in prior years to fiscal 2014 tax liabilities.

Net cash flows used in investing activities from continuing operations were $436.3 million , $1.11 billion and $539.1 million in fiscal 2014 , 2013 and 2012 , respectively. Net cash flows used in investing activities from continuing operations included capital expenditures incurred principally for building new restaurants, remodeling existing restaurants, replacing equipment, and technology initiatives. Capital expenditures related to continuing operations were $414.8 million in fiscal 2014 , compared to $510.1 million in fiscal 2013 and $457.6 million in fiscal 2012 . The decreasing trend of expenditures from fiscal 2013 to fiscal 2014 results primarily from decreases in remodel and new restaurant activity. Additionally, net cash used in the acquisitions of Yard House in fiscal 2013 and Eddie V's in fiscal 2012 was $577.4 million and $58.5 million , respectively.

Net cash flows used in financing activities from continuing operations were $179.2 million in fiscal 2014 , compared to net cash flows provided by financing activities from continuing operations of $355.4 million in fiscal 2013 and net cash flows used in financing activities from continuing operations of $40.4 million in fiscal 2012 . During fiscal 2013 , we closed on the issuance

of $300.0 million of senior notes, received funding from a $300.0 million term loan and completed the offering of $450.0 million of senior notes, resulting in net proceeds of $445.3 million, which were used to effectively refinance the $350.0 million of long-term notes that we repaid at maturity during fiscal 2013 . Repayments of long-term debt were $0.0 million , $355.9 million and $2.1 million in fiscal 2014 , 2013 and 2012 , respectively. Net proceeds from the issuance of short-term debt were $43.1 million in fiscal 2014 and $77.2 million in fiscal 2012 while net repayments of short-term debt were $98.1 million in fiscal 2013 . For fiscal 2014 , net cash flows used in financing activities included our repurchase of 9.9 thousand shares of our common stock for $0.5 million , compared to 1.0 million shares of our common stock for $52.4 million in fiscal 2013 and 8.2 million shares of our common stock for $375.1 million in fiscal 2012 . As of May 25, 2014 , our Board of Directors had authorized us to repurchase up to 187.4 million shares of our common stock and a total of 171.9 million shares had been repurchased under the authorization. The repurchased common stock reduces stockholders' equity. As of May 25, 2014 , our unused authorization was 15.5 million shares. We received proceeds primarily from the issuance of common stock upon the exercise of stock options of $58.1 million , $64.4 million and $70.2 million in fiscal 2014 , 2013 and 2012 , respectively. Net cash flows used in financing activities also included dividends paid to stockholders of $288.3 million , $258.2 million and $223.9 million in fiscal 2014 , 2013 and 2012 , respectively. The increase in dividend payments reflects the increase in our annual dividend rate from $1.72 per share in fiscal 2012 , to $2.00 per share in fiscal 2013 and to $2.20 per share in fiscal 2014 . In June 2014 , our Board of Directors approved a quarterly dividend of $0.55 per share payable on August 1, 2014 , which indicates an annual dividend of $2.20 per share in fiscal 2015 .

Our defined benefit and other postretirement benefit costs and liabilities are determined using various actuarial assumptions and methodologies prescribed under FASB ASC Topic 715, Compensation - Retirement Benefits and Topic 712, Compensation - Nonretirement Postemployment Benefits. We use certain assumptions including, but not limited to, the selection of a discount rate, expected long-term rate of return on plan assets and expected health care cost trend rates. We set the discount rate assumption annually for each plan at its valuation date to reflect the yield of high-quality fixed-income debt instruments, with lives that approximate the maturity of the plan benefits. At May 25, 2014 , our discount rate was 4.4 percent and 4.5 percent , respectively, for our defined benefit and postretirement benefit plans. The expected long-term rate of return on plan assets and health care cost trend rates are based upon several factors, including our historical assumptions compared with actual results, an analysis of current market conditions, asset allocations and the views of leading financial advisers and economists. Our expected long-term rate of return on plan assets for our defined benefit plan was 8.0 percent for fiscal year 2014 and 9.0 percent for fiscal years 2013 and 2012. At May 25, 2014 , the expected health care cost trend rate assumed for our postretirement benefit plan for fiscal 2015 was 6.8 percent . The rate gradually decreases to 5.0 percent through fiscal 2021 and remains at that level thereafter. We made plan contributions of approximately $0.4 million , $2.4 million and $22.2 million in fiscal years 2014 , 2013 and 2012 , respectively.

In the current year, we reduced our expected rate of return for investment of pension plan assets from 9.0 percent to 8.0 percent in connection with our current expectations for long-term returns and target asset fund allocation. The expected long-term rate of return on plan assets component of our net periodic benefit cost is calculated based on the market-related value of plan assets. Currently, our target asset fund allocation is 37.0 percent U.S. equities, 40.0 percent high-quality, long-duration fixed-income securities, 18.5 percent international equities and 4.5 percent real estate securities. Prior to fiscal 2014, our target asset fund allocation was 40.0 percent U.S. equities, 35.0 percent high-quality, long-duration fixed-income securities, 20.0 percent international equities and 5.0 percent real estate securities. We monitor our actual asset fund allocation to ensure that it approximates our target allocation and believe that our long-term asset fund allocation will continue to approximate our target allocation. In developing our expected rate of return assumption, we have evaluated the actual historical performance and long-term return projections of the plan assets, which give consideration to the asset mix and the anticipated timing of the pension plan outflows. We employ a total return investment approach whereby a mix of equity and fixed income investments are used to maximize the long-term return of plan assets for what we consider a prudent level of risk. Our historical 10-year, 15-year and 20-year rates of return on plan assets, calculated using the geometric method average of returns, are approximately 9.3 percent , 8.4 percent and 9.9 percent , respectively, as of May 25, 2014 .

We have recognized net actuarial losses, net of tax, as a component of accumulated other comprehensive income (loss) for the defined benefit plans and postretirement benefit plan as of May 25, 2014 of $64.0 million and $5.8 million , respectively. These net actuarial losses represent changes in the amount of the projected benefit obligation and plan assets resulting from differences in the assumptions used and actual experience. The amortization of the net actuarial loss component of our fiscal 2015 net periodic benefit cost for the defined benefit plans and postretirement benefit plan is expected to be approximately $2.6 million and $0.5 million , respectively.

We believe our defined benefit and postretirement benefit plan assumptions are appropriate based upon the factors discussed above. However, other assumptions could also be reasonably applied that could differ from the assumptions used. A quarter-percentage point change in the defined benefit plans' discount rate and the expected long-term rate of return on plan assets

would increase or decrease earnings before income taxes by $0.6 million and $0.5 million , respectively. A quarter-percentage point change in our postretirement benefit plan discount rate would increase or decrease earnings before income taxes by $0.1 million. A one-percentage point increase in the health care cost trend rates would increase the accumulated postretirement benefit obligation (APBO) by $7.4 million at May 25, 2014 and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost by $0.5 million for fiscal 2014 . A one-percentage point decrease in the health care cost trend rates would decrease the APBO by $5.9 million at May 25, 2014 and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost by $0.4 million for fiscal 2014 . These changes in assumptions would not significantly impact our funding requirements. We expect to contribute approximately $0.4 million to our defined benefit pension plans and approximately $1.1 million to our postretirement benefit plan during fiscal 2015 .

Other than the pending sale of Red Lobster and related retirement of debt, which we expect will enhance our capital structure, we are not aware of any trends or events that would materially affect our capital requirements or liquidity. We believe that our internal cash-generating capabilities, the potential issuance of unsecured debt securities under our shelf registration statement and short-term commercial paper should be sufficient to finance our capital expenditures, debt maturities, stock repurchase program and other operating activities through fiscal 2015 .

OFF-BALANCE SHEET ARRANGEMENTS

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 or expenses, results of operations, liquidity, capital expenditures or capital resources.

FINANCIAL CONDITION

Our total current assets were $1.98 billion at May 25, 2014 , compared with $764.9 million at May 26, 2013 . The increase was primarily due to the increase in assets held for sale as a result of the pending sale of Red Lobster.

Our total current liabilities were $1.62 billion at May 25, 2014 , compared with $1.42 billion at May 26, 2013 . The increase was primarily due to the increase in liabilities associated with assets held for sale as a result of the pending sale of Red Lobster, an increase in short-term debt and an increase in unearned revenues associated with gift card sales in excess of current-period redemptions.

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 and foreign currency exchange instruments, equity forwards and commodity instruments for other than trading purposes (see Notes 1 and 10 to our consolidated financial statements, in Part II, Item 8 of this report, incorporated herein by reference).

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. At May 25, 2014 , our potential losses in future net earnings resulting from changes in foreign currency exchange rate instruments, commodity instruments, equity forwards and floating rate debt interest rate exposures were approximately $41.3 million over a period of one year (including the impact of the interest rate swap agreements discussed in Note 10 to our consolidated financial statements in Part II, Item 8 of this report, incorporated herein by reference). 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 $151.3 million. The fair value of our long-term debt during fiscal 2014 averaged $2.54 billion, with a high of $2.66 billion and a low of $2.46 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.

APPLICATION OF NEW ACCOUNTING STANDARDS

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This update is effective for annual and interim periods beginning after December 15, 2016, which will require us to adopt these provisions in the first quarter of fiscal 2018. Early application is not permitted. This update permits the use of either the retrospective or cumulative effect transition method. We

are evaluating the effect this guidance will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360), *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* . This update modifies the requirements for reporting discontinued operations. Under the amendments in ASU 2014-08, the definition of discontinued operation has been modified to only include those disposals of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. This update also expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. This update is effective for annual and interim periods beginning after December 15, 2014, which will require us to adopt these provisions in the first quarter of fiscal 2016. We are evaluating the effect this guidance will have on our consolidated financial statements and related disclosures.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740), *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* The objective of this update is to eliminate the diversity in practice in the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Under this guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain circumstances. This update does not require any new recurring disclosures and is effective for annual and interim periods beginning after December 15, 2013, which will require us to adopt these provisions in the first quarter of fiscal 2015. We do not believe adoption of this new guidance will have a significant impact on our consolidated financial statements.

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 2015 , 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 and are included, along with this statement, 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 25, 2014 , which are summarized as follows:

- Our ability to achieve the strategic plan to enhance shareholder value, including the sale of Red Lobster;
- Our ability to respond to actions by activist shareholders, which can be costly and time-consuming, disrupt our operations and divert the attention of our management;
- Any potential proxy contest for the election of directors at our annual meeting, which could distract our management, divert our resources and, absent Board action, trigger a change of control under our indebtedness;
- Food safety and food-borne illness concerns throughout the supply chain;
- Litigation, including allegations of illegal, unfair or inconsistent employment practices;
- Unfavorable publicity, or a failure to respond effectively to adverse publicity;
- Risks relating to public policy changes and federal, state and local regulation of our business, including in the areas of health care reform, environmental matters, minimum wage, unionization, data privacy, menu labeling, immigration requirements and taxes;
- Labor and insurance costs;
- Insufficient guest or employee facing technology, or a failure to maintain a continuous and secure cyber network, free from material failure, interruption or security breach;
- 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;

- Health concerns arising from food-related pandemics, outbreaks of flu viruses or other diseases;
- Intense competition, or an insufficient focus on competition and the consumer landscape;
- Our failure to drive both short-term and long-term profitable sales growth through brand relevance, operating excellence, opening new restaurants of existing brands and developing or acquiring new dining brands;
- Our plans to expand our smaller brands Bahama Breeze, Seasons 52 and Eddie V's, and the testing of other new business ventures, that have not yet proven their long-term viability;
- 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;
- A failure to identify and execute innovative marketing and customer relationship tactics, ineffective or improper use of social media or other marketing initiatives, and increased advertising and marketing costs;
- A failure to recruit, develop and retain effective leaders or the loss or shortage of key personnel, or an inability to adequately monitor and respond to employee dissatisfaction;
- A failure to address cost pressures, including rising costs for commodities, health care and utilities used by our restaurants, and a failure to effectively deliver cost management activities and 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;
- Adverse weather conditions and natural disasters;
- Volatility in the market value of derivatives we use to hedge commodity prices;
- Economic and business factors specific to the restaurant industry and other general macroeconomic factors including unemployment, energy prices and interest rates that are largely out of our control;
- Disruptions in the financial markets that may impact consumer spending patterns, affect the availability and cost of credit and increase 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;
- Impairment of the carrying value of our goodwill or other intangible assets;
- A failure of our internal controls over financial reporting and future changes in accounting standards; and
- An inability or failure to recognize, respond to and effectively manage the accelerated impact of social media.

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.

REPORT OF MANAGEMENT'S RESPONSIBILITIES

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

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

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

KPMG LLP, an independent registered public accounting firm, is retained to audit our consolidated financial statements and the effectiveness of our internal control over financial reporting. Their reports follow.

/s/ Clarence Otis, Jr.
Clarence Otis, Jr.
Chairman of the Board and Chief Executive Officer

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of May 25, 2014 . In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (1992)* . Management has concluded that, as of May 25, 2014 , the Company's internal control over financial reporting was effective based on these criteria.

The Company's independent registered public accounting firm KPMG LLP, has issued an audit report on the effectiveness of our internal control over financial reporting, which follows.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Darden Restaurants, Inc.:

We have audited Darden Restaurants, Inc.'s internal control over financial reporting as of May 25, 2014 , based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Darden Restaurants, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Darden Restaurants, Inc. maintained, in all material respects, effective internal control over financial reporting as of May 25, 2014 , based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Darden Restaurants, Inc. and subsidiaries as of May 25, 2014 and May 26, 2013 , and the related consolidated statements of earnings, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended May 25, 2014 , and our report dated July 18, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Orlando, Florida
July 18, 2014
Certified Public Accountants

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Darden Restaurants, Inc.:

We have audited the accompanying consolidated balance sheets of Darden Restaurants, Inc. and subsidiaries as of May 25, 2014 and May 26, 2013 , and the related consolidated statements of earnings, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended May 25, 2014 . These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Darden Restaurants, Inc. and subsidiaries as of May 25, 2014 and May 26, 2013 , and the results of their operations and their cash flows for each of the years in the three-year period ended May 25, 2014 , in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Darden Restaurants, Inc.'s internal control over financial reporting as of May 25, 2014 , based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated July 18, 2014 expressed an unqualified opinion on the effectiveness of Darden Restaurants, Inc.'s internal control over financial reporting.

/s/ KPMG LLP

Orlando, Florida
July 18, 2014
Certified Public Accountants

DARDEN RESTAURANTS, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
(In millions, except per share data)

	May 25, 2014	May 26, 2013	May 27, 2012
Sales	$ 6,285.6	$ 5,921.0	$ 5,327.1
Costs and expenses:			
Cost of sales:			
Food and beverage	1,892.2	1,743.6	1,553.7
Restaurant labor	2,017.6	1,892.6	1,683.6
Restaurant expenses	1,080.7	980.4	851.0
Total cost of sales, excluding restaurant depreciation and amortization of $282.3, $257.5 and $219.3, respectively	$ 4,990.5	$ 4,616.6	$ 4,088.3
Selling, general and administrative	663.5	625.4	540.1
Depreciation and amortization	304.4	278.3	241.3
Interest, net	134.3	126.0	102.1
Asset impairment, net	18.3	0.7	0.2
Total costs and expenses	$ 6,111.0	$ 5,647.0	$ 4,972.0
Earnings before income taxes	174.6	274.0	355.1
Income taxes	(8.6)	36.7	75.9
Earnings from continuing operations	$ 183.2	$ 237.3	$ 279.2
Earnings from discontinued operations, net of tax expense of $32.3, $72.7 and $84.9, respectively	103.0	174.6	196.3
Net earnings	$ 286.2	$ 411.9	$ 475.5
Basic net earnings per share:			
Earnings from continuing operations	$ 1.40	$ 1.84	$ 2.15
Earnings from discontinued operations	0.78	1.35	1.50
Net earnings	$ 2.18	$ 3.19	$ 3.65
Diluted net earnings per share:			
Earnings from continuing operations	$ 1.38	$ 1.80	$ 2.10
Earnings from discontinued operations	0.77	1.33	1.47
Net earnings	$ 2.15	$ 3.13	$ 3.57
Average number of common shares outstanding:			
Basic	131.0	129.0	130.1
Diluted	133.2	131.6	133.2
Dividends declared per common share	$ 2.20	$ 2.00	$ 1.72

See accompanying notes to consolidated financial statements.

DARDEN RESTAURANTS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	May 25, 2014	May 26, 2013	May 27, 2012
Net earnings	$ 286.2	$ 411.9	$ 475.5
Other comprehensive income (loss):			
Foreign currency adjustment	(2.9)	(0.2)	(1.2)
Change in fair value of marketable securities, net of taxes of $0.0, $(0.1) and $(0.1), respectively	(0.1)	(0.2)	(0.1)
Change in fair value of derivatives and amortization of unrecognized gains and losses on derivatives, net of taxes of $3.9, $(0.6) and $(27.8), respectively	3.4	(4.1)	(45.6)
Net unamortized gain (loss) arising during period, including amortization of unrecognized net actuarial loss, net of taxes of $2.9, $11.3 and $(24.8), respectively	4.3	18.3	(39.9)
Other comprehensive income (loss)	$ 4.7	$ 13.8	$ (86.8)
Total comprehensive income	$ 290.9	$ 425.7	$ 388.7

See accompanying notes to consolidated financial statements.

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

	May 25, 2014	May 26, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 98.3	$ 88.2
Receivables, net	83.8	85.4
Inventories	196.8	356.9
Prepaid income taxes	10.9	6.4
Prepaid expenses and other current assets	72.3	83.4
Deferred income taxes	124.0	144.6
Assets held for sale	1,390.3	—
Total current assets	$ 1,976.4	$ 764.9
Land, buildings and equipment, net	3,381.0	4,391.1
Goodwill	872.5	908.3
Trademarks	574.6	573.8
Other assets	296.2	298.8
Total assets	$ 7,100.7	$ 6,936.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 233.1	$ 296.5
Short-term debt	207.6	164.5
Accrued payroll	125.7	150.5
Accrued income taxes	—	16.5
Other accrued taxes	64.5	67.6
Unearned revenues	299.7	270.5
Current portion of long-term debt	15.0	—
Other current liabilities	457.4	450.3
Liabilities associated with assets held for sale	215.5	—
Total current liabilities	$ 1,618.5	$ 1,416.4
Long-term debt, less current portion	2,481.4	2,496.2
Deferred income taxes	286.1	356.4
Deferred rent	206.2	230.5
Obligations under capital leases, net of current installments	52.0	52.5
Other liabilities	299.6	325.4
Total liabilities	$ 4,943.8	$ 4,877.4
Stockholders' equity:		
Common stock and surplus, no par value. Authorized 500.0 shares; issued 133.6 and 131.6 shares, respectively; outstanding 132.3 and 130.3 shares, respectively	1,302.2	1,207.6
Preferred stock, no par value. Authorized 25.0 shares; none issued and outstanding	—	—
Retained earnings	995.8	998.9
Treasury stock, 1.3 and 1.3 shares, at cost, respectively	(7.8)	(8.1)
Accumulated other comprehensive income (loss)	(128.1)	(132.8)
Unearned compensation	(5.2)	(6.1)
Total stockholders' equity	$ 2,156.9	$ 2,059.5
Total liabilities and stockholders' equity	$ 7,100.7	$ 6,936.9

See accompanying notes to consolidated financial statements.

DARDEN RESTAURANTS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In millions, except per share data)

	Common Stock And Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total Stockholders' Equity
Balances at May 29, 2011	$ 2,408.8	$ 2,921.9	$ (3,325.3)	$ (59.8)	$ (9.4)	$ 1,936.2
Net earnings	—	475.5	—	—	—	475.5
Other comprehensive income	—	—	—	(86.8)	—	(86.8)
Dividends declared ($1.72 per share)	—	(224.6)	—	—	—	(224.6)
Stock option exercises (2.2 shares)	59.4	—	3.5	—	—	62.9
Stock-based compensation	26.5	—	—	—	—	26.5
ESOP note receivable repayments	—	—	—	—	2.1	2.1
Income tax benefits credited to equity	17.9	—	—	—	—	17.9
Repurchases of common stock (8.2 shares)	—	—	(375.1)	—	—	(375.1)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (0.2 shares)	6.2	—	1.1	—	0.1	7.4
Balances at May 27, 2012	$ 2,518.8	$ 3,172.8	$ (3,695.8)	$ (146.6)	$ (7.2)	$ 1,842.0
Net earnings	—	411.9	—	—	—	411.9
Other comprehensive income	—	—	—	13.8	—	13.8
Dividends declared ($2.00 per share)	0.4	(259.6)	—	—	—	(259.2)
Stock option exercises (2.0 shares)	55.2	—	1.8	—	—	57.0
Stock-based compensation	24.3	—	—	—	—	24.3
ESOP note receivable repayments	—	—	—	—	1.1	1.1
Income tax benefits credited to equity	13.6	—	—	—	—	13.6
Repurchases of common stock (1.0 shares)	—	(0.1)	(52.3)	—	—	(52.4)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (0.2 shares)	6.7	—	0.7	—	—	7.4
Treasury shares retirement (159.3 shares)	(1,411.4)	(2,326.1)	3,737.5	—	—	—
Balances at May 26, 2013	$ 1,207.6	$ 998.9	$ (8.1)	$ (132.8)	$ (6.1)	$ 2,059.5
Net earnings	—	286.2	—	—	—	286.2
Other comprehensive income	—	—	—	4.7	—	4.7
Dividends declared ($2.20 per share)	—	(288.9)	—	—	—	(288.9)
Stock option exercises (1.8 shares)	50.6	—	0.3	—	—	50.9
Stock-based compensation	26.0	—	—	—	—	26.0
ESOP note receivable repayments	—	—	—	—	0.9	0.9
Income tax benefits credited to equity	10.9	—	—	—	—	10.9
Repurchases of common stock (0.0 shares)	(0.1)	(0.4)	—	—	—	(0.5)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (0.2 shares)	7.2	—	—	—	—	7.2
Balances at May 25, 2014	$ 1,302.2	$ 995.8	$ (7.8)	$ (128.1)	$ (5.2)	$ 2,156.9

See accompanying notes to consolidated financial statements.

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

	Fiscal Year Ended		
	May 25, 2014	May 26, 2013	May 27, 2012
Cash flows - operating activities			
Net earnings	$ 286.2	$ 411.9	$ 475.5
Earnings from discontinued operations, net of tax	(103.0)	(174.6)	(196.3)
Adjustments to reconcile net earnings from continuing operations to cash flows:			
Depreciation and amortization	304.4	278.3	241.3
Asset impairment charges, net	18.3	0.7	0.2
Amortization of loan costs	13.8	13.0	6.7
Stock-based compensation expense	38.7	40.0	46.7
Change in current assets and liabilities	0.6	(18.0)	(122.4)
Contributions to pension and postretirement plan	(1.4)	(3.2)	(22.7)
Loss on disposal of land, buildings and equipment	2.8	5.0	3.5
Change in cash surrender value of trust-owned life insurance	(12.2)	(16.8)	4.1
Deferred income taxes	(44.9)	(0.4)	38.1
Change in deferred rent	29.5	25.6	17.2
Change in other assets and liabilities	18.9	24.0	15.8
Income tax benefits from exercise of stock-based compensation credited to goodwill	0.2	0.1	0.6
Other, net	3.5	8.8	5.2
Net cash provided by operating activities of continuing operations	$ 555.4	$ 594.4	$ 513.5
Cash flows - investing activities			
Purchases of land, buildings and equipment	(414.8)	(510.1)	(457.6)
Proceeds from disposal of land, buildings and equipment	4.4	0.3	3.1
Purchases of marketable securities	(3.0)	(12.9)	(32.1)
Proceeds from sale of marketable securities	8.7	26.0	21.3
Cash used in business acquisitions, net of cash acquired	—	(577.4)	(58.5)
Increase in other assets	(31.6)	(40.5)	(15.3)
Net cash used in investing activities of continuing operations	$ (436.3)	$ (1,114.6)	$ (539.1)
Cash flows - financing activities			
Proceeds from issuance of common stock	58.1	64.4	70.2
Income tax benefits credited to equity	10.9	13.6	17.9
Dividends paid	(288.3)	(258.2)	(223.9)
Purchases of common stock	(0.5)	(52.4)	(375.1)
ESOP note receivable repayments	0.9	1.1	2.1
Proceeds from issuance of short-term debt	2,616.3	2,670.3	2,321.0
Repayments of short-term debt	(2,573.2)	(2,768.4)	(2,243.8)
Repayments of long-term debt	—	(355.9)	(2.1)
Proceeds from issuance of long-term debt	—	1,050.0	400.0
Payment of debt issuance costs	(1.4)	(7.4)	(5.1)
Principal payments on capital leases	(2.0)	(1.7)	(1.6)
Net cash (used in) provided by financing activities of continuing operations	$ (179.2)	$ 355.4	$ (40.4)
Cash flows - discontinued operations			
Net cash provided by operating activities of discontinued operations	214.7	354.9	248.2
Net cash used in investing activities of discontinued operations	(144.5)	(172.4)	(182.2)
Net cash provided by discontinued operations	$ 70.2	$ 182.5	$ 66.0
Increase in cash and cash equivalents	10.1	17.7	—
Cash and cash equivalents - beginning of year	88.2	70.5	70.5
Cash and cash equivalents - end of year	$ 98.3	$ 88.2	$ 70.5

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

	Fiscal Year Ended		
	May 25, 2014	May 26, 2013	May 27, 2012
Cash flows from changes in current assets and liabilities			
Receivables, net	$ (1.5)	$ (11.1)	$ (10.7)
Inventories	(25.6)	(1.8)	(53.4)
Prepaid expenses and other current assets	0.5	(11.1)	(2.6)
Accounts payable	27.2	4.4	10.0
Accrued payroll	7.5	(5.9)	(8.3)
Prepaid/accrued income taxes	(21.0)	22.5	(16.3)
Other accrued taxes	—	7.7	(3.3)
Unearned revenues	28.8	33.9	25.7
Other current liabilities	(15.3)	(56.6)	(63.5)
Change in current assets and liabilities	$ 0.6	$ (18.0)	$ (122.4)
Supplemental schedule of noncash investing activities:			
Increase in land, buildings and equipment through accrued purchases	$ 24.4	$ 42.2	$ 34.7

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations and Principles of Consolidation

The accompanying consolidated financial statements include the operations of Darden Restaurants, Inc. and its wholly owned subsidiaries (Darden, the Company, we, us or our). We own and operate the Olive Garden ®, Red Lobster ®, LongHorn Steakhouse ®, The Capital Grille ®, Yard House ®, Bahama Breeze ®, Seasons 52 ®, Eddie V's Prime Seafood ® and Wildfish Seafood Grille ® restaurant brands located in the United States and Canada. Through subsidiaries, we own and operate all of our restaurants in the United States and Canada, except for three restaurants located in Central Florida and three restaurants in California that are owned jointly by us and third parties, and managed by us, one franchised restaurant in Atlanta and seven franchised restaurants in Puerto Rico. We also have area development and franchise agreements with unaffiliated operators to develop and operate our brands in Asia, the Middle East and Latin America. Pursuant to these agreements, as of May 25, 2014 , 45 franchised restaurants were in operation in Japan, the Middle East, Mexico, Brazil and Peru. All significant inter-company balances and transactions have been eliminated in consolidation.

Basis of Presentation

On May 15, 2014, we entered into an agreement to sell Red Lobster and certain related assets and associated liabilities for $2.11 billion in cash and we expect the transaction to close in the first quarter of fiscal 2015. These assets and liabilities are classified as held for sale on our consolidated balance sheet as of May 25, 2014 . Additionally, in the fourth quarter of fiscal 2014 , in connection with the sale of Red Lobster, we closed two restaurants that housed both a Red Lobster and an Olive Garden in the same building (synergy restaurants). We have classified the results of operations and impairment charges of the Red Lobster business and the two closed synergy restaurants as discontinued operations in our consolidated statements of earnings and cash flows for all periods presented. No amounts for shared general and administrative operating support expense or interest expense were allocated to discontinued operations.

During fiscal 2007 and 2008 , we closed or sold all of our Smokey Bones Barbeque & Grill (Smokey Bones) and Rocky River Grillhouse restaurants and we closed nine Bahama Breeze restaurants. These restaurants and their related activities have been classified as discontinued operations. Therefore, for fiscal 2014 , 2013 and 2012 , all impairment losses and disposal costs, gains and losses on disposition attributable to these restaurants have been aggregated in a single caption entitled “Earnings from discontinued operations, net of tax benefit” in the accompanying consolidated statements of earnings.

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

Fiscal Year

We operate on a 52/53 week fiscal year, which ends on the last Sunday in May. Fiscal 2014 , 2013 and 2012 consisted of 52 weeks of operation.

Use of Estimates

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 expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

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

Receivables, Net

Receivables, net of the allowance for doubtful accounts, represent their estimated net realizable value. Provisions for doubtful accounts are recorded based on historical collection experience and the age of the receivables. Receivables are written off when they are deemed uncollectible. See Note 3 – Receivables, Net for additional information.

Inventories
Inventories consist of food and beverages and are valued at the lower of weighted-average cost or market.

Marketable Securities
Available-for-sale securities are carried at fair value. Classification of marketable securities as current or noncurrent is dependent upon management's intended holding period, the security's maturity date, or both. Unrealized gains and losses, net of tax, on available-for-sale securities are carried in accumulated other comprehensive income (loss) within the consolidated financial statements and are reclassified into earnings when the securities mature or are sold.

Land, Buildings and Equipment, Net
Land, buildings and equipment are recorded at cost less accumulated depreciation. Building components are depreciated over estimated useful lives ranging from 7 to 40 years using the straight-line method. Leasehold improvements, which are reflected on our consolidated balance sheets as a component of buildings in land, buildings and equipment, net, are amortized over the lesser of the expected lease term, including cancelable option periods, or the estimated useful lives of the related assets using the straight-line method. Equipment is depreciated over estimated useful lives ranging from 2 to 10 years also using the straight-line method. See Note 5 – Land, Buildings and Equipment, Net for additional information. Gains and losses on the disposal of land, buildings and equipment are included in selling, general and administrative expenses in our accompanying consolidated statements of earnings. Depreciation and amortization expense from continuing operations associated with buildings and equipment and losses on disposal of land, buildings and equipment were as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Depreciation and amortization on buildings and equipment	$ 296.3	$ 271.0	$ 233.1
Losses on disposal of land, buildings and equipment	2.8	5.0	3.5

Capitalized Software Costs and Other Definite-Lived Intangibles
Capitalized software, which is a component of other assets, is recorded at cost less accumulated amortization. Capitalized software is amortized using the straight-line method over estimated useful lives ranging from 3 to 10 years. The cost of capitalized software and related accumulated amortization was as follows:

(in millions)	May 25, 2014	May 26, 2013
Capitalized software	$ 132.6	$ 107.9
Accumulated amortization	(70.9)	(67.5)
Capitalized software, net of accumulated amortization	$ 61.7	$ 40.4

We have other definite-lived intangible assets, including assets related to the value of below-market leases resulting from our acquisitions, that are included as a component of other assets on our consolidated balance sheets. We also have definite-lived intangible liabilities related to the value of above-market leases resulting from our acquisitions, that are included in other liabilities on our consolidated balance sheets. Definite-lived intangibles are amortized on a straight-line basis over estimated useful lives of 1 to 20 years. The cost and related accumulated amortization was as follows:

(in millions)	May 25, 2014	May 26, 2013
Other definite-lived intangibles	$ 15.5	$ 19.1
Accumulated amortization	(6.3)	(7.6)
Other definite-lived intangible assets, net of accumulated amortization	$ 9.2	$ 11.5

(in millions)	May 25, 2014	May 26, 2013
Below-market leases	$ 29.2	$ 29.2
Accumulated amortization	(9.6)	(7.8)
Below-market leases, net of accumulated amortization	$ 19.6	$ 21.4

(in millions)	May 25, 2014	May 26, 2013
Above-market leases	$ (21.4)	$ (21.4)
Accumulated amortization	4.9	3.5
Above-market leases, net of accumulated amortization	$ (16.5)	$ (17.9)

Amortization expense from continuing operations associated with capitalized software and other definite-lived intangibles included in depreciation and amortization in our accompanying consolidated statements of earnings was as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Amortization expense - capitalized software	$ 7.0	$ 6.3	$ 7.7
Amortization expense - other definite-lived intangibles	1.1	1.0	0.5

Amortization expense from continuing operations associated with above- and-below-market leases included in restaurant expenses as a component of rent expense in our consolidated statements of earnings was as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Restaurant expense - below-market leases	$ 1.8	$ 1.8	$ 1.8
Restaurant expense - above-market leases	(1.4)	(1.2)	(0.5)

Amortization of capitalized software and other definite-lived intangible assets will be approximately $9.9 million annually for fiscal 2015 through 2019 .

Trust-Owned Life Insurance

We have a trust that purchased life insurance policies covering certain of our officers and other key employees (trust-owned life insurance or TOLI). The trust is the owner and sole beneficiary of the TOLI policies. The policies were purchased to offset a portion of our obligations under our non-qualified deferred compensation plan. The cash surrender value for each policy is included in other assets while changes in cash surrender values are included in selling, general and administrative expenses.

Liquor Licenses

The costs of obtaining non-transferable liquor licenses that are directly issued by local government agencies for nominal fees are expensed as incurred. The costs of purchasing transferable liquor licenses through open markets in jurisdictions with a limited number of authorized liquor licenses are capitalized as indefinite-lived intangible assets and included in other assets. Liquor licenses are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Annual liquor license renewal fees are expensed over the renewal term.

Goodwill and Trademarks

We review our goodwill and trademarks for impairment annually, as of the first day of our fourth fiscal quarter or more frequently if indicators of impairment exist. Goodwill and trademarks are not subject to amortization and have been assigned to reporting units for purposes of impairment testing. The reporting units are our restaurant brands. Our goodwill and trademark balances are allocated as follows:

(in millions)	May 25, 2014	May 26, 2013
Goodwill:		
The Capital Grille	$ 401.7	$ 401.7
LongHorn Steakhouse	49.4	49.5
Olive Garden (1)	30.2	30.2
Red Lobster (1) (2)	—	35.0
Eddie V's	22.0	22.1
Yard House	369.2	369.8
Total Goodwill	$ 872.5	$ 908.3
Trademarks:		
The Capital Grille	$ 147.0	$ 147.0
LongHorn Steakhouse	307.8	307.0
Eddie V's	10.5	10.5
Yard House	109.3	109.3
Total Trademarks	$ 574.6	$ 573.8

(1) Goodwill related to Olive Garden and Red Lobster is associated with the RARE Hospitality International, Inc. (RARE) acquisition and the direct benefits derived by Olive Garden and Red Lobster as a result of the RARE acquisition.

(2) Goodwill related to Red Lobster was reclassified as assets held for sale on our consolidated balance sheet as of May 25, 2014 . Based on a comparison of the expected sale proceeds of $2.11 billion and the net book value of the related assets and liabilities held for sale of $1.17 billion , there was no indication of impairment of goodwill related to Red Lobster. See Note 2 – Discontinued Operations for additional information.

A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others: a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; the testing for recoverability of a significant asset group within a reporting unit; and slower growth rates. Any adverse change in these factors could have a significant impact on the recoverability of these assets and could have a material impact on our consolidated financial statements.

The goodwill impairment test involves a two-step process. The first step is a comparison of each reporting unit’s fair value to its carrying value. We estimate fair value using the best information available, including market information and discounted cash flow projections (also referred to as the income approach). The income approach uses a reporting unit’s projection of estimated operating results and cash flows that is discounted using a weighted-average cost of capital that reflects current market conditions. The projection uses management’s best estimates of economic and market conditions over the projected period including growth rates in sales, costs and number of units, estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements. We validate our estimates of fair value under the income approach by comparing the values to fair value estimates using a market approach. A market approach estimates fair value by applying cash flow and sales multiples to the reporting unit’s operating performance. The multiples are derived from comparable publicly traded companies with similar operating and investment characteristics of the reporting units. If the fair value of the reporting unit is higher than its carrying value, goodwill is deemed not to be impaired, and no further testing is required. If the carrying value of the reporting unit is higher than its fair value, there is an indication that impairment may exist and the second step must be performed to measure the amount of impairment loss. The amount of impairment is determined by comparing the implied fair value of reporting unit goodwill to the carrying value of the goodwill in the same manner as if the reporting unit was being acquired in a business combination. Specifically, fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that would calculate the

implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, we would record an impairment loss for the difference.

Consistent with our accounting policy for goodwill and trademarks we performed our annual impairment test of our goodwill and trademarks as of the first day of our fiscal 2014 fourth quarter. As of the beginning of our fiscal fourth quarter, we had eight reporting units, six of which had goodwill: Red Lobster, Olive Garden, LongHorn Steakhouse, The Capital Grille, Eddie V's and Yard House. As part of our process for performing the step one impairment test of goodwill, we estimated the fair value of our reporting units utilizing the income and market approaches described above to derive an enterprise value of the Company. We reconciled the enterprise value to our overall estimated market capitalization. The estimated market capitalization considers recent trends in our market capitalization and an expected control premium, based on comparable recent and historical transactions. Based on the results of the step one impairment test, no impairment of goodwill was indicated for any of our brands.

The fair value of trademarks are estimated and compared to the carrying value. We estimate the fair value of trademarks using the relief-from-royalty method, which requires assumptions related to projected sales from our annual long-range plan; assumed royalty rates that could be payable if we did not own the trademarks; and a discount rate. We recognize an impairment loss when the estimated fair value of the trademarks is less than carrying value. We completed our impairment test and concluded as of the date of the test, there was no impairment of the trademarks for LongHorn Steakhouse, The Capital Grille, Eddie V's and Yard House.

We determined that there was no goodwill or trademark impairment as of the first day of our fourth fiscal quarter and no additional indicators of impairment were identified through the end of our fourth fiscal quarter that would require us to test further for impairment. However, declines in our market capitalization (reflected in our stock price) as well as in the market capitalization of other companies in the restaurant industry, declines in sales at our restaurants, and significant adverse changes in the operating environment for the restaurant industry may result in future impairment.

Changes in circumstances, existing at the measurement date or at other times in the future, or in the numerous estimates associated with management’s judgments and assumptions 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. A leverage ratio exceeding the maximum permitted under our credit agreement would be a default under our credit agreement. At May 25, 2014 , a write down of goodwill, other indefinite-lived intangible assets, or any other assets in excess of approximately $850.0 million would have been required to cause our leverage ratio to exceed the permitted maximum. As our leverage ratio is determined on a quarterly basis and 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.

We evaluate the useful lives of our other intangible assets, to determine if they are definite or indefinite-lived. A determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, demand, competition, other economic factors (such as the stability of the industry, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures, and the expected lives of other related groups of assets.

Impairment or Disposal of Long-Lived Assets

Land, buildings and equipment and certain other assets, including definite-lived intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the assets. Identifiable cash flows are measured at the lowest level for which they are largely independent of the cash flows of other groups of assets and liabilities, generally at the restaurant level. If such assets are determined to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Fair value is generally determined based on appraisals or sales prices of comparable assets. Restaurant sites and certain other assets to be disposed of are reported at the lower of their carrying amount or fair value, less estimated costs to sell. Restaurant sites and certain other assets to be disposed of are included in assets held for disposal within prepaid expenses and other current assets in our consolidated balance sheets when certain criteria are met. These criteria include the requirement that the likelihood of disposing of these assets within one year is probable. Assets not meeting the “held for sale” criteria remain in land, buildings and equipment until their disposal is probable within one year.

We account for exit or disposal activities, including restaurant closures, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 420, Exit or Disposal Cost Obligations. Such costs include the cost of disposing of the assets as well as other facility-related expenses from previously closed restaurants. These costs are

generally expensed as incurred. Additionally, at the date we cease using a property under an operating lease, we record a liability for the net present value of any remaining lease obligations, net of estimated sublease income. Any subsequent adjustments to that liability as a result of lease termination or changes in estimates of sublease income are recorded in the period incurred. Upon disposal of the assets, primarily land, associated with a closed restaurant, any gain or loss is recorded in the same caption within our consolidated statements of earnings as the original impairment.

Insurance Accruals

Through the use of insurance program deductibles and self-insurance, we retain a significant portion of expected losses under our workers' compensation, certain employee medical and general liability programs. However, we carry insurance for individual workers' compensation and general liability claims that exceed $0.5 million . Accrued liabilities have been recorded based on our estimates of the anticipated ultimate costs to settle all claims, both reported and not yet reported.

Revenue Recognition

Sales, as presented in our consolidated statements of earnings, represents food and beverage product sold and is presented net of discounts, coupons, employee meals, and complimentary meals. Revenue from restaurant sales is recognized when food and beverage products are sold. Sales taxes collected from customers and remitted to governmental authorities are presented on a net basis within sales in our consolidated statements of earnings.

Revenue from the sale of franchises is recognized as income when substantially all of our material obligations under the franchise agreement have been performed. Continuing royalties, which are a percentage of net sales of franchised restaurants, are accrued as income when earned. Revenue from the sale of consumer packaged goods includes ongoing royalty fees based on a percentage of licensed retail product sales and is recognized upon the sale of product by our licensed manufacturers to retail outlets.

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.

Food and Beverage Costs

Food and beverage costs include inventory, warehousing, related purchasing and distribution costs and gains and losses on certain commodity derivative contracts. Vendor allowances received in connection with the purchase of a vendor's products are recognized as a reduction of the related food and beverage costs as earned. Advance payments are made by the vendors based on estimates of volume to be purchased from the vendors and the terms of the agreement. As we make purchases from the vendors each period, we recognize the pro rata portion of allowances earned as a reduction of food and beverage costs for that period. Differences between estimated and actual purchases are settled in accordance with the terms of the agreements. Vendor agreements are generally for a period of one year or more and payments received are initially recorded as long-term liabilities. Amounts expected to be earned within one year are recorded as current liabilities.

Income Taxes

We provide for federal and state income taxes currently payable as well as for those deferred because of temporary differences between reporting income and expenses for financial statement purposes versus tax purposes. Federal income tax credits are recorded as a reduction of income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Interest recognized on reserves for uncertain tax positions is included in interest, net in our consolidated statements of earnings. A corresponding liability for accrued interest is included as a component of other current liabilities on our consolidated balance sheets. Penalties, when incurred, are recognized in selling, general and administrative expenses.

ASC Topic 740, Income Taxes, requires that a position taken or expected to be taken in a tax return be recognized (or derecognized) in the financial statements when it is more likely than not (i.e., a likelihood of more than 50 percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. See Note 16 - Income Taxes for additional information.

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

Derivative Instruments and Hedging Activities

We enter into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments as required by FASB ASC Topic 815, Derivatives and Hedging, and those utilized as economic hedges. We use financial and commodities derivatives to manage interest rate, compensation, commodities pricing and foreign currency exchange rate risks inherent in our business operations. Our use of derivative instruments is currently limited to interest rate hedges; equity forwards contracts; commodities futures and options contracts and foreign currency forward contracts. These instruments are generally structured as hedges of the variability of cash flows related to forecasted transactions (cash flow hedges). However, we do at times enter into instruments designated as fair value hedges to reduce our exposure to changes in fair value of the related hedged item. We do not enter into derivative instruments for trading or speculative purposes, where changes in the cash flows or fair value of the derivative are not expected to offset changes in cash flows or fair value of the hedged item. However, we have entered into equity forwards to economically hedge changes in the fair value of employee investments in our non-qualified deferred compensation plan and certain commodity futures contracts to economically hedge changes in the value of certain inventory purchases, for which we have not applied hedge accounting. All derivatives are recognized on the balance sheet at fair value. For those derivative instruments for which we intend to elect hedge accounting, on the date the derivative contract is entered into, we document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking the various hedge transactions. This process includes linking all derivatives designated as cash flow hedges to specific assets and liabilities on the consolidated balance sheet or to specific forecasted transactions. We also formally assess, both at the hedge’s inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

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 Topic 815 of the FASB ASC, 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 Topic 815 of the FASB ASC, 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. Cash flows related to derivatives are included in operating activities. See Note 10 – Derivative Instruments and Hedging Activities for additional information.

Leases

For operating leases, we recognize rent expense on a straight-line basis over the expected lease term, including cancelable option periods where failure to exercise the options would result in an economic penalty to the Company.

Differences between amounts paid and amounts expensed are recorded as deferred rent. Capital leases are recorded as an asset and an obligation at an amount equal to the present value of the minimum lease payments during the lease term. Within the provisions of certain of our leases, there are rent holidays and escalations in payments over the base lease term, as well as renewal periods. The effects of the holidays and escalations have been reflected in rent expense on a straight-line basis over the expected lease term, which includes cancelable option periods where failure to exercise such options would result in an economic penalty to the Company. The lease term commences on the date when we have the right to control the use of the leased property, which is typically before rent payments are due under the terms of the lease. Many of our leases have renewal periods totaling 5 to 20 years, exercisable at our option and require payment of property taxes, insurance and maintenance costs in addition to the rent payments. The consolidated financial statements reflect the same lease term for amortizing leasehold improvements as we use to determine capital versus operating lease classifications and in calculating straight-line rent expense for each restaurant. Percentage rent expense is generally based on sales levels and is accrued at the point in time we determine that it is probable that such sales levels will be achieved. Amortization expense related to capital leases is included in

depreciation and amortization expense in our consolidated statements of earnings. Landlord allowances are recorded based on contractual terms and are included in accounts receivable, net and as a deferred rent liability and amortized as a reduction of rent expense on a straight-line basis over the expected lease term.

Pre-Opening Expenses

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

Advertising

Production costs of commercials are charged to operations in the fiscal period the advertising is first aired. The costs of programming and other advertising, promotion and marketing programs are charged to operations in the fiscal period incurred. Advertising expense related to continuing operations, included in selling, general and administrative expenses was as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Advertising expense	$ 252.3	$ 241.1	$ 215.6

Stock-Based Compensation

We recognize the cost of employee service received in exchange for awards of equity instruments based on the grant date fair value of those awards. We utilize the Black-Scholes option pricing model to estimate the fair value of stock option awards. We recognize compensation expense on a straight-line basis over the employee service period for awards granted. The dividend yield has been estimated based upon our historical results and expectations for changes in dividend rates. The expected volatility was determined using historical stock prices. The risk-free interest rate was the rate available on zero coupon U.S. government obligations with a term approximating the expected life of each grant. The expected life was estimated based on the exercise history of previous grants, taking into consideration the remaining contractual period for outstanding awards. The weighted-average fair value of non-qualified stock options and the related assumptions used in the Black-Scholes model to record stock-based compensation are as follows:

	Stock Options Granted in Fiscal Year		
	2014	2013	2012
Weighted-average fair value	$ 12.06	$ 12.22	$ 14.31
Dividend yield	4.4%	4.0%	3.5%
Expected volatility of stock	39.6%	39.7%	39.4%
Risk-free interest rate	1.9%	0.8%	2.1%
Expected option life (in years)	6.4	6.5	6.5

Net Earnings per Share

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

The following table presents the computation of basic and diluted net earnings per common share:

(in millions, except per share data)	Fiscal Year		
	2014	2013	2012
Earnings from continuing operations	$ 183.2	$ 237.3	$ 279.2
Earnings from discontinued operations	103.0	174.6	196.3
Net earnings	$ 286.2	$ 411.9	$ 475.5
Average common shares outstanding – Basic	131.0	129.0	130.1
Effect of dilutive stock-based compensation	2.2	2.6	3.1
Average common shares outstanding – Diluted	133.2	131.6	133.2
Basic net earnings per share:			
Earnings from continuing operations	$ 1.40	$ 1.84	$ 2.15
Earnings from discontinued operations	0.78	1.35	1.50
Net earnings	$ 2.18	$ 3.19	$ 3.65
Diluted net earnings per share:			
Earnings from continuing operations	$ 1.38	$ 1.80	$ 2.10
Earnings from discontinued operations	0.77	1.33	1.47
Net earnings	$ 2.15	$ 3.13	$ 3.57

Restricted stock and options to purchase shares of our 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)	Fiscal Year Ended		
	May 25, 2014	May 26, 2013	May 27, 2012
Anti-dilutive restricted stock and options	4.2	2.8	2.6

Comprehensive Income

Comprehensive income includes net earnings and other comprehensive income (loss) items that are excluded from net earnings under U.S. generally accepted accounting principles. Other comprehensive income (loss) items include foreign currency translation adjustments, the effective unrealized portion of changes in the fair value of cash flow hedges, unrealized gains and losses on our marketable securities classified as held for sale and recognition of the funded status related to our pension and other postretirement plans. See Note 13 - Stockholders' Equity for additional information.

Foreign Currency

The Canadian dollar is the functional currency for our Canadian restaurant operations and the Malaysian ringgit is the functional currency for our franchise and aquaculture activities based in Malaysia. Assets and liabilities denominated in foreign currencies are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates prevailing throughout the period. Translation gains and losses are reported as a separate component of other comprehensive income (loss). Aggregate cumulative translation losses were $4.7 million and $1.8 million at May 25, 2014 and May 26, 2013 , respectively. Gains and losses from foreign currency transactions recognized in our consolidated statements of earnings were not significant for fiscal 2014 , 2013 or 2012 .

Segment Reporting

As of May 25, 2014 , we operated the Olive Garden, Red Lobster, LongHorn Steakhouse, The Capital Grille, Yard House, Bahama Breeze, Seasons 52 and Eddie V's restaurant brands in North America as operating segments. The brands operate principally in the U.S. within the full-service dining industry, providing similar products to similar customers. The brands also possess similar economic characteristics, resulting in similar long-term expected financial performance characteristics. Sales

from external customers are derived principally from food and beverage sales. We do not rely on any major customers as a source of sales. We believe we meet the criteria for aggregating our operating segments into a single reporting segment.

Research and Development

We are currently researching and developing proprietary technology for lobster aquaculture farming. We expense research and development costs as incurred. Our lobster aquaculture expenditures were $ 13.5 million , $6.3 million and $1.6 million in fiscal 2014 , 2013 and 2012 , respectively, and were recorded in selling, general and administrative expenses in our consolidated statements of earnings.

Application of New Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This update is effective for annual and interim periods beginning after December 15, 2016, which will require us to adopt these provisions in the first quarter of fiscal 2018. Early application is not permitted. This update permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect this guidance will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360), *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* . This update modifies the requirements for reporting discontinued operations. Under the amendments in ASU 2014-08, the definition of discontinued operation has been modified to only include those disposals of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. This update also expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. This update is effective for annual and interim periods beginning after December 15, 2014, which will require us to adopt these provisions in the first quarter of fiscal 2016. We are evaluating the effect this guidance will have on our consolidated financial statements and related disclosures.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740), *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* The objective of this update is to eliminate the diversity in practice in the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Under this guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain circumstances. This update does not require any new recurring disclosures and is effective for annual and interim periods beginning after December 15, 2013, which will require us to adopt these provisions in the first quarter of fiscal 2015. We do not believe adoption of this new guidance will have a significant impact on our consolidated financial statements.

NOTE 2 – DISCONTINUED OPERATIONS

On May 15, 2014, we entered into an agreement to sell Red Lobster and certain related assets and associated liabilities for $2.11 billion in cash and we expect the transaction to close during the first quarter of fiscal 2015. These assets and liabilities are classified as held for sale on our consolidated balance sheet as of May 25, 2014 . Additionally, in the fourth quarter of fiscal 2014 , in connection with the sale of Red Lobster, we closed two synergy restaurants. During fiscal 2014 , we recorded long-lived asset impairment charges of $7.6 million , $7.4 million of which was recorded during the fourth quarter as a result of these actions and $20.7 million of separation-related costs which are included in earnings from discontinued operations. No amounts for shared general and administrative operating support expense or interest expense were allocated to discontinued operations. We expect all direct cash flows related to operating these businesses to be eliminated at the date of sale. Our continuing involvement will be limited to a transition service agreement for up to two years with minimal impact to our cash flows.

For fiscal 2014 , 2013 and 2012 , all impairment charges and disposal costs, along with the sales, direct costs and expenses and income taxes attributable to restaurants classified as discontinued operations have been aggregated to a single caption entitled earnings from discontinued operations, net of tax in our consolidated statements of earnings for all periods presented. Earnings from discontinued operations, net of taxes in our accompanying consolidated statements of earnings are comprised of the following:

(in millions)	Fiscal Year		
	May 25, 2014	May 26, 2013	May 27, 2012
Sales	$ 2,472.1	$ 2,630.9	$ 2,671.6
Earnings before income taxes	135.3	247.3	281.2
Income tax expense	32.3	72.7	84.9
Earnings from discontinued operations, net of tax	$ 103.0	$ 174.6	$ 196.3

The following table presents the carrying amounts of the major classes of assets and liabilities associated with the restaurants reported as discontinued operations and classified as held for sale on our accompanying consolidated balance sheet as of May 25, 2014 :

(in millions)	May 25, 2014
Current assets	$ 241.0
Land, buildings and equipment, net	1,084.8
Other assets	64.5
Total assets	$ 1,390.3
Current liabilities	$ 130.6
Other liabilities	84.9
Total liabilities	$ 215.5

NOTE 3 - RECEIVABLES, NET

Receivables from the sale of gift cards in national retail outlets, allowances due from landlords based on lease terms, miscellaneous receivables and our overall allowance for doubtful accounts are as follows:

(in millions)	May 25, 2014	May 26, 2013
Retail outlet gift card sales	$ 39.6	$ 37.5
Landlord allowances due	22.5	26.5
Miscellaneous	22.0	21.7
Allowance for doubtful accounts	(0.3)	(0.3)
Receivables, net	$ 83.8	$ 85.4

NOTE 4 –ASSET IMPAIRMENTS, NET

During fiscal 2014 , 2013 and 2012 , we recognized long-lived asset impairment charges of $18.3 million ($11.3 million net of tax), $0.7 million ($0.4 million net of tax) and $0.2 million ($0.1 million net of tax), respectively. Impairment charges resulted primarily from the carrying value of restaurant assets exceeding the estimated fair market value, which is based on projected cash flows. These costs are included in asset impairments, net as a component of earnings from continuing operations in the accompanying consolidated statements of earnings for fiscal 2014 , 2013 and 2012 . Impairment charges were measured based on the amount by which the carrying amount of these assets exceeded their fair value. Fair value is generally determined based on appraisals or sales prices of comparable assets and estimates of future cash flows.

NOTE 5 - LAND, BUILDINGS AND EQUIPMENT, NET

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

(in millions)	May 25, 2014	May 26, 2013
Land	$ 659.7	$ 888.1
Buildings	3,234.5	4,474.5
Equipment	1,378.4	1,860.9
Assets under capital leases	69.5	67.7
Construction in progress	89.1	149.7
Total land, buildings and equipment	$ 5,431.2	$ 7,440.9
Less accumulated depreciation and amortization	(2,027.0)	(3,030.2)
Less amortization associated with assets under capital leases	(23.2)	(19.6)
Land, buildings and equipment, net	$ 3,381.0	$ 4,391.1

NOTE 6 - WORKFORCE REDUCTION

During fiscal 2014 , we performed comprehensive reviews of our operations and support structure resulting in changes in our growth plans and related support structure needs. As a result, we had workforce reductions and program spending cuts in September 2013 (September 2013 Plan), January 2014 (January 2014 Plan) and May 2014 (May 2014 Plan). In accordance with these actions, we incurred employee termination benefits costs and other costs which are included in selling, general and administrative expenses in our consolidated statements of earnings as follows:

	Fiscal Year
(in millions)	2014
Employee termination benefits (1)	$ 17.2
Other (2)	0.9
Total	$ 18.1

(1) Includes salary and stock-based compensation expense.
(2) Includes postemployment medical, outplacement and relocation costs.

The following table summarizes the accrued employee termination benefits and other costs which are primarily included in other current liabilities on our consolidated balance sheet as of May 25, 2014 :

(in millions)	September 2013 Plan	January 2014 Plan	May 2014 Plan	Payments	Adjustments	Balance at May 25, 2014
Employee termination benefits (1)	$ 7.7	$ 0.7	$ 5.0	$ (4.9)	$ (0.3)	$ 8.2
Other	0.8	0.1	0.2	(0.5)	(0.2)	0.4
Total	$ 8.5	$ 0.8	$ 5.2	$ (5.4)	$ (0.5)	$ 8.6

(1) Excludes costs associated with stock options and restricted stock that will be settled in shares upon vesting.

We expect the majority of the remaining liability to be paid by the first quarter of fiscal 2015 and the remainder to be paid by the first quarter of fiscal 2016.

NOTE 7 – SHORT-TERM DEBT

As of May 25, 2014 , amounts outstanding as short-term debt, which consist of unsecured commercial paper borrowings, bearing an interest rate of 0.80 percent , were $207.6 million . As of May 26, 2013 , amounts outstanding as short-term debt, which consist of unsecured commercial paper borrowings, bearing an interest rate of 0.20 percent , were $164.5 million .

NOTE 8 - OTHER CURRENT LIABILITIES

The components of other current liabilities are as follows:

(in millions)	May 25, 2014	May 26, 2013
Non-qualified deferred compensation plan	$ 228.8	$ 224.3
Sales and other taxes	70.4	74.3
Insurance-related	35.8	40.8
Employee benefits	47.4	44.7
Derivative liabilities	1.7	2.2
Accrued interest	19.9	17.7
Miscellaneous	53.4	46.3
Total other current liabilities	$ 457.4	$ 450.3

NOTE 9 - LONG-TERM DEBT

The components of long-term debt are as follows:

(in millions)	May 25, 2014	May 26, 2013
7.125% debentures due February 2016	100.0	100.0
Variable-rate term loan (1.65% at May 25, 2014) due August 2017	300.0	300.0
6.200% senior notes due October 2017	500.0	500.0
3.790% senior notes due August 2019	80.0	80.0
4.500% senior notes due October 2021	400.0	400.0
3.350% senior notes due November 2022	450.0	450.0
4.520% senior notes due August 2024	220.0	220.0
6.000% senior notes due August 2035	150.0	150.0
6.800% senior notes due October 2037	300.0	300.0
Total long-term debt	$ 2,500.0	$ 2,500.0
Fair value hedge	1.6	1.9
Less issuance discount	(5.2)	(5.7)
Total long-term debt less issuance discount	$ 2,496.4	$ 2,496.2
Less current portion	(15.0)	—
Long-term debt, excluding current portion	$ 2,481.4	$ 2,496.2

We maintain a $750.0 million revolving Credit Agreement (Revolving Credit Agreement), with Bank of America, N.A. (BOA) as administrative agent, and the lenders and other agents party thereto. The 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 May 25, 2014 , we were in compliance with the covenants under the Revolving Credit Agreement.

On October 24, 2013, we entered into an amendment (First Amendment) to the Revolving Credit Agreement, which extended the maturity date from October 3, 2016 to October 24, 2018 , and gives us the option to request a further extension of the maturity date for up to two additional one-year periods. Additionally, interest rates on borrowings and fees under the Revolving Credit Agreement are determined by reference to a ratings-based pricing grid, which was amended by the First Amendment.

The Revolving Credit Agreement 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. Loans under the 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 highest of the BOA prime rate, the Federal Funds rate plus 0.500 percent , and the Eurocurrency Rate plus 1.00 percent) plus the Applicable Margin. Assuming a “BBB-” equivalent credit rating level, the Applicable Margin under the Revolving Credit Agreement will be 1.300 percent for LIBOR loans and 0.300 percent for base rate loans.

As of May 25, 2014 , we had no outstanding balances under the Revolving Credit Agreement. As of May 25, 2014 , $207.6 million of commercial paper was outstanding, which was backed by this facility. After consideration of commercial paper backed by the Revolving Credit Agreement, as of May 25, 2014 , we had $542.4 million of credit available under the Revolving Credit Agreement.

The interest rates on our $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 May 25, 2014 , no adjustments to these interest rates had been made.

The aggregate contractual maturities of long-term debt for each of the five fiscal years subsequent to May 25, 2014 , and thereafter are as follows:

(in millions)

Fiscal Year	Amount
2015	$ 15.0
2016	115.0
2017	15.0
2018	755.0
2019	—
Thereafter	1,600.0
Long-term debt	$ 2,500.0

We expect to use approximately $1.00 billion of the cash proceeds from the anticipated sale of Red Lobster to retire outstanding long-term debt. On June 30, 2014, we commenced cash tender offers for up to $600.0 million (which subsequently increased to $610.0 million) aggregate principal amount of our outstanding 4.500 percent senior notes due 2021, 3.350 percent senior notes due 2022, 6.000 percent senior notes due 2035 and 6.200 percent senior notes due 2017. Additionally, we have agreed to repurchase $80.0 million and $210.0 million aggregate principal amount of our 3.790 percent senior notes due 2019 and our 4.520 percent senior notes due 2024, respectively. We also intend to call for redemption approximately $100.0 million aggregate principal amount of our outstanding 7.125 percent debentures due 2016. Our ability to retire the long-term debt is dependent upon the acceptance of our tender offer, in addition to the closing of the Red Lobster sale.

NOTE 10 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We use financial and commodities derivatives to manage interest rate, equity-based compensation and commodities pricing and foreign currency exchange rate risks inherent in our business operations. 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 May 25, 2014 , if counterparties to the derivative instruments failed completely to perform, would approximate the values of derivative instruments currently recognized as assets on 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 our derivative contracts are as follows:

(in millions)	May 25, 2014	May 26, 2013
Derivative contracts designated as hedging instruments:		
Commodities	$ 0.9	$ 18.2
Foreign currency	0.3	20.3
Interest rate swaps	200.0	100.0
Equity forwards	20.6	24.9
Derivative contracts not designated as hedging instruments:		
Equity forwards	$ 47.4	$ 49.1
Commodities	—	0.6

We periodically enter into commodity futures, swaps and option contracts (collectively, commodity contracts) to reduce the risk of variability in cash flows associated with fluctuations in the price we pay for natural gas, diesel fuel and butter. For certain of our commodity purchases, changes in the price we pay for these commodities are highly correlated with changes in the market price of these commodities. For these commodity purchases, we designate commodity contracts as cash flow hedging instruments. For the remaining commodity purchases, changes in the price we pay for these commodities are not highly correlated with changes in the market price, generally due to the timing of when changes in the market prices are reflected in

the price we pay. For these commodity purchases, we utilize commodity contracts as economic hedges. Our commodity contracts extended through May 2014 .

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 extended through May 2014 .

We are currently party to interest-rate swap agreements with $200.0 million of notional value to limit the risk of changes in fair value of a portion of the $400.0 million 4.500 percent senior notes due October 2021 and a portion of the $500.0 million 6.200 percent senior notes due October 2017. 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 fiscal 2014 , 2013 and 2012 , $2.9 million , $3.0 million and $3.3 million , respectively, was recorded as a reduction to interest expense related to 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 May 25, 2014 , we were party to equity forward contracts that were indexed to 1.2 million shares of our common stock, at varying forward rates between $31.19 per share and $52.66 per share, extending through August 2018 . 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 or received.

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 0.3 million shares of our common stock at forward rates between $46.17 and $51.95 per share, can only be net settled in cash and expire between fiscal 2015 and 2019 . 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 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	
		May 25, 2014	May 26, 2013	May 25, 2014	May 26, 2013
Derivative contracts designated as hedging instruments					
Commodity contracts	(1)	$ —	$ 0.1	$ —	$ (0.3)
Equity forwards	(1)	—	—	(0.5)	(0.6)
Interest rate related	(1)	1.6	1.9	—	—
Foreign currency forwards	(1)	0.1	0.6	—	—
		$ 1.7	$ 2.6	$ (0.5)	$ (0.9)
Derivative contracts not designated as hedging instruments					
Commodity contracts	(1)	$ —	$ —	$ —	$ —
Equity forwards	(1)	—	—	(1.2)	(1.3)
		$ —	$ —	$ (1.2)	$ (1.3)
Total derivative contracts		$ 1.7	$ 2.6	$ (1.7)	$ (2.2)

(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 in 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)		
	Fiscal Year				Fiscal Year				Fiscal Year		
	2014	2013	2012		2014	2013	2012		2014	2013	2012
Commodity	$ 0.6	$ 0.7	$ (2.2)	(2)	$ 0.4	$ 0.4	$ (1.7)	(2)	$ —	$ —	$ —
Equity	(3.5)	(2.8)	(0.7)	(3)	(0.8)	0.2	—	(3)	1.4	1.1	0.6
Interest rate	—	(10.1)	(75.2)	Interest, net	(10.3)	(8.3)	(2.9)	Interest, net	—	—	(0.7)
Foreign currency	0.5	(0.5)	0.9	(4)	1.0	—	0.8	(4)	—	—	—
	$ (2.4)	$ (12.7)	$ (77.2)		$ (9.7)	$ (7.7)	$ (3.8)		$ 1.4	$ 1.1	$ (0.1)

(1) 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 may appear as zero in this tabular presentation.

(2) 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.

(3) 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.

(4) 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 in 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
	Fiscal Year					Fiscal Year			
	2014	2013	2012			2014	2013	2012	
Interest rate	$ (0.3)	$ (1.3)	$ (0.4)	Interest, net	Debt	$ 0.3	$ 1.3	$ 0.4	Interest, net

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

(in millions)	Location of Gain (Loss) Recognized in Earnings	Amount of Gain (Loss) Recognized in Earnings Fiscal Year 2014	2013	2012
Commodity contracts	Cost of sales (1)	$ —	$ (0.1)	$ (7.9)
Equity forwards	Cost of sales (2)	(0.5)	1.6	2.3
Equity forwards	Selling, general and administrative	(1.3)	1.4	6.0
		$ (1.8)	$ 2.9	$ 0.4

(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 May 25, 2014 , we expect to reclassify $10.1 million of net losses on derivative instruments from accumulated other comprehensive income (loss) to earnings during the next 12 months based on the timing of our forecasted commodity purchases, the maturity of equity forwards and the amortization of losses on 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. Additionally, based on the results of our tender offer in the first quarter of fiscal 2015 (see Note 9 – Long-Term Debt for further information), which is contingent upon the closing of the Red Lobster sale, additional amortization of losses on interest-rate related instruments may be recognized.

NOTE 11 – FAIR VALUE MEASUREMENTS

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

The following tables summarize the fair values of financial instruments measured at fair value on a recurring basis at May 25, 2014 and May 26, 2013 :

Items Measured at Fair Value at May 25, 2014

(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)	$ 9.7	$ —	$ 9.7	$ —
U.S. Treasury securities	(2)	6.1	6.1	—	—
Mortgage-backed securities	(1)	2.6	—	2.6	—
Derivatives:					
Commodities futures, swaps & options	(3)	—	—	—	—
Equity forwards	(4)	(1.7)	—	(1.7)	—
Interest rate swaps	(5)	1.6	—	1.6	—
Foreign currency forwards	(6)	0.1	—	0.1	—
Total		$ 18.4	$ 6.1	$ 12.3	$ —

Items Measured at Fair Value at May 26, 2013

(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)	$ 10.0	$ —	$ 10.0	$ —
U.S. Treasury securities	(2)	8.7	8.7	—	—
Mortgage-backed securities	(1)	5.6	—	5.6	—
Derivatives:					
Commodities futures, swaps & options	(3)	(0.2)	—	(0.2)	—
Equity forwards	(4)	(1.9)	—	(1.9)	—
Interest rate locks & swaps	(5)	1.9	—	1.9	—
Foreign currency forwards	(6)	0.6	—	0.6	—
Total		$ 24.7	$ 8.7	$ 16.0	$ —

(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 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 the closing market value 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 May 25, 2014 , was $2.50 billion and $2.63 billion , respectively. The carrying value and fair value of long-term debt as of May 26, 2013 , was $2.50 billion and $2.70 billion , respectively. The fair value of long-term debt, which is classified as Level 2 in the fair value hierarchy, 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.

Adjustments to the fair values of non-financial assets measured at fair value on a non-recurring basis as of May 25, 2014 and May 26, 2013 were generally related to impairments of property to be disposed of and were not material.

NOTE 12 - FINANCIAL INSTRUMENTS

Marketable securities are carried at fair value and consist of available-for-sale securities related to insurance funding requirements for our workers' compensation and general liability claims. The following table summarizes cost and market value for our securities that qualify as available-for-sale as of May 25, 2014 :

(in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Available-for-sale securities	$ 18.3	$ 0.1	$ —	$ 18.4

Earnings include insignificant realized gains and loss from sales of available-for-sale securities. At May 25, 2014 , the scheduled maturities of our available-for-sale securities are as follows:

(in millions)	Cost	Market Value
Less than 1 year	$ 4.5	$ 4.5
1 to 3 years	8.4	8.5
3 to 5 years	5.4	5.4
Total	$ 18.3	$ 18.4

NOTE 13 - STOCKHOLDERS' EQUITY

Share Repurchase Program

Repurchased common stock has historically been reflected as a reduction of stockholders' equity. On December 17, 2010, our Board of Directors authorized an additional share repurchase authorization totaling 25.0 million shares in addition to the previous authorization of 162.4 million shares. Share repurchase authorizations and cumulative share repurchases under these authorizations, are as follows:

(in millions)	May 25, 2014
Share repurchase authorizations	187.4
Cumulative shares repurchased	171.9

The total shares and related cost of our common stock we repurchased was as follows:

(in millions)	Fiscal Year					
	2014		2013		2012	
	Shares	Cost	Shares	Cost	Shares	Cost
Repurchases of common stock	—	$ 0.5	1.0	$ 52.4	8.2	$ 375.1

As of May 25, 2014 , of the 171.9 million cumulative shares repurchased, 159.3 million shares were retired and restored to authorized but unissued shares of common stock. We expect that all shares of common stock acquired in the future will also be restored to authorized but unissued shares of common stock.

Stockholders' Rights Plan

Under our Rights Agreement dated May 16, 2005 , each share of our common stock has associated with it one right to purchase one thousandth of a share of our Series A Participating Cumulative Preferred Stock at a purchase price of $120 per share, subject to adjustment under certain circumstances to prevent dilution. The rights are exercisable when, and are not transferable apart from our common stock until, a person or group has acquired 15 percent or more, or makes a tender offer for 15 percent or more, of our common stock. If the specified percentage of our common stock is then acquired, each right will entitle the holder (other than the acquiring company) to receive, upon exercise, common stock of either us or the acquiring company having a value equal to two times the exercise price of the right. The rights are redeemable by our Board of Directors under certain circumstances and expire on May 25, 2015 .

Accumulated Other Comprehensive Income (Loss)

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

(in millions)	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Marketable Securities	Unrealized Gains (Losses) on Derivatives	Benefit Plan Funding Position	Accumulated Other Comprehensive Income (Loss)
Balances at May 27, 2012	$ (1.6)	$ 0.4	$ (49.7)	$ (95.7)	$ (146.6)
Gain (loss)	(0.2)	(0.2)	(8.8)	11.4	2.2
Reclassification realized in net earnings	—	—	4.7	6.9	11.6
Balances at May 26, 2013	$ (1.8)	$ 0.2	$ (53.8)	$ (77.4)	$ (132.8)
Gain (loss)	(2.9)	(0.1)	(2.9)	(1.7)	(7.6)
Reclassification realized in net earnings	—	—	6.3	6.0	12.3
Balances at May 25, 2014	$ (4.7)	$ 0.1	$ (50.4)	$ (73.1)	$ (128.1)

The following table presents the amounts and line items in our consolidated statements of earnings where adjustments reclassified from AOCI into net earnings were recorded:

(in millions) AOCI Components	Location of Gain (Loss) Recognized in Earnings	Fiscal Year May 25, 2014	Fiscal Year May 26, 2013
Derivatives			
Commodity contracts	(1)	0.4	0.4
Equity contracts	(2)	(0.8)	0.2
Interest rate contracts	Interest, net	(10.3)	(8.3)
Foreign currency contracts	(2)	1.0	—
	Total before tax	$ (9.7)	$ (7.7)
	Tax benefit	3.4	3.0
	Net of tax	$ (6.3)	$ (4.7)
Benefit plan funding position			
Recognized net actuarial loss - pension/postretirement plans	(3)	$ (8.6)	$ (8.9)
Recognized net actuarial loss - other plans	(4)	(1.4)	(2.3)
	Total before tax	$ (10.0)	$ (11.2)
	Tax benefit	4.0	4.3
	Net of tax	$ (6.0)	$ (6.9)

(1) Primarily included in cost of sales. See Note 10 for additional details.

(2) Primarily included in cost of sales and selling, general and administrative expenses. See Note 10 for additional details.

(3) Included in the computation of net periodic benefit costs - pension and postretirement plans, which is a component of restaurant labor expenses and selling, general and administrative expenses. See Note 17 for additional details.

(4) Included in the computation of net periodic benefit costs - other plans, which is a component of selling, general and administrative expenses.

NOTE 14 – LEASES

An analysis of rent expense incurred related to restaurants in continuing operations is as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Restaurant minimum rent	$ 146.4	$ 125.8	$ 100.6
Restaurant rent averaging expense	26.9	24.2	16.7
Restaurant percentage rent	6.6	6.0	4.9
Other	5.5	5.6	4.1
Total rent expense	$ 185.4	$ 161.6	$ 126.3

Total rent expense included in discontinued operations was $36.2 million , $34.6 million and $33.7 million for fiscal 2014, 2013 and 2012, respectively. These amounts include restaurant minimum rent of $33.0 million , $31.8 million and $30.3 million for fiscal 2014, 2013 and 2012, respectively.

The annual future lease commitments under capital lease obligations and noncancelable operating leases, including those related to restaurants reported as discontinued operations, for each of the five fiscal years subsequent to May 25, 2014 and thereafter is as follows:

(in millions)		
Fiscal Year	Capital	Operating
2015	$ 5.6	$ 204.7
2016	5.7	192.9
2017	5.8	175.1
2018	6.0	155.4
2019	6.0	130.5
Thereafter	56.6	375.2
Total future lease commitments	$ 85.7	$ 1,233.8
Less imputed interest (at 6.5%)	(31.4)	
Present value of future lease commitments	$ 54.3	
Less current maturities	(2.3)	
Obligations under capital leases, net of current maturities	$ 52.0	

NOTE 15 - INTEREST, NET

The components of interest, net are as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Interest expense	$ 134.0	$ 126.2	$ 102.7
Imputed interest on capital leases	3.5	3.6	3.7
Capitalized interest	(2.6)	(2.9)	(3.4)
Interest income	(0.6)	(0.9)	(0.9)
Interest, net	$ 134.3	$ 126.0	$ 102.1

Capitalized interest was computed using our average borrowing rate. Interest paid, net of amounts capitalized was as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Interest paid, net of amounts capitalized	$ 117.5	$ 112.6	$ 95.3

NOTE 16 - INCOME TAXES

Total income tax expense was allocated as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Earnings from continuing operations	$ (8.6)	$ 36.7	$ 75.9
Earnings from discontinued operations	32.3	72.7	84.9
Total consolidated income tax expense	$ 23.7	$ 109.4	$ 160.8

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

(in millions)	Fiscal Year		
	2014	2013	2012
Earnings from continuing operations before income taxes:			
U.S.	$ 189.2	$ 278.0	$ 351.0
Foreign	(14.6)	(4.0)	4.1
Earnings from continuing operations before income taxes	$ 174.6	$ 274.0	$ 355.1
Income taxes:			
Current:			
Federal	$ 39.5	$ 26.1	$ 25.5
State and local	5.4	7.9	11.6
Foreign	3.0	3.5	2.7
Total current	$ 47.9	$ 37.5	$ 39.8
Deferred (principally U.S.):			
Federal	(43.7)	6.9	37.6
State and local	(12.8)	(7.7)	(1.5)
Total deferred	$ (56.5)	$ (0.8)	$ 36.1
Total income taxes	$ (8.6)	$ 36.7	$ 75.9

Income taxes paid were as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Income taxes paid	$ 90.0	$ 98.5	$ 123.5

The following table is a reconciliation of the U.S. statutory income tax rate to the effective income tax rate from continuing operations included in the accompanying consolidated statements of earnings:

	Fiscal Year		
	2014	2013	2012
U.S. statutory rate	35.0 %	35.0 %	35.0 %
State and local income taxes, net of federal tax benefits	(2.7)	—	1.8
Benefit of federal income tax credits	(30.3)	(18.1)	(14.4)
Other, net	(6.9)	(3.5)	(1.0)
Effective income tax rate	(4.9)%	13.4 %	21.4 %

As of May 25, 2014 , we had estimated current prepaid state and federal income taxes of $0.9 million and $10.0 million , respectively, which are included on our accompanying consolidated balance sheets as prepaid income taxes.

As of May 25, 2014 , we had unrecognized tax benefits of $38.1 million , which represents the aggregate tax effect of the differences between tax return positions and benefits recognized in our consolidated financial statements, all of which would favorably affect the effective tax rate if resolved in our favor. A reconciliation of the beginning and ending amount of unrecognized tax benefits follows:

(in millions)	
Balances at May 26, 2013	$ 29.9
Additions related to current-year tax positions	10.0
Reductions related to prior-year tax positions	(2.1)
Additions due to settlements with taxing authorities	2.2
Reductions to tax positions due to statute expiration	(1.9)
Balances at May 25, 2014	$ 38.1

We recognize accrued interest related to unrecognized tax benefits in interest expense. Penalties, when incurred, are recognized in selling, general and administrative expense. Interest expense associated with unrecognized tax benefits, excluding the release of accrued interest related to prior year matters due to settlement or the lapse of the statute of limitations was as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Interest expense on unrecognized tax benefits	$ 0.4	$ 0.5	$ 0.4

At May 25, 2014 , we had $3.2 million accrued for the payment of interest associated with unrecognized tax benefits.

For U.S. federal income tax purposes, we participate in the Internal Revenue Service's (IRS) Compliance Assurance Process (CAP) whereby our U.S. federal income tax returns are reviewed by the IRS both prior to and after their filing. Income tax returns are subject to audit by state and local governments, generally years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws. The major jurisdictions in which the Company files income tax returns include the U.S. federal jurisdiction, Canada, and all states in the U.S. that have an income tax. With a few exceptions, the Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before fiscal 2013, and state and local, or non-U.S. income tax examinations by tax authorities for years before fiscal 2010.

Included in the balance of unrecognized tax benefits at May 25, 2014 is $27.4 million related to tax positions for which it is reasonably possible that the total amounts could change during the next 12 months based on the outcome of examinations. The $27.4 million relates to items that would impact our effective income tax rate.

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

(in millions)	May 25, 2014	May 26, 2013
Accrued liabilities	$ 111.0	$ 85.5
Compensation and employee benefits	216.3	212.9
Deferred rent and interest income	102.2	83.3
Net operating loss, credit and charitable contribution carryforwards	57.3	50.7
Other	7.9	6.8
Gross deferred tax assets	$ 494.7	$ 439.2
Valuation allowance	(16.5)	(15.4)
Deferred tax assets, net of valuation allowance	$ 478.2	$ 423.8
Trademarks and other acquisition related intangibles	(209.4)	(205.6)
Buildings and equipment	(396.1)	(403.2)
Capitalized software and other assets	(26.6)	(19.4)
Other	(8.2)	(7.4)
Gross deferred tax liabilities	$ (640.3)	$ (635.6)
Net deferred tax liabilities	$ (162.1)	$ (211.8)

Net operating loss, credit and charitable contribution carryforwards have the potential to expire. We have taken current and potential future expirations into consideration when evaluating the need for valuation allowances against these deferred tax assets. A valuation allowance for deferred tax assets is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Realization is dependent upon the generation of future taxable income or the reversal of deferred tax liabilities during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which our deferred tax assets are deductible, we believe it is more-likely-than-not that we will realize the benefits of these deductible differences, net of the existing valuation allowances at May 25, 2014.

NOTE 17 - RETIREMENT PLANS

Defined Benefit Plans and Postretirement Benefit Plan

Certain of our employees are eligible to participate in a retirement plan. We sponsor non-contributory defined benefit pension plans, which have been frozen, for a group of salaried employees in the United States, in which benefits are based on various formulas that include years of service and compensation factors; and for a group of hourly employees in the United States, in which a fixed level of benefits is provided. Pension plan assets are primarily invested in U.S. and International equities as well as long-duration bonds and real estate investments. Our policy is to fund, at a minimum, the amount necessary on an actuarial basis to provide for benefits in accordance with the requirements of the Employee Retirement Income Security Act of 1974, as amended and the Internal Revenue Code (IRC), as amended by the Pension Protection Act of 2006. We also sponsor a contributory postretirement benefit plan that provides health care benefits to our salaried retirees. Fundings related to the defined benefit pension plans and postretirement benefit plans, which are funded on a pay-as-you-go basis, were as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Defined benefit pension plans funding	$ 0.4	$ 2.4	$ 22.2
Postretirement benefit plan funding	0.9	0.8	0.5

We expect to contribute approximately $0.4 million to our defined benefit pension plans and approximately $1.1 million to our postretirement benefit plan during fiscal 2015 .

We are required to recognize the over-or-under-funded status of the plans as an asset or liability as measured by the difference between the fair value of the plan assets and the benefit obligation and any unrecognized prior service costs and actuarial gains and losses as a component of accumulated other comprehensive income (loss), net of tax.

During fiscal 2014, we amended our defined benefit pension plan to freeze all plan benefits as of December 31, 2014 and to provide an additional year of benefit service for all final average pay participants accruing benefits and employed as of the effective date of the freeze. However, interest credits will continue for cash balance participants. As a result of these changes, we recorded a $6.4 million curtailment gain into unrecognized loss and recognized a $0.6 million net prior service credit into net periodic benefit cost.

The following provides a reconciliation of the changes in the plan benefit obligation, fair value of plan assets and the funded status of the plans as of May 25, 2014 and May 26, 2013 :

(in millions)	Defined Benefit Plans		Postretirement Benefit Plan	
	2014	2013	2014	2013
Change in Benefit Obligation:				
Benefit obligation at beginning of period	$ 276.8	$ 274.4	$ 29.9	$ 29.6
Service cost	4.4	4.7	0.7	0.8
Interest cost	10.2	9.9	1.4	1.3
Plan amendments	(0.6)	—	—	—
Plan curtailments	(6.4)	—	(4.8)	—
Participant contributions	—	—	0.5	0.4
Benefits paid	(13.3)	(11.2)	(1.4)	(1.2)
Actuarial loss (gain)	12.8	(1.0)	12.2	(1.0)
Benefit obligation at end of period	$ 283.9	$ 276.8	$ 38.5	$ 29.9
Change in Plan Assets:				
Fair value at beginning of period	$ 234.1	$ 203.5	$ —	$ —
Actual return on plan assets	22.7	39.4	—	—
Employer contributions	0.4	2.4	0.9	0.8
Participant contributions	—	—	0.5	0.4
Benefits paid	(13.3)	(11.2)	(1.4)	(1.2)
Fair value at end of period	$ 243.9	$ 234.1	$ —	$ —
Reconciliation of the Plans' Funded Status:				
Unfunded status at end of period	$ (40.0)	$ (42.7)	$ (38.5)	$ (29.9)

The following is a detail of the balance sheet components of each of our plans and a reconciliation of the amounts included in accumulated other comprehensive income (loss):

(in millions)	Defined Benefit Plans		Postretirement Benefit Plan	
	May 25, 2014	May 26, 2013	May 25, 2014	May 26, 2013
Components of the Consolidated Balance Sheets:				
Current liabilities	$ —	$ —	$ 1.1	$ —
Non-current liabilities	40.0	42.7	37.4	29.9
Net amounts recognized	$ 40.0	$ 42.7	$ 38.5	$ 29.9
Amounts Recognized in Accumulated Other Comprehensive Income (Loss), net of tax:				
Prior service (cost) credit	$ —	$ (0.2)	$ —	$ 0.1
Net actuarial loss	(64.0)	(69.0)	(5.8)	(1.3)
Net amounts recognized	$ (64.0)	$ (69.2)	$ (5.8)	$ (1.2)

The following is a summary of our accumulated and projected benefit obligations:

(in millions)	May 25, 2014	May 26, 2013
Accumulated benefit obligation for all pension plans	$ 283.3	$ 267.6
Pension plans with accumulated benefit obligations in excess of plan assets:		
Accumulated benefit obligation	283.3	267.6
Fair value of plan assets	243.9	234.1
Projected benefit obligations for all plans with projected benefit obligations in excess of plan assets	283.9	276.8

The following table presents the weighted-average assumptions used to determine benefit obligations and net expense:

	Defined Benefit Plans		Postretirement Benefit Plan	
	2014	2013	2014	2013
Weighted-average assumptions used to determine benefit obligations at May 25 and May 26 (1)				
Discount rate	4.41%	4.60%	4.45%	4.74%
Rate of future compensation increases	3.86%	4.04%	N/A	N/A
Weighted-average assumptions used to determine net expense for fiscal years ended May 25 and May 26 (2)				
Discount rate	4.60%	4.35%	4.74%	4.52%
Expected long-term rate of return on plan assets	8.00%	9.00%	N/A	N/A
Rate of future compensation increases	4.04%	4.22%	N/A	N/A

(1) Determined as of the end of fiscal year.

(2) Determined as of the beginning of fiscal year.

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

We reduced our expected long-term rate of return on plan assets for our defined benefit plan from 9.0 percent , used in fiscal 2013 and 2012 , to 8.0 percent for fiscal 2014 in connection with our current expectations for long-term returns and target asset fund allocation. In developing our expected rate of return assumption, we have evaluated the actual historical performance and long-term return projections of the plan assets, which give consideration to the asset mix and the anticipated timing of the pension plan outflows. We employ a total return investment approach whereby a mix of equity and fixed-income investments are used to maximize the long-term return of plan assets for what we consider a prudent level of risk. Our historical 10-year, 15-year and 20-year rates of return on plan assets, calculated using the geometric method average of returns, are approximately 9.3 percent , 8.4 percent and 9.9 percent , respectively, as of May 25, 2014 . Our Benefit Plans Committee sets the investment policy for the Defined Benefit Plans and oversees the investment allocation, which includes setting long-term strategic targets. Our overall investment strategy is to achieve appropriate diversification through a mix of equity investments, which may include U.S., International, and private equities, as well as long-duration bonds and real estate investments. Currently, our target asset fund allocation is 37.0 percent U.S. equities, 40.0 percent high-quality, long-duration fixed-income securities, 18.5 percent international equities and 4.5 percent real estate securities. Prior to fiscal 2014, our target asset fund allocation was 40.0 percent U.S. equities, 35.0 percent high-quality, long-duration fixed-income securities, 20.0 percent international equities and 5.0 percent real estate securities. The investment policy establishes a re-balancing band around the established targets within which the asset class weight is allowed to vary. Equity securities, international equities and fixed-income securities include investments in various industry sectors. Investments in real estate securities follow different strategies designed to maximize returns, allow for diversification and provide a hedge against inflation. Our current positioning is neutral on investment style between value and growth companies and large and small cap companies. We monitor our actual asset fund allocation to ensure that it approximates our target allocation and believe that our long-term asset fund allocation will continue to approximate our target allocation. Investments held in the U.S. commingled fund, U.S. corporate securities, an international commingled fund, U.S. government fixed-income securities, an emerging markets commingled fund and public sector utility securities represented approximately 35.9 percent , 19.7 percent , 12.8 percent , 11.3 percent , 5.5 percent and 5.4 percent , respectively, of

total plan assets and represents the only significant concentrations of risk related to a single entity, sector, country, commodity or investment fund. No other single sector concentration of assets exceeded 5.0 percent of total plan assets.

The discount rate and expected return on plan assets assumptions have a significant effect on amounts reported for defined benefit pension plans. A quarter percentage point change in the defined benefit plans' discount rate and the expected long-term rate of return on plan assets would increase or decrease earnings before income taxes by $0.6 million and $0.5 million , respectively.

The assumed health care cost trend rate increase in the per-capita charges for postretirement benefits was 6.8 percent for fiscal 2015 . The rate gradually decreases to 5.0 percent through fiscal 2021 and remains at that level thereafter.

The assumed health care cost trend rate has a significant effect on amounts reported for retiree health care plans. A one percentage point increase or decrease in the assumed health care cost trend rate would affect the service and interest cost components of net periodic postretirement benefit cost by $0.5 million and $0.4 million , respectively, and would increase or decrease the accumulated postretirement benefit obligation by $7.4 million and $5.9 million , respectively.

Components of net periodic benefit cost included in continuing operations are as follows:

(in millions)	Defined Benefit Plans			Postretirement Benefit Plan		
	2014	2013	2012	2014	2013	2012
Service cost	$ 4.4	$ 4.7	$ 5.1	$ 0.7	$ 0.8	$ 0.8
Interest cost	10.2	9.9	9.6	1.4	1.3	1.5
Expected return on plan assets	(17.1)	(19.4)	(17.8)	—	—	—
Amortization of unrecognized prior service cost	0.1	0.1	0.1	(0.1)	(0.1)	(0.1)
Recognized net actuarial loss	9.0	8.8	8.2	—	—	—
Curtailment gain recognized	(0.5)	—	—	—	—	—
Net pension and postretirement cost (benefit)	$ 6.1	$ 4.1	$ 5.2	$ 2.0	$ 2.0	$ 2.2

The amortization of the net actuarial loss component of our fiscal 2015 net periodic benefit cost for the defined benefit plans and postretirement benefit plan is expected to be approximately $2.6 million and $0.5 million , respectively.

The fair values of the defined benefit pension plans assets at their measurement dates of May 25, 2014 and May 26, 2013 , are as follows:

		Items Measured at Fair Value at May 25, 2014			
(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)
Equity:					
U.S. Commingled Funds	(1)	$ 87.5	$ —	$ 87.5	$ —
International Commingled Funds	(2)	31.2	—	31.2	—
Emerging Market Commingled Funds	(3)	13.3	—	13.3	—
Real Estate Commingled Funds	(4)	10.5	—	10.5	—
Fixed-Income:					
U.S. Treasuries	(5)	27.6	27.6	—	—
U.S. Corporate Securities	(5)	48.0	—	48.0	—
International Securities	(5)	10.0	—	10.0	—
Public Sector Utility Securities	(5)	13.1	—	13.1	—
Cash & Accruals		2.7	2.7	—	—
Total		$ 243.9	$ 30.3	$ 213.6	$ —

		Items Measured at Fair Value at May 26, 2013			
(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)
Equity:					
U.S. Commingled Funds	(1)	$ 97.2	$ —	$ 97.2	$ —
International Commingled Funds	(2)	33.4	—	33.4	—
Emerging Market Commingled Funds	(3)	13.8	—	13.8	—
Real Estate Commingled Funds	(4)	11.6	—	11.6	—
Fixed-Income:					
U.S. Treasuries	(5)	16.3	16.3	—	—
U.S. Corporate Securities	(5)	42.5	—	42.5	—
International Securities	(5)	8.2	—	8.2	—
Public Sector Utility Securities	(5)	9.4	—	9.4	—
Cash & Accruals		1.7	1.7	—	—
Total		$ 234.1	$ 18.0	$ 216.1	$ —

(1) U.S. commingled funds are comprised of investments in funds that purchase publicly traded U.S. common stock for total return purposes. Investments are valued at unit values provided by the investment managers which are based on the fair value of the underlying investments. There are no redemption restrictions associated with these funds.

(2) International commingled funds are comprised of investments in funds that purchase publicly traded non-U.S. common stock for total return purposes. Investments are valued at unit values provided by the investment managers which are based on the fair value of the underlying investments. There are no redemption restrictions associated with these funds.

(3) Emerging market commingled funds and developed market securities are comprised of investments in funds that purchase publicly traded common stock of non-U.S. companies for total return purposes. Funds are valued at unit values provided by the investment managers which are based on the fair value of the underlying investments. There are no redemption restrictions associated with these funds.

(4) Real estate commingled funds are comprised of investments in funds that purchase publicly traded common stock of real estate securities for purposes of total return. These investments are valued at unit values provided by the investment managers which are based on the fair value of the underlying investments. There are no redemption restrictions associated with these funds.

(5) Fixed-income securities are comprised of investments in government and corporate debt securities. These securities are valued by the trustee at closing prices from national exchanges or pricing vendors on the valuation date.

The following benefit payments are expected to be paid between fiscal 2015 and fiscal 2025 :

(in millions)	Defined Benefit Plans	Postretirement Benefit Plan
2015	$ 21.2	$ 1.1
2016	10.2	1.2
2017	10.6	1.2
2018	11.1	1.3
2019	11.5	1.4
2020-2025	68.7	8.5

Postemployment Severance Plan

We accrue for postemployment severance costs in our consolidated financial statements and recognize actuarial gains and losses related to our postemployment severance accrual as a component of accumulated other comprehensive income (loss). As of May 25, 2014 and May 26, 2013 , $3.1 million and $6.1 million , respectively, of unrecognized actuarial losses related to our postemployment severance plan were included in accumulated other comprehensive income (loss) on a net of tax basis.

Defined Contribution Plan

We have a defined contribution (401(k)) plan covering most employees age 21 and older. We match contributions for participants with at least one year of service up to 6 percent of compensation, based on our performance. The match ranges from a minimum of $0.25 to $1.20 for each dollar contributed by the participant. The plan had net assets of $729.1 million at May 25, 2014 and $719.0 million at May 26, 2013 . Expense recognized in fiscal 2014 , 2013 and 2012 was $0.7 million , $0.9 million and $0.9 million , respectively. Employees classified as “highly compensated” under the IRC are not eligible to participate in this plan. Instead, highly compensated employees are eligible to participate in a separate non-qualified deferred compensation (FlexComp) plan. This plan allows eligible employees to defer the payment of part of their annual salary and all or part of their annual bonus and provides for awards that approximate the matching contributions and other amounts that participants would have received had they been eligible to participate in our defined contribution and defined benefit plans. Amounts payable to highly compensated employees under the FlexComp plan totaled $228.8 million and $224.3 million at May 25, 2014 and May 26, 2013 , respectively. These amounts are included in other current liabilities.

The defined contribution plan includes an Employee Stock Ownership Plan (ESOP). The ESOP borrowed $16.9 million from us at a variable rate of interest in July 1996. At May 25, 2014 , the ESOP’s original debt to us had a balance of $4.1 million with a variable rate of interest of 0.15 percent and is due to be repaid no later than December 2014 . At the end of fiscal 2005, the ESOP borrowed an additional $1.6 million (Additional Loan) from us at a variable interest rate and acquired an additional 0.05 million shares of our common stock, which were held in suspense within the ESOP at that time. At May 25, 2014 , the Additional Loan had a balance of $1.3 million with a variable interest rate of 0.23 percent and is due to be repaid no later than December 2018. Compensation expense is recognized as contributions are accrued. Fluctuations in our stock price impact the amount of expense to be recognized. Contributions to the plan, plus the dividends accumulated on unallocated shares held by the ESOP, are used to pay principal, interest and expenses of the plan. As loan payments are made, common stock is allocated to ESOP participants. In each of the fiscal years 2014 , 2013 and 2012 , the ESOP used dividends received of $0.9 million , $1.0 million and $1.9 million , respectively, and contributions received from us of $0.0 million , $0.1 million and $0.5 million , respectively, to pay principal and interest on our debt.

ESOP shares are included in weighted-average common shares outstanding for purposes of calculating net earnings per share with the exception of those shares acquired under the Additional Loan which are accounted for in accordance with FASB ASC Subtopic 718-40, Employee Stock Ownership Plans. Fluctuations in our stock price are recognized as adjustments to common stock and surplus when the shares are committed to be released. The ESOP shares acquired under the Additional Loan are not considered outstanding until they are committed to be released and, therefore, unreleased shares have been excluded for purposes of calculating basic and diluted net earnings per share. As of May 25, 2014 , the ESOP shares included in the basic and diluted net earnings per share calculation totaled 4.0 million shares, representing 3.2 million allocated shares and 0.8 million suspense shares.

NOTE 18 - STOCK-BASED COMPENSATION

We maintain two active stock option and stock grant plans under which new awards may still be issued, known as the Darden Restaurants, Inc. 2002 Stock Incentive Plan (2002 Plan) and the RARE Hospitality International, Inc. Amended and Restated 2002 Long-Term Incentive Plan (RARE Plan). We also have four other stock option and stock grant plans under which we no longer can grant new awards, although awards outstanding under the plans may still vest and be exercised in accordance with their terms: the Stock Plan for Directors (Director Stock Plan); the Director Compensation Plan; the Stock Option and Long-Term Incentive Plan of 1995 (1995 Plan) and the Restaurant Management and Employee Stock Plan of 2000 (2000 Plan). All of the plans are administered by the Compensation Committee of the Board of Directors. The 2002 Plan provides for the issuance of up to 25.1 million common shares in connection with the granting of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units (RSUs), stock awards and other stock-based awards including performance stock units and Darden stock units to key employees and non-employee directors. The RARE Plan provides for the issuance of up to 3.9 million common shares in connection with the granting of non-qualified stock options, incentive stock options and restricted stock to employees. Awards under the RARE Plan are only permitted to be granted to employees who were employed by RARE as of the date of acquisition and continued their employment with the Company. The Director Stock Plan provided for the issuance of up to 0.375 million common shares out of our treasury in connection with the granting of non-qualified stock options, restricted stock and RSUs to non-employee directors. No new awards could be granted under the Director Stock Plan after September 30, 2000. The Director Compensation Plan provided for the issuance of 0.1 million common shares out of our treasury to non-employee directors. No new awards could be granted under the Director Compensation Plan after September 30, 2005. The 1995 Plan provided for the issuance of up to 33.3 million common shares in connection with the granting of non-qualified stock options, restricted stock or RSUs to key employees. The 2000 Plan provided for the issuance of up to 5.4 million shares of common stock out of our treasury as non-qualified stock options, restricted stock or RSUs. Under all of these plans, stock options are granted at a price equal to the fair value of the shares at the date of grant for terms not exceeding 10 years and have various vesting periods at the discretion of the Compensation Committee. Outstanding options generally vest over one to four years. Restricted stock and RSUs granted under the 1995 Plan, the 2000 Plan and the 2002 Plan generally vest over periods ranging from three to five years and no sooner than one year from the date of grant. Performance Stock Units granted under the 2002 Plan generally vest over a three -year period, and vested amounts may range from 0.0 to 150.0 percent of targeted amounts depending on the achievement of certain sales and diluted net earnings per share performance measures. Darden stock units granted under the 2002 Plan generally vest over a five -year period, with no performance vesting feature.

On December 15, 2005, the Board of Directors approved the Director Compensation Program, effective as of October 1, 2005, for Non-Employee Directors. The Director Compensation Program provides for payments to non-employee directors of: (a) an annual retainer and meeting fees for special Board meetings and committee meetings; (b) an additional annual retainer for the Lead Director and committee chairs; and (c) an annual award of common stock with a fair value of $0.1 million on the date of grant upon election or re-election to the Board. Directors may elect to have their cash compensation paid in any combination of current or deferred cash, common stock or salary replacement options. Deferred cash compensation may be invested on a tax-deferred basis in the same manner as deferrals under our non-qualified deferred compensation plan. Prior to the date of grant, directors may elect to have their annual stock award paid in the form of common stock or cash, or a combination thereof, or deferred. To the extent directors elect to receive cash or cash settled awards, the value of the awards are carried as a liability on our consolidated balance sheet at fair value until such time as it is settled. All stock options and other stock or stock-based awards that are part of the compensation paid or deferred pursuant to the Director Compensation Program are awarded under the 2002 Plan.

Stock-based compensation expense included in continuing operations was as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Stock options	$ 19.3	$ 16.3	$ 16.6
Restricted stock/restricted stock units	0.9	2.1	3.8
Darden stock units	12.3	13.6	11.9
Performance stock units	2.5	4.7	11.3
Employee stock purchase plan	1.8	1.8	1.8
Director compensation program/other	1.9	1.5	1.3
	$ 38.7	$ 40.0	$ 46.7

The following table presents a summary of our stock option activity as of and for the year ended May 25, 2014 :

	Options (in millions)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Yrs)	Aggregate Intrinsic Value (in millions)
Outstanding beginning of period	11.6	$38.81	5.47	$162.6
Options granted	1.7	48.32		
Options exercised	(1.8)	28.57		
Options canceled	(0.3)	47.21		
Outstanding end of period	11.2	$41.66	5.57	$91.0
Exercisable	6.5	$36.62	3.76	$84.6

The total intrinsic value of options exercised during fiscal 2014 , 2013 and 2012 was $39.9 million , $47.1 million and $49.7 million , respectively. Cash received from option exercises during fiscal 2014 , 2013 and 2012 was $50.9 million , $57.0 million and $62.9 million , respectively. Stock options have a maximum contractual period of 10 years from the date of grant. We settle employee stock option exercises with authorized but unissued shares of Darden common stock or treasury shares we have acquired through our ongoing share repurchase program.

As of May 25, 2014 , there was $26.5 million of unrecognized compensation cost related to unvested stock options granted under our stock plans. This cost is expected to be recognized over a weighted-average period of 2.1 years. The total fair value of stock options that vested during fiscal 2014 was $20.5 million .

Restricted stock and RSUs are granted at a value equal to the market price of our common stock on the date of grant. Restrictions lapse with regard to restricted stock, and RSUs are settled in shares, at the end of their vesting periods, which is generally four years.

The following table presents a summary of our restricted stock and RSU activity as of and for the fiscal year ended May 25, 2014 :

	Shares (in millions)	Weighted-Average Grant Date Fair Value Per Share
Outstanding beginning of period	0.2	$35.13
Shares granted	0.1	49.24
Shares vested	(0.1)	35.12
Outstanding end of period	0.2	$39.04

As of May 25, 2014 , there was $4.1 million of unrecognized compensation cost related to unvested restricted stock and RSUs granted under our stock plans. This cost is expected to be recognized over a weighted-average period of 2.8 years. The total fair value of restricted stock and RSUs that vested during fiscal 2014 , 2013 and 2012 was $2.3 million , $5.5 million and $10.0 million , respectively.

Darden stock units are granted at a value equal to the market price of our common stock on the date of grant and will be settled in cash at the end of their vesting periods, which range between four and five years, at the then market price of our common stock. Compensation expense is measured based on the market price of our common stock each period, is amortized over the vesting period and the vested portion is carried as a liability on our accompanying consolidated balance sheets. We also entered into equity forward contracts to hedge the risk of changes in future cash flows associated with the unvested, unrecognized Darden stock units granted (see Note 10 – Derivative Instruments and Hedging Activities for additional information).

The following table presents a summary of our Darden stock unit activity as of and for the fiscal year ended May 25, 2014 :

(All units settled in cash)	Units (in millions)	Weighted-Average Fair Value Per Unit
Outstanding beginning of period	2.2	$52.83
Units granted	0.6	49.11
Units vested	(0.5)	48.87
Units canceled	(0.2)	46.20
Outstanding end of period	2.1	$49.55

As of May 25, 2014 , our total Darden stock unit liability was $57.3 million , including $32.8 million recorded in other current liabilities and $24.5 million recorded in other liabilities on our consolidated balance sheets. As of May 26, 2013 , our total Darden stock unit liability was $61.1 million , including $19.9 million recorded in other current liabilities and $41.2 million recorded in other liabilities on our consolidated balance sheets.

Based on the value of our common stock as of May 25, 2014 , there was $42.3 million of unrecognized compensation cost related to Darden stock units granted under our incentive plans. This cost is expected to be recognized over a weighted-average period of 2.9 years. The total fair value of Darden stock units that vested during fiscal 2014 was $22.7 million .

The following table presents a summary of our performance stock unit activity as of and for the fiscal year ended May 25, 2014 :

(All units settled in cash)	Units (in millions)	Weighted-Average Fair Value Per Unit
Outstanding beginning of period	0.9	$36.83
Units granted	0.3	48.63
Units vested	(0.2)	49.08
Units canceled	(0.2)	41.74
Performance unit adjustment	(0.5)	49.90
Outstanding end of period	0.3	$49.55

As of May 25, 2014 , our total performance stock unit liability was $9.5 million , including $5.3 million recorded in other current liabilities and $4.2 million recorded in other liabilities on our consolidated balance sheets. As of May 26, 2013 , our total performance stock unit liability was $16.8 million , including $9.0 million recorded in other current liabilities and $7.8 million recorded in other liabilities on our consolidated balance sheets.

Performance stock units cliff vest three years from the date of grant, where 0.0 percent to 150.0 percent of the entire grant is earned or forfeited at the end of three years. The number of units that actually vests will be determined for each year based on the achievement of Company performance criteria set forth in the award agreement and may range from 0.0 percent to 150.0 percent of the annual target. All awards will be settled in cash. The awards are measured based on the market price of our common stock each period, are amortized over the service period and the vested portion is carried as a liability in our accompanying consolidated balance sheets. As of May 25, 2014 , there was $5.3 million of unrecognized compensation cost related to unvested performance stock units granted under our stock plans. This cost is expected to be recognized over a weighted-average period of 1.7 years. The total fair value of performance stock units that vested in fiscal 2014 was $8.8 million .

We maintain an Employee Stock Purchase Plan to provide eligible employees who have completed one year of service (excluding senior officers subject to Section 16(b) of the Securities Exchange Act of 1934, and certain other employees who are employed less than full time or own 5 percent or more of our capital stock or that of any subsidiary) an opportunity to invest up to $5.0 thousand per calendar quarter to purchase shares of our common stock, subject to certain limitations. Under the plan, up to an aggregate of 3.6 million shares are available for purchase by employees at a purchase price that is 85.0 percent of the fair market value of our common stock on either the first or last trading day of each calendar quarter, whichever is lower. Cash received from employees pursuant to the plan during fiscal 2014 , 2013 and 2012 was $7.2 million , $7.3 million and $7.2 million , respectively.

NOTE 19 - COMMITMENTS AND CONTINGENCIES

As collateral for performance on contracts and as credit guarantees to banks and insurers, we were contingently liable for guarantees of subsidiary obligations under standby letters of credit. At May 25, 2014 and May 26, 2013 , we had $113.5 million and $107.0 million , respectively, of standby letters of credit related to workers' compensation and general liabilities accrued in our consolidated financial statements. At May 25, 2014 and May 26, 2013 , we had $17.8 million and $20.6 million , respectively, of standby letters of credit related to contractual operating lease obligations and other payments. All standby letters of credit are renewable annually.

At May 25, 2014 and May 26, 2013 , we had $3.4 million and $4.2 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 at May 25, 2014 and May 26, 2013 , amounted to $2.7 million and $3.4 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 2015 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. The following is a brief description of the more significant of these matters.

In September 2012, a collective action under the Fair Labor Standards Act was filed in the United States District Court for the Southern District of Florida, *Alequin v. Darden Restaurants, Inc.*, in which named plaintiffs claim that the Company required or allowed certain employees at Olive Garden, Red Lobster, LongHorn Steakhouse, Bahama Breeze and Seasons 52 to work off the clock and required them to perform tasks unrelated to their tipped duties while taking a tip credit against their hourly rate of pay. The plaintiffs seek an unspecified amount of alleged back wages, liquidated damages, and attorneys' fees. In July 2013, the United States District Court for the Southern District of Florida conditionally certified a nationwide class of servers and bartenders who worked in the aforementioned restaurants at any point from September 6, 2009 through September 6, 2012. Unlike a class action, a collective action requires potential class members to "opt in" rather than "opt out" following the issuance of a notice. Out of the approximately 217,000 opt-in notices distributed, 20,225 were returned. In June 2014, the Company filed a motion seeking to have the class de-certified. We believe that our wage and hour policies comply with the law and that we have meritorious defenses to the substantive claims and strong defenses supporting de-certification. An estimate of the possible loss, if any, or the range of loss cannot be made at this stage of the proceeding.

In November, 2011, a lawsuit entitled *ChHab v. Darden Restaurants, Inc.* was filed in the United States District Court for the Southern District of New York alleging a collective action under the Fair Labor Standards Act and a class action under the applicable New York state wage and hour statutes. The named plaintiffs claim that the Company required or allowed certain employees at The Capital Grille to work off the clock, share tips with individuals who polished silverware to assist the plaintiffs, and required the plaintiffs to perform tasks unrelated to their tipped duties while taking a tip credit against their hourly rate of pay. The plaintiffs seek an unspecified amount of alleged back wages, liquidated damages, and attorneys' fees. In September 2013, the United States District Court for the Southern District of New York conditionally certified a nationwide class for the Fair Labor Standards Act claims only of tipped employees who worked in the aforementioned restaurants at any point from November 17, 2008 through September 19, 2013. Potential class members are required to "opt in" rather than "opt out" following the issuance of a notice. Out of the approximately 3,200 opt-in notices distributed, 541 were returned. As with the *Alequin* matter, the Company will have an opportunity to seek to have the class de-certified and/or seek to have the case dismissed on its merits. We believe that our wage and hour policies comply with the law and that we have meritorious defenses to the substantive claims in this matter. An estimate of the possible loss, if any, or the range of loss cannot be made at this stage of the proceeding.

NOTE 20 – SUBSEQUENT EVENT

On June 18, 2014 , the Board of Directors declared a cash dividend of $0.55 per share to be paid August 1, 2014 to all shareholders of record as of the close of business on July 10, 2014 .

NOTE 21 - QUARTERLY DATA (UNAUDITED)

The following table summarizes unaudited quarterly data for fiscal 2014 and fiscal 2013 :

	Fiscal 2014 - Quarters Ended				
(in millions, except per share data)	Aug. 25	Nov. 24	Feb. 23	May 25	Total
Sales	$ 1,531.5	$ 1,485.6	$ 1,618.5	$ 1,650.1	$ 6,285.6
Earnings before income taxes	49.8	1.8	89.1	33.9	174.6
Earnings from continuing operations	42.2	6.0	86.6	48.4	183.2
Earnings from discontinued operations, net of tax	28.0	13.8	23.1	38.1	103.0
Net earnings	70.2	19.8	109.7	86.5	286.2
Basic net earnings per share:					
Earnings from continuing operations	0.32	0.05	0.66	0.37	1.40
Earnings from discontinued operations	0.22	0.10	0.18	0.29	0.78
Net earnings	0.54	0.15	0.84	0.66	2.18
Diluted net earnings per share:					
Earnings from continuing operations	0.32	0.05	0.65	0.36	1.38
Earnings from discontinued operations	0.21	0.10	0.17	0.29	0.77
Net earnings	0.53	0.15	0.82	0.65	2.15
Dividends paid per share	0.55	0.55	0.55	0.55	2.20
Stock price:					
High	55.25	53.99	54.89	52.50	55.25
Low	46.62	44.78	47.05	47.83	44.78

	Fiscal 2013 - Quarters Ended				
(in millions, except per share data)	Aug. 26	Nov. 25	Feb. 24	May 26	Total
Sales	$ 1,373.3	$ 1,369.3	$ 1,586.0	$ 1,592.4	$ 5,921.0
Earnings before income taxes	75.6	9.5	105.7	83.1	274.0
Earnings from continuing operations	62.9	7.8	88.0	78.5	237.3
Earnings from discontinued operations, net of tax	47.9	25.8	46.4	54.7	174.6
Net earnings	110.8	33.6	134.4	133.2	411.9
Basic net earnings per share:					
Earnings from continuing operations	0.49	0.06	0.68	0.60	1.84
Earnings from discontinued operations	0.37	0.20	0.36	0.43	1.35
Net earnings	0.86	0.26	1.04	1.03	3.19
Diluted net earnings per share:					
Earnings from continuing operations	0.48	0.06	0.67	0.59	1.80
Earnings from discontinued operations	0.37	0.20	0.35	0.42	1.33
Net earnings	0.85	0.26	1.02	1.01	3.13
Dividends paid per share	0.50	0.50	0.50	0.50	2.00
Stock price:					
High	54.09	57.93	54.19	54.21	57.93
Low	48.39	50.00	44.11	44.81	44.11

Five-Year Financial Summary

Financial Review 2014

(Dollars in millions, except per share data)	Fiscal Year Ended May 25, 2014	May 26, 2013	May 27, 2012	May 29, 2011	May 30, 2010
Operating Results (1)					
Sales	$ 6,285.6	$ 5,921.0	$ 5,327.1	$ 4,980.3	$ 4,626.8
Costs and expenses:					
Cost of sales:					
Food and beverage	1,892.2	1,743.6	1,553.7	1,393.4	1,279.1
Restaurant labor	2,017.6	1,892.6	1,683.6	1,600.6	1,531.0
Restaurant expenses	1,080.7	980.4	851.0	791.9	739.5
Total cost of sales, excluding restaurant depreciation and amortization (2)	$ 4,990.5	$ 4,616.6	$ 4,088.3	$ 3,785.9	$ 3,549.6
Selling, general and administrative	663.5	625.4	540.1	538.9	497.9
Depreciation and amortization	304.4	278.3	241.3	218.6	205.6
Interest, net	134.3	126.0	102.1	94.0	94.1
Asset impairment, net	18.3	0.7	0.2	1.8	4.9
Total costs and expenses	$ 6,111.0	$ 5,647.0	$ 4,972.0	$ 4,639.2	$ 4,352.1
Earnings before income taxes	174.6	274.0	355.1	341.1	274.7
Income taxes	(8.6)	36.7	75.9	71.2	52.0
Earnings from continuing operations	$ 183.2	$ 237.3	$ 279.2	$ 269.9	$ 222.7
Earnings from discontinued operations, net of tax expense of $32.3, $72.7, $84.9, $96.2 and $83.1	103.0	174.6	196.3	206.4	181.8
Net earnings	$ 286.2	$ 411.9	$ 475.5	$ 476.3	$ 404.5
Basic net earnings per share:					
Earnings from continuing operations	$ 1.40	$ 1.84	$ 2.15	$ 1.97	$ 1.60
Earnings from discontinued operations	$ 0.78	$ 1.35	$ 1.50	$ 1.51	$ 1.30
Net earnings	$ 2.18	$ 3.19	$ 3.65	$ 3.48	$ 2.90
Diluted net earnings per share:					
Earnings from continuing operations	$ 1.38	$ 1.80	$ 2.10	$ 1.92	$ 1.56
Earnings from discontinued operations	$ 0.77	$ 1.33	$ 1.47	$ 1.47	$ 1.28
Net earnings	$ 2.15	$ 3.13	$ 3.57	$ 3.39	$ 2.84
Average number of common shares outstanding:					
Basic	131.0	129.0	130.1	136.8	139.3
Diluted	133.2	131.6	133.2	140.3	142.4
Financial Position					
Total assets	$ 7,100.7	$ 6,936.9	$ 5,944.2	$ 5,466.6	$ 5,276.1
Land, buildings and equipment, net	$ 3,381.0	$ 4,391.1	$ 3,951.3	$ 3,622.0	$ 3,403.7
Working capital (deficit)	$ 357.9	$ (651.5)	$ (1,016.5)	$ (623.0)	$ (519.6)
Long-term debt, less current portion	$ 2,481.4	$ 2,496.2	$ 1,453.7	$ 1,407.3	$ 1,408.7
Stockholders' equity	$ 2,156.9	$ 2,059.5	$ 1,842.0	$ 1,936.2	$ 1,894.0
Stockholders' equity per outstanding share	$ 16.30	$ 15.81	$ 14.28	$ 14.38	$ 13.47

Five-Year Financial Summary (continued)

(Dollars in millions, except per share data)	Fiscal Year Ended May 25, 2014	May 26, 2013	May 27, 2012	May 29, 2011	May 30, 2010
Other Statistics					
Cash flows from operations (1)	$ 555.4	$ 594.4	$ 513.5	$ 591.3	$ 558.8
Capital expenditures (1)	$ 414.8	$ 510.1	$ 457.6	$ 397.7	$ 334.6
Dividends paid	$ 288.3	$ 258.2	$ 223.9	$ 175.5	$ 140.0
Dividends paid per share	$ 2.20	$ 2.00	$ 1.72	$ 1.28	$ 1.00
Advertising expense (1)	$ 252.3	$ 241.1	$ 215.6	$ 205.4	$ 185.0
Stock price:					
High	$ 55.25	$ 57.93	$ 55.84	$ 52.12	$ 49.01
Low	$ 44.78	$ 44.11	$ 40.69	$ 37.08	$ 29.94
Close	$ 49.55	$ 52.83	$ 53.06	$ 50.92	$ 42.90
Number of employees	206,489	206,578	181,468	178,380	174,079
Number of restaurants (1)	1,501	1,431	1,289	1,196	1,130

(1) Consistent with our consolidated financial statements, information has been presented on a continuing operations basis. Accordingly, the activities related to Red Lobster, two closed synergy restaurants, Smokey Bones, Rocky River Grillhouse and the nine Bahama Breeze restaurants closed or sold in fiscal 2007 and 2008 have been excluded.

(2) Excludes restaurant depreciation and amortization of $282.3 million , $257.5 million , $219.3 million , $197.5 million and $188.3 million , respectively.

EXHIBIT 21

SUBSIDIARIES OF DARDEN RESTAURANTS, INC.

As of May 25, 2014, we had seven "significant subsidiaries", as defined in Regulation S-X, Rule 1-02(w), identified as follows:

GMRI, Inc., a Florida corporation, doing business as Olive Garden, Red Lobster, Bahama Breeze and Seasons 52.

RARE Hospitality International, Inc., a Georgia corporation, doing business as Olive Garden, LongHorn Steakhouse and The Capital Grille.

N and D Restaurants, Inc., a Florida corporation, doing business as Olive Garden, Red Lobster, Bahama Breeze, Seasons 52, Eddie V's Prime Seafood and Wildfish Seafood Grille.

Darden SW, LLC, a Florida limited liability company, doing business as Olive Garden, Red Lobster, Seasons 52, Eddie V's Prime Seafood and Wildfish Seafood Grille.

Florida SE, Inc., a Florida corporation, doing business as Olive Garden, Red Lobster, LongHorn Steakhouse, Bahama Breeze, Seasons 52, Eddie V's Prime Seafood.

Yard House USA, Inc., a Delaware corporation, doing business as Yard House.

RARE Hospitality Management, Inc., a Delaware corporation, doing business as LongHorn Steakhouse and The Capital Grille. (a)

In addition, we also had the following subsidiaries:

Darden Corporation, a Florida corporation. (b)

(a) Two wholly-owned subsidiaries operating in the same line of business in the United States have been omitted.

(b) One wholly-owned subsidiary operating in the same line of business in the United States has been omitted.

EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Darden Restaurants, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-3 (Nos. 333-191491 and 3 33-169789) and on Form S-8 (Nos . 333-191490, 3 33-178876, 333-57410, 333-91579, 333-105056, 333-124363, 333-122560, 333-148260, 333-146464, 333-156557 and 333-169788) of Darden Restaurants, Inc. of our reports dated July 18, 2014, with respect to the consolidated balance sheets of Darden Restaurants, Inc. and subsidiaries as of May 25, 2014 and May 26, 2013, and the related consolidated statements of earnings, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended May 25, 2014, and the effectiveness of internal control over financial reporting as of May 25, 2014, which reports are included in the 2014 Annual Report to Shareholders included as an exhibit to this annual report on Form 10-K of Darden Restaurants, Inc.

/s/ KPMG LLP

Orlando, Florida
July 18, 2014
Certified Public Accountants

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL BY THESE PRESENTS, that the undersigned constitutes and appoints Teresa M. Sebastian, Clarence Otis, Jr. and Anthony G. Morrow, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for and in his or her name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the fiscal year ended May 25, 2014 and any and all amendments thereto and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises as fully to all intents and purposes as might or could be done in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, this Power of Attorney has been signed effective as of the 18th day of June, 2014, by the following persons.

By: /s/ Michael W. Barnes
Michael W. Barnes

By: /s/ Leonard L. Berry
Leonard L. Berry

By: /s/ Christopher J. Fraleigh
Christopher J. Fraleigh

By: /s/ Victoria D. Harker
Victoria D. Harker

By: /s/ David H. Hughes
David H. Hughes

By: /s/ Charles A. Ledsinger, Jr.
Charles A. Ledsinger, Jr.

By: /s/ William M. Lewis, Jr.
William M. Lewis, Jr.

By: /s/ Cornelius McGillicuddy, III
Cornelius McGillicuddy, III

By: /s/ Clarence Otis, Jr.
Clarence Otis, Jr.

By: /s/ Michael D. Rose
Michael D. Rose

By: /s/ Maria A. Sastre
Maria A. Sastre

By: /s/ William S. Simon
William S. Simon

EXHIBIT 31(a)

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Clarence Otis, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K of Darden Restaurants, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Clarence Otis, Jr.

Clarence Otis, Jr.
Chairman and Chief Executive Officer
July 18, 2014

EXHIBIT 31(b)

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, C. Bradford Richmond, certify that:

1. I have reviewed this Annual Report on Form 10-K of Darden Restaurants, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ C. Bradford Richmond

C. Bradford Richmond
Senior Vice President and Chief Financial Officer
July 18, 2014

EXHIBIT 32(a)

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Darden Restaurants, Inc. ("Company") on Form 10-K for the year ended May 25, 2014 , as filed with the Securities and Exchange Commission ("Report"), I, Clarence Otis, Jr., Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Clarence Otis, Jr.

Clarence Otis, Jr.
Chairman and Chief Executive Officer
July 18, 2014

EXHIBIT 32(b)

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Darden Restaurants, Inc. ("Company") on Form 10-K for the year ended May 25, 2014 , as filed with the Securities and Exchange Commission ("Report"), I, C. Bradford Richmond, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ C. Bradford Richmond

C. Bradford Richmond
Senior Vice President and Chief Financial Officer
July 18, 2014