

DARDEN RESTAURANTS INC

Form 10-K

July 20, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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FORM 10-K

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(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended May 27, 2012

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

Common Stock, without par value

on which registered

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)

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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 \$44.60 per share as reported on the New York Stock Exchange on November 25, 2011, was approximately: \$5,784,642,000.

Number of shares of Common Stock outstanding as of May 27, 2012: 129,027,000 (excluding 160,003,752 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 18, 2012, to be filed with the Securities and Exchange Commission no later than 120 days after May 27, 2012, 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 27, 2012 are incorporated by reference into Parts I and II of this Report.

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FORM 10-K  
FISCAL YEAR ENDED MAY 27, 2012  
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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 2013, 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”.

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### PART I

#### ITEM 1. BUSINESS

##### Introduction

Darden Restaurants, Inc. is the world's largest company-owned and operated full service restaurant company, and served over 423 million meals in fiscal 2012. As of May 27, 2012, we operated through subsidiaries 1,994 restaurants in the United States and Canada. In the United States, we operated 1,961 restaurants in all 50 states, including 677 Red Lobster®, 786 Olive Garden®, 386 LongHorn Steakhouse®, 46 The Capital Grille®, 30 Bahama Breeze®, 23 Seasons 52®, eight Eddie V's Prime Seafood® and three Wildfish Seafood Grille® restaurants, and two test "synergy restaurants" which house both a Red Lobster and Olive Garden restaurant in the same building. 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 that are owned by joint ventures we manage. None of our restaurants in the United States or Canada are franchised. Of our 1,994 restaurants in the United States and Canada open on May 27, 2012, 1,016 were located on owned sites and 978 were located on leased sites. As of May 27, 2012, we also had 28 restaurants outside the United States and Canada operated by independent third parties pursuant to area development and franchise agreements, including five LongHorn Steakhouse restaurants in Puerto Rico, 22 Red Lobster restaurants in Japan, and one Red Lobster restaurant in Dubai.

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](http://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 2012, 2011 and 2010 fiscal years, which ended May 27, 2012, May 29, 2011 and May 30, 2010, 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 has grown from six restaurants in operation at the end of fiscal 1970 to 704 restaurants in the United States and Canada by the end of fiscal 2012. Olive Garden, an internally developed Italian restaurant brand, opened its first restaurant in Orlando, Florida in fiscal 1983, and by the end of fiscal 2012 had expanded to 792 restaurants in the United States and Canada. The number of Red Lobster and Olive Garden restaurants open at the end of fiscal 2012 increased by six and 38, respectively, as compared to the end of fiscal 2011.

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 2012, there were 30 Bahama Breeze restaurants in the United States, and the number of restaurants had increased by four as compared to the end of fiscal 2011.

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. Seasons 52 opened its first restaurant in Orlando, Florida in fiscal 2003. At the end of fiscal 2012, there were 23 Seasons 52 restaurants in the United States, and the number of restaurants had increased by

six as compared to the end of fiscal 2011.

<sup>1</sup> Source: Nation's Restaurant News, "Top 100 Companies Ranked by U.S. Foodservice Revenue," June 25, 2012 (based on U.S. food and beverage revenue from company-owned restaurants).

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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, 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. The acquired operations are included in our financial statements from the date of the acquisition. At the end of fiscal 2012, there were 386 LongHorn Steakhouse and 46 The Capital Grille restaurants in the United States, and the number of restaurants open had increased by 32 and two, respectively, as compared to the end of fiscal 2011.

In March 2011, we opened a test "synergy restaurant" that houses both a Red Lobster and Olive Garden restaurant in the same building. At the end of fiscal 2012, we had two synergy restaurants in operation in the United States.

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 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 2012, there were 11 Eddie V's restaurants in the United States.

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 joined the Specialty Restaurant Group as well. The Specialty Restaurant Group is an integrated portfolio of growth-oriented small to medium size, full service restaurant brands. 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 located outside the United States and Canada operated by independent third parties pursuant to area development and franchise agreements. The final column in the table lists our total sales for the fiscal years indicated.

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

Fiscal Year	Red Lobster	Olive Garden	LongHorn Steakhouse	The Capital Grille	Bahama Breeze	Seasons 52	Eddie V's and Wildfish	Total Restaurants (1)	Total Company Sales (\$ in Millions) (2)(3)
1970	6							6	3.5
1971	24							24	9.1
1972	47							47	27.1
1973	70							70	48.0
1974	97							97	72.6
1975	137							137	108.5
1976	174							174	174.1
1977	210							210	229.2
1978	236							236	291.4
1979	244							244	337.5
1980	260							260	397.6
1981	291							291	528.4
1982	328							328	614.3
1983	360	1						361	718.5
1984	368	2						370	782.3
1985	372	4						376	842.2
1986	401	14						415	917.3
1987	433	52						485	1,097.7
1988	443	92						535	1,300.8

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1989	490	145	635	1,621.5
1990	521	208	729	1,927.7
1991	568	272	840	2,212.3
1992	619	341	960	2,542.0

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Fiscal Year	Red Lobster	Olive Garden	LongHorn Steakhouse	The Capital Grille	Bahama Breeze	Seasons 52	Eddie V's and Wildfish	Total Restaurants (1)	Total Company Sales (\$ in Millions) (2)(3)
1993	638	400						1,038	2,737.0
1994	675	458						1,133	2,963.0
1995	715	477						1,192	3,163.3
1996	729	487			1			1,217	3,191.8
1997	703	477			2			1,182	3,171.8
1998	682	466			3			1,151	3,261.6
1999	669	464			6			1,139	3,432.4
2000	654	469			11			1,134	3,671.3
2001	661	477			16			1,154	3,966.2
2002	667	496			22			1,185	4,303.5
2003	673	524			25	1		1,223	4,530.4
2004	680	543			23	1		1,247	4,794.7
2005	679	563			23	3		1,268	4,977.6
2006	682	582			23	5		1,292	5,353.6
2007	680	614			23	7		1,324	5,567.1
2008	680	653	305	32	23	7		1,700	6,626.5
2009	690	691	321	37	24	8		1,771	7,217.5
2010	694	723	331	40	25	11		1,824	7,113.1
2011	698	754	354	44	26	17		1,894	(4) 7,500.2
2012	704	792	386	46	30	23	11	1,994	(4) 7,998.7

(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.

From fiscal 1996 forward, includes only net sales from continuing operations and excludes sales related to all restaurants that were closed and considered discontinued operations. Periods prior to fiscal 1996 include total sales from all of our operations, including sales from restaurant brands that are no longer owned or operated by us. Total company sales from 1970 through fiscal 1995 were included in the consolidated operations of our former parent company, General Mills, Inc., prior to our spin-off as a separate publicly traded corporation in May 1995.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 605 requires sales incentives to be classified as a reduction of sales. For purposes of this presentation, sales incentives have been reclassified as a reduction of sales for fiscal 1998 through 2012. Sales incentives for fiscal years prior to 1998 have not been reclassified.

(4) Includes one test synergy restaurant in 2011 and two in 2012, housing two restaurant brands in the same building.

**Strategy**

The restaurant industry is generally considered to be comprised of two segments: quick service and full service. The full service segment 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.

To support future growth, we are striving to change in two important ways: we are modifying our organizational structure so we can better leverage our existing experience and expertise, and we are adding new expertise in additional areas that are critical to future success. In the past two years we have created enterprise-level marketing and restaurant operations units and established forward-looking strategy units in our finance and information technology functions. We have initiatives focusing on our Specialty Restaurant Group, enterprise-level sales building, digital

guest and employee engagement, health and wellness, and centers of excellence. We plan to grow by leveraging our expertise and new capabilities to increase same-restaurant sales, increase the

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number of restaurants in each of our existing brands, and develop or acquire additional brands that can be expanded profitably. We also continue to pursue other avenues of new business development, including franchising our restaurants outside of the U.S. and Canada, testing "synergy restaurants" and other formats to expand our brands, and selling consumer packaged goods such as Olive Garden salad dressing.

The total sales growth we envision should increase the cost-effectiveness of our 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. In fiscal 2013, we plan to continue to implement the four transformational initiatives that were our focus last year - further automating our supply chain, significantly reducing the use of energy, water and cleaning supplies in our restaurants, centralizing management of our restaurant facilities and optimizing labor costs within our restaurants.

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. Ours 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

#### 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 \$11.25 to \$33.75, 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 \$7.25 to \$14.75. The price of most entrées includes salad, side items and as many of our signature Cheddar Bay Biscuits as a guest desires. During fiscal 2012, the average check per person was approximately \$20.25 to \$20.75, with alcoholic beverages accounting for 7.7 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 lower-priced children's menu.

#### 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 menu includes 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.

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Most dinner menu entrée prices range from \$10.00 to \$20.00, and most lunch menu entrée prices range from \$7.00 to \$16.50. The price of each entrée includes as much fresh salad or soup and breadsticks as a guest desires. For fiscal 2012, the average check per person was approximately \$16.00 to \$16.50, with alcoholic beverages accounting for 7.6 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 lower-priced children's menu.

### LongHorn Steakhouse

LongHorn Steakhouse restaurants are full service establishments serving both lunch and dinner in an attractive and inviting atmosphere reminiscent of the classic American West. With locations in 35 states, primarily in the Eastern half of the United States, LongHorn Steakhouse restaurants feature a variety of top quality menu items including signature fresh steaks, as well as salmon, shrimp, chicken, ribs, pork chops, burgers and prime rib.

Most dinner menu entrée prices range from \$12.00 to \$23.00, and most lunch menu entrée prices range from \$7.00 to \$15.00. The price of most entrées includes a side and/or salad and as much freshly baked bread as a guest desires. During fiscal 2012, the average check per person was approximately \$18.50 to \$19.00, with alcoholic beverages accounting for 9.6 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 lower-priced children's menu.

### The Capital Grille

The Capital Grille has 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 \$33.00 to \$49.00 and most lunch menu entrée prices range from \$12.00 to \$37.00. During fiscal 2012, the average check per person was approximately \$70.00 to \$72.00, with alcoholic beverages accounting for 29.7 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.

### Bahama Breeze

Bahama Breeze restaurants bring 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. In fiscal 2007, Bahama Breeze wrote down the carrying value of five restaurants and closed nine, but improved the guest experience and unit economics sufficiently at the remaining restaurants that we have restarted modest unit growth. We opened one Bahama Breeze restaurant during each of fiscal years 2009 through 2011, and four during fiscal 2012.

Most dinner menu entrée prices at Bahama Breeze range from \$9.00 to \$23.00, and most lunch entrée prices range from \$7.00 to \$16.50. During fiscal 2012, the average check per person was approximately \$23.00 to \$23.50, 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 lower-priced children's menu.

### Seasons 52

Seasons 52 is 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 deserts, to the entrees 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. Seasons 52 also offers a variety of experiences. Its private dining rooms create the ideal environment for many social and business events, the Chef's Table provides a unique and intimate setting for chef-hosted customizable food and wine paring events, while the piano bar, featuring live music every night, is a great place to unwind and enjoy the warm, inviting ambiance.

Most dinner menu entrée prices at Seasons 52 range from \$13.00 to \$29.00, and most lunch entrée prices range from \$10.00 to \$20.00. During fiscal 2012, the average check per person was approximately \$38.75 to \$39.25, with alcoholic beverages accounting for 27.3 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.

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## Eddie V's

Inspired by the great classic restaurants of New Orleans, San Francisco and Boston, Eddie V's opened in 2000 with an emphasis on prime seafood creations, USDA prime beef and chops, and fresh oyster bar selections. The ambiance is sophisticated and contemporary, with live nightly music in the V-Lounge. Guests are promised an intimate and comfortable dining experience "where your pleasure is our sole intention."

## Synergy Restaurants

In March 2011, we opened a test "synergy restaurant" that houses both a Red Lobster and Olive Garden restaurant in the same building, but with separate front doors, dining rooms and brand-specific menus. The shared building is designed to keep the guest experience the same while delivering cost efficiencies. We developed this concept to test expansion into smaller markets that would not meet our population density requirements to build a single brand. Future synergy restaurants may not be limited to Red Lobster and Olive Garden combinations, but could involve our other brands as well. We opened a second synergy test location during fiscal 2012.

## Recent and Planned Restaurant Growth

During fiscal 2012, we opened 89 net new restaurants in the U.S. and Canada. Our actual and projected net new openings in the U.S. and Canada from continuing operations by brand are shown below.

	Actual Net New Restaurant Openings Fiscal 2012	Projected Net New Restaurant Openings Fiscal 2013
Red Lobster	6	1-3
Olive Garden	38	35-40
LongHorn Steakhouse	32	44-48
Specialty Restaurant Group		
The Capital Grille	2	3
Bahama Breeze	4	3-4
Seasons 52	6	7-8
Eddie V's	0(1)	1
Synergy restaurants	1	4
Totals	89	About 100-110

(1) Excludes acquisition of 11 Eddie V's restaurants during fiscal 2012.

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, and to develop or acquire additional brands that can be expanded profitably. We continue to test new ideas and brands, and also to evaluate potential acquisition candidates to assess whether they would satisfy our strategic and financial objectives.

In connection with our growth objectives, on July 12, 2012, we entered into an Agreement and Plan of Merger to acquire Yard House USA, Inc. ("Yard House") for \$585 million in an all-cash transaction. Yard House, which launched its first restaurant in 1996, now has 39 restaurants across 13 states, and 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. The brand is expected to become part of our Specialty Restaurant Group, and the merger, which is subject to certain conditions, including clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "Hart-Scott Act") and customary closing conditions, is expected to be completed early in the second quarter of fiscal 2013.

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.



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The following table illustrates the approximate average capital investment, size and dining capacity of the 8 Red Lobster restaurants (six new restaurants and two relocations), 38 Olive Garden restaurants (38 new restaurants and no relocations) and the 34 LongHorn Steakhouse restaurants (34 new restaurants and no relocations) opened during fiscal 2012. The table excludes any rebuilt restaurants.

	Capital Investment(1)	Square Feet(2)	Dining Seats(3)	Dining Tables(4)
Red Lobster	\$4,112,000	6,366	221	49
Olive Garden	\$4,093,000	7,574	237	58
LongHorn Steakhouse	\$3,267,000	6,207	222	48

(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 2010, we permanently closed three Red Lobster and three LongHorn Steakhouse restaurants. During fiscal 2011, we permanently closed one Red Lobster, two Olive Garden and two LongHorn Steakhouse restaurants. During fiscal 2012, we permanently closed one Red Lobster and two LongHorn Steakhouse 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.

#### 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 Red Lobster and 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 50 to 185 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 all levels of supervision to help ensure strict adherence to all aspects of our standards.

Each Bahama Breeze 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 four assistant managers. Each The Capital Grille, Seasons 52 and Eddie V's restaurant has one to three chefs, and each Bahama Breeze restaurant has one to three kitchen managers. In addition, each restaurant typically employs 50 to 185 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 all levels of supervision 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 15-week training program for management trainees (8 to 9 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.

At the level above director of operations, we are implementing a new operations leadership structure at Red Lobster, Olive Garden and LongHorn Steakhouse. We are adding new leadership roles between our directors of operations and our Senior Vice

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Presidents of Operations. These new roles - Regional Vice President or Managing Director - will each report to a Senior Vice President of Operations and help further strengthen our restaurant operations expertise by elevating the execution required to build guest loyalty and enhance our talent development capacity in the field. This change also reduces the span of control for our Senior Vice Presidents of Operations, allowing them 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.

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 various of 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., and unique 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 our purchasing and restaurant operations. During fiscal 2012, we completed the implementation of “iKitchen,” a web-based software system, to our regional suppliers. The system is designed to more efficiently handle restaurant product orders, receiving, invoice approval and inventories. 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 program is an integral part of our purchasing efforts. Through this program, we identify minority and women-owned vendors and assist them in establishing supplier relationships with us. We are committed to the development and growth of minority and women-owned enterprises, and during fiscal 2012 we spent approximately 5.9 percent and 3.6 percent, respectively, of our purchasing dollars with those firms.

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### 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. Red Lobster and Olive Garden leverage the efficiency of national network television advertising. Olive Garden supplements this with cable, local television and digital advertising, and Red Lobster with cable and digital advertising. LongHorn Steakhouse currently uses local television advertising, and began national cable television advertising in fiscal 2011. The Capital Grille, 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 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 2012, Olive Garden, Red Lobster and LongHorn Steakhouse launched electronic gift cards that can be ordered on 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 2013, we will begin efforts to consolidate our brands into a single digital platform, strengthen brand relevance and drive longer-term sales growth. In fiscal 2013, we expect to be in the marketplace with a much enhanced "To Go!" takeout operation at Olive Garden to respond to guests' increasing need for convenience, and a national Spanish language advertising campaign for Red Lobster to increase awareness among and visits from Hispanic and Latino consumers. We also have initiatives involving a web and text ahead reservation program and targeted marketing programs. For more information about our new technology platforms, see "Information Technology" below.

### Employees

At the end of fiscal 2012, we employed approximately 180,000 people in the United States and Canada. Of these employees, approximately 169,000 were hourly restaurant personnel. The remainder were restaurant management personnel located in the restaurants or in the field, or were located at our restaurant support center facility in Orlando, Florida. Our operating executives have an average of more than 16 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 2012, we were recognized for the second consecutive year by FORTUNE magazine as one of the "100 Best Companies to Work For" in America. We are the largest employer on the list and remain the only full-service restaurant company to ever appear on the list. 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 43 percent of our employees are minorities, and 52 percent are women. Both percentages rank above average in our industry. In addition, in December 2011 we scored 90 out of 100 on the Human Rights Campaign 2012 Corporate Equality Index for our business practices and policies toward our lesbian, gay, bisexual and transgender employees, the highest score among the nine restaurant companies rated in the report.

Consistent with our core values of respect and caring and teamwork, in 1999 we established a program called Darden Dimes to help fellow 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 \$1.5 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 implemented a new meal pacing system, in all Olive Garden and Red Lobster locations, designed to properly pace the preparation of menu items, based on cook-time, to enhance the guest's experience and enhance restaurant capacity by increasing table turns. During fiscal 2012, Bahama Breeze, LongHorn Steakhouse and Seasons 52 piloted and implemented this meal pacing system in their locations. During fiscal 2011, Olive Garden implemented a new table management system to enhance the guest experience by providing accurate wait

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times and enhance restaurant capacity by increasing table turns. During fiscal 2012, LongHorn Steakhouse piloted and implemented the table management system in its locations. In addition, during fiscal 2012, we completed the implementation of a talent acquisition system across all brands to help streamline the hiring process for front line employee candidates.

In fiscal 2013, we are initiating 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. 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. 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 Restaurants®, Red Lobster®, Olive Garden®, LongHorn Steakhouse®, The Capital Grille®, 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 27, 2012, all but three of our 1,994 restaurants in operation in the U.S. and Canada were company-owned and operated. Those three restaurants are located in Central Florida and 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. We also franchised five LongHorn Steakhouse restaurants in Puerto Rico to an unaffiliated franchisee as part of an agreement that was executed prior to our 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. The new agreement calls for the franchisee to initially develop a minimum of three additional LongHorn and eight Olive Garden restaurants over the next seven years.

Our restaurant operations outside of North America are conducted through area development and franchise agreements. We have an agreement with an unaffiliated Japanese corporation that operated 22 Red Lobster restaurants in Japan as of May 27, 2012. In October 2010, we entered into a formal agreement with an unaffiliated operator to develop and operate Red Lobster,



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Olive Garden 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 27, 2012, one restaurant, a Red Lobster in Dubai, had opened under this agreement. In August 2011, we entered into an agreement with a third party restaurant operator to develop and operate Red Lobster, Olive Garden 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 27, 2012, no restaurants had as yet opened under this agreement. 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.

We continue to explore additional avenues of new business development. During fiscal 2012, we began selling Olive Garden's Italian salad dressing and shredded cheese in Sam's Club® stores across the country. The products will be sold at Sam's Club stores exclusively for one year while we continue to evaluate this and other opportunities to market consumer packaged goods. We also are researching and developing proprietary technology for aquaculture lobster farming. Construction of a pilot hatchery in Malaysia should begin next fiscal year.

### Seasonality

Our sales volumes fluctuate seasonally. During each of fiscal years 2012, 2011 and 2010, our average sales per restaurant were highest in the winter and spring, followed by the summer, and lowest in the fall. Holidays, changes in the economy, severe weather and similar conditions may impact sales volumes seasonally in some operating regions. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

### Government Regulation

We are subject to various federal, state and local 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 2012, 9.5 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 2012 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 2012, 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 are reviewing the health care reform law enacted by Congress in March of 2010 (“Health Care Reform Law”). As part of that review, we will evaluate the potential impacts of this new 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,

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fat, trans fat, salt and allergen content. The Health Care Reform Law 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

Over the last several years, we have come to see that our commitment to sustainability is a central part of achieving our larger purpose. While we have long addressed various aspects of sustainability, such as seafood stewardship, in recent years we have strived to develop a more integrated and strategic approach to managing sustainability issues.

First, we know having clear governance and accountability mechanisms are essential to meeting our sustainability commitments. Leadership for our sustainability strategy and commitments resides at three levels: Board of Directors, Executive Leadership and Senior Management. We coordinate implementation of our sustainability strategy, stakeholder engagement and communications through a small team within our Government and Community Affairs department. Our Sustainability Leadership Council consists of executives from most brands and business units, including operations, supply chain, human resources and business development. Three cross-functional teams are tasked with developing and managing specific sustainability initiatives: Energy, Water and Waste; Supply Chain; and, Operations Culture.

Second, our business fundamentally relies on natural resources: from the energy we use to light, cool and heat our restaurants, to the water we use to cook and clean. To drive performance, we set ambitious targets. We committed to reduce our per restaurant energy and water use 15 percent by 2015 and, over time, send zero waste to landfill. Since fiscal 2008, we have reduced per restaurant energy usage by almost 8% and water by 17 percent. Additionally, at our Restaurant Support Center (RSC) in Orlando (LEED Gold), we unveiled a 1.1 megawatt solar panel installation, the largest private solar array in Florida, which generates 15 to 20 percent of the RSC's annual energy demands. We also reduced packaging and paper use in our kitchens; recycled 100 percent of our yellow grease; and expanded cardboard and single-stream recycling in over 50 percent and 30 percent of restaurants, respectively; and, through Darden Harvest, donated over 10 million pounds of food in fiscal 2011 and fiscal 2012, bringing our total to 56 million pounds since 2004.

Third, as a restaurant company, we rely on healthy marine and agricultural ecosystems to provide the ingredients we use to serve over 423 million meals each year. That's why, over the past few years, one of our key areas of focus has been to understand and manage sustainability issues in our supply chain and explore how we can use our scale and influence as a catalyst for positive change. We've established expectations for and regularly engage our suppliers on a range of sustainability issues, including the launch of a Supplier Packaging Optimization program, addressed human and labor rights through our Supplier Code of Conduct, advanced seafood sustainability through our Sustainable Fisheries Mission and GAA certification requirements, and addressed concerns through our Animal Welfare Working Group by establishing clear principles and supporting grants for research. One example was our announcement at the Clinton Global Initiative's Annual Meeting in September 2011, to rebuild troubled fisheries through fishery improvement projects in and around the Gulf of Mexico with partners Publix Super Markets and the Sustainable Fisheries Partnership.

While global sustainability challenges necessitate a global response, we understand their potential impact to us, either through increased energy costs or commodity prices, the depletion of certain species of seafood and/or other disruptions to our food supply chain. In this challenge, we see opportunity. Conservation will be 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](http://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. We were joined at an Olive Garden restaurant in

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Hyattsville, Maryland, by First Lady Michelle Obama and the Partnership for a Healthier America to announce our commitment. 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 parents' 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 2012, the Foundation announced it was awarding more than \$1.7 million to nearly 900 nonprofit organizations in communities across the U.S. and Canada as part of its inaugural 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](http://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 56, 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.

Andrew H. (Drew) Madsen, age 56, has been our President and Chief Operating Officer since November 2004, and a Director since September 2004. Mr. Madsen was our Senior Vice President and President of Olive Garden from March 2002 until November 2004, and Executive Vice President of Marketing for Olive Garden from December 1998 to March 2002. From 1997 until joining us, he was President of International Master Publishers, Inc., a company that developed and marketed consumer information products such as magazines and compact discs. From 1993 until 1997, he held various positions at James River Corporation (now part of Koch Industries), including Vice President and General Manager for the Dixie consumer products unit. From 1980 until 1992, he held various marketing positions with our former parent company, General Mills, Inc., a manufacturer and marketer of consumer food products.

James J. (J.J.) Buettgen, age 51, has been our Senior Vice President, Chief Marketing Officer since June 2011. Previously, he served as our Senior Vice President, New Business Development from May 2007 until June 2011. He served as our Senior Vice President and President of Smokey Bones Barbeque & Grill, a restaurant concept formerly owned and operated by us, from November 2004 until May 2007, and our Senior Vice President and President-designate of Smokey Bones from August 2004 until November 2004. From July 2003 until August 2004, he was President of Big Bowl Asian Kitchen, a casual dining company owned by Brinker International, Inc., a restaurant operator, and from October 2002 until June 2003 he was Senior Vice President of Marketing and Brand Development for Brinker. From 1999 to 2002, he was Senior Vice President of Marketing and Sales for Disneyland Resorts, a division of the Walt Disney Company, where he helped launch Disney's California Adventure theme park, and from

1998 to 1999 was Senior Vice President of Marketing for Hollywood Entertainment Group, a video retailer. He held several marketing posts with our former parent company, General Mills, Inc., a manufacturer and marketer of consumer food products, from 1989 through 1994. From 1994 to 1998, he was Vice President of Marketing for Olive Garden until being promoted to Senior Vice President of Marketing for Olive Garden in 1998.

John H. Caron, age 54, has been our President, Olive Garden since June 2011. He served as our Senior Vice President, Chief Marketing Officer from April 2010 to June 2011. From 2003 to April 2010, he was Executive Vice President of Marketing for Olive Garden. From 1985 until joining us, he held various positions at Unilever Bestfoods North America, including Vice President and General Manager of Beverages from 2000 to 2002.

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David C. George, age 56, has been our President of LongHorn Steakhouse since our acquisition of RARE Hospitality International, Inc. on October 1, 2007. 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.

Eugene I. (Gene) Lee, Jr., age 51, has been President of our Specialty Restaurant Group since our acquisition of RARE Hospitality International, Inc. 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.

Kim A. Lopdrup, age 54, has been our Senior Vice President, Business Development since June 2011. 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.

David R. Lothrop, age 51, 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 54, 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.