



## DARDEN RESTAURANTS



## Fiscal 2002 MID - YEAR



## Shareholder REPORT



# T O O U R Shareholders

Given the extraordinarily challenging conditions that existed during the first half of the year, we are pleased to report strong first half results. This was driven by same-restaurant sales growth at both Red Lobster and Olive Garden that continued to outpace that of the casual dining industry as measured by Knapp-Track, as well as positive performance at each of our newer concepts, Bahama Breeze and Smokey Bones BBQ Sports Bar. We have solid core businesses, promising new concepts and an absolute commitment to strengthening each of our strategic building blocks - day-to-day operating excellence in our restaurants, continuous leadership development throughout the Company, service and hospitality that redefines casual dining, and ever-improving culinary expertise. With these as strategic strengths, we believe Darden will capitalize on the long-term growth of the casual dining industry, growth that will be propelled by favorable consumer lifestyle changes and long-term demographic trends.

For the first half of fiscal year 2002, sales of \$2.09 billion were 7.4% above last year. Net earnings were \$98.6 million, up from \$86.5 million the first half of last year, a 14.1% increase. Earnings per diluted share increased to 81 cents from 70 cents per diluted share the first half of last year, a 15.7% increase. These results include an unusual item that added \$1.4 million to earnings after tax. The item is a restructuring credit that resulted from reversal of a portion of the Company's fiscal 1997 restructuring reserve due primarily to favorable lease terminations. Excluding the unusual credit, earnings after tax in the first half of the year were \$97.2 million, or 80 cents per diluted share, a 14.3% increase.

These results came during a period which included the September 11 terrorist attacks on America that shocked and saddened all of us, and further depressed an already weakening economy. I am proud of Darden's contributions to the September 11 relief efforts. Our Olive Garden restaurant at Times Square closed for a week to be transformed into a Red Cross Rescue Relief Center, and throughout the country, our restaurants and employees donated blood, money and food to local charities. Darden also contributed \$1.5 million to the Red Cross Disaster Relief Fund through the Dine Out for America benefit the restaurant industry held on October 11. I am also proud of how ably our teams responded to the difficult economic environment. Our teams' success in placing even greater emphasis on providing every guest in every restaurant with service and value that exceeded their expectations is what drove Darden's impressive financial performance for the first half of the fiscal year.

Olive Garden's first half sales of \$904.7 million were 7.3% above the prior year. On a same-restaurant basis, sales were up 5.0%, compared to the 8.0% increase in the first half of last year. Olive Garden's sales improvement continued to be driven primarily by same-restaurant guest count increases, improved wine sales and operational excellence. This performance, combined with lower labor and marketing expenses as a percent of sales, generated a double-digit operating profit increase.

Olive Garden's impressive record of growth included a 4.2% same-restaurant sales increase in the first quarter and a 5.9% increase in the second quarter, which was the 29th consecutive quarter of same-restaurant sales increases. This is particularly strong coming on top of a 7.2% same-restaurant sales increase in the second quarter last year. The continued sales improvement reflects terrific

acceptance of the new menu, a higher check average, an increase in wine sales, and good response to new advertising highlighting Olive Garden's Culinary Institute of Tuscany in Italy. At the end of the second quarter, Olive Garden operated 484 restaurants, compared to 468 units at the same point last year. During the first half of fiscal 2002, eight new restaurants were opened and one was closed.

Red Lobster's first half sales of \$1.11 billion were 5.0% higher than last year. On a same-restaurant basis, sales were up 4.6%, following an impressive 7.2% increase in the first half of last year. Operating profit for the first half increased at a double-digit rate as a result of the strong sales growth and favorable restaurant-level operating costs as a percent of sales. Red Lobster's same-restaurant sales increased 3.2% in the first quarter and 6.1% in the second quarter, which was on top of an already strong 8.4% second quarter increase last year. This was the 16th consecutive quarter of same-restaurant sales increases. This year's sales improvement resulted from same-restaurant guest count growth as guests responded favorably to exciting new menu items and the successful "30-Shrimp for \$9.99" promotional offering.

At the end of the second quarter, Red Lobster operated 661 restaurants, compared to 652 restaurants at the same point last year. During the first half of fiscal 2002, five new restaurants were opened, two restaurants were relocated, one restaurant was rebuilt, and five restaurants were closed.

Bahama Breeze continued to enjoy very enthusiastic guest response and critical acclaim during the quarter. Bahama Breeze also continued to generate strong average sales per restaurant, offering solid evidence the company is successfully building a brand that is attractive to a broad range of consumers. Four locations opened during the first half of the year, bringing the total number of restaurants in operation to 25. At least four additional restaurants are expected to open in the second half of fiscal 2002.

Smokey Bones BBQ Sports Bar emerged from its initial test phase when it was approved for national expansion in June 2001. During the first half of this fiscal year, three restaurants were opened, bringing the total number of restaurants in operation to 12. With the restaurants' strong results, Smokey Bones BBQ plans to open five additional restaurants prior to the end of fiscal 2002.

We continued our buyback of common stock in the open market, purchasing 2.2 million shares in the first half of the year. Cumulatively, since initial authorization of the repurchase program in December 1995, Darden has repurchased 54.7 million shares from a total authorization of 64.6 million shares.

We are extremely proud of the Company's financial results and are delighted to share them with you. We believe we have strong fundamentals and solid strategic plans in place to become the best in casual dining, an industry that is expected to have exceptional growth prospects.

We thank you for being a valued owner of Darden Restaurants. We encourage you to bring the attached gift certificate in to any of our restaurants and let us show you what's going on at Darden!

Joe R. Lee  
Chairman and Chief Executive Officer  
January 11, 2002

# Consolidated Statements of Earnings

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

	13 Weeks Ended		26 Weeks Ended	
	11/25/2001	11/26/2000	11/25/2001	11/26/2000
Sales	\$ 1,013,504	\$ 931,958	\$ 2,094,994	\$ 1,950,163
Costs and Expenses:				
Cost of Sales:				
Food and Beverage	321,302	298,361	664,894	629,398
Restaurant Labor	328,361	302,908	661,807	621,539
Restaurant Expenses	153,658	135,857	307,808	275,301
Total Cost of Sales	\$ 803,321	\$ 737,126	\$ 1,634,509	\$ 1,526,238
Selling, General and Administrative	106,154	105,955	213,095	205,300
Depreciation and Amortization	41,061	35,789	80,571	71,425
Interest, Net	8,982	7,777	17,256	14,051
Restructuring Credit	(2,269) <sup>(1)</sup>	—	(2,269) <sup>(1)</sup>	—
Total Costs and Expenses	\$ 957,249	\$ 886,647	\$ 1,943,162	\$ 1,817,014
Earnings before Income Taxes	56,255	45,311	151,832	133,149
Income Taxes	(19,792)	(15,770)	(53,213)	(46,687)
Net Earnings	\$ 36,463	\$ 29,541	\$ 98,619	\$ 86,462
Net Earnings per Share:				
Basic	\$ 0.31	\$ 0.25	\$ 0.84	\$ 0.72
Diluted	\$ 0.30 <sup>(2)</sup>	\$ 0.24	\$ 0.81 <sup>(2)</sup>	\$ 0.70
Average Number of Common Shares Outstanding:				
Basic	116,800	119,800	117,100	120,700
Diluted	122,000	123,700	122,200	124,100

(1) The restructuring credit of \$2.3 million, or \$1.4 million after tax, resulted from reversal of a portion of the Company's fiscal 1997 restructuring reserve due primarily to favorable lease terminations.

(2) For the thirteen weeks ended November 25, 2001, excluding the unusual credit, earnings after tax were \$35.1 million, or 29 cents per diluted share. For the twenty-six weeks ended November 25, 2001, excluding the unusual credit, earnings after tax were \$97.2 million, or 80 cents per diluted share.

# Condensed Consolidated Balance Sheets

(DOLLAR AMOUNTS IN THOUSANDS - UNAUDITED)

	11/25/2001	11/26/2000	5/27/2001
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 19,999	\$ 7,753	\$ 61,814
Inventories	226,796	207,850	148,429
Other Current Assets	99,925	115,842	117,899
Total Current Assets	346,720	331,445	328,142
Land, Buildings and Equipment	1,824,715	1,662,370	1,779,515
Other Assets	150,193	104,449	108,877
Total Assets	\$ 2,321,628	\$ 2,098,264	\$ 2,216,534
<b>LIABILITIES and STOCKHOLDERS' EQUITY</b>			
Current Liabilities:			
Short-Term Debt	\$ 107,000	\$ 89,300	\$ 12,000
Other Current Liabilities	484,991	463,946	542,258
Total Current Liabilities	591,991	553,246	554,258
Long-Term Debt	514,278	447,739	517,927
Other Liabilities	113,587	100,639	111,031
Total Liabilities	1,219,856	1,101,624	1,183,216
Stockholders' Equity	1,101,772	996,640	1,033,318
Total Liabilities and Stockholders' Equity	\$ 2,321,628	\$ 2,098,264	\$ 2,216,534

## Report of Fiscal Year 2001 Annual Meeting

On September 20, 2001, Chairman and Chief Executive Officer Joe R. Lee welcomed shareholders to Darden's annual meeting in Orlando. Shareholders were asked to elect twelve directors, eleven of whom were existing members of Darden's board, and one new director, Leonard L. Berry. Shareholders were also asked to approve the appointment of KPMG LLP to audit Darden's consolidated financial statements for fiscal 2002. Over 87% of Darden's outstanding shares were represented at the meeting, and all director nominees and the appointment of KPMG were approved. Detailed voting results appear in Darden's Form 10-Q for the quarter ended November 25, 2001.

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

Forward-looking statements in this mid-year report, if any, are made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Certain important factors could cause results to differ materially from those anticipated by the forward-looking statements, including the impact of changing economic or business conditions, the impact of competition, the availability of favorable credit and trade terms, the impact of changes in the cost or availability of food and real estate, government regulation, construction costs, weather conditions or other factors discussed from time to time in reports filed by the Company with the Securities and Exchange Commission.