



OUR COMMITMENT TO YOU

2016 ANNUAL REPORT



OUR RESTAURANTS



Where people of all ages gather to enjoy the abundance of great Italian food and wine and are treated like family.

\$3.8 billion in sales
843 units



The place for people who crave a flavorful, boldly seasoned steak in a down-to-earth setting that feels like a rancher's home.

\$1.6 billion in sales
481 units



The restaurant of choice for conscientious adults celebrating the goodness of life without compromise.

\$254 million in sales
40 units



The destination to disconnect, lighten up and have fun.

\$218 million in sales
37 units



The modern American gathering place where beer and food lovers unite.

\$507 million in sales
65 units



The ultimate relationship brand, offering a welcoming and club-like dining experience.

\$408 million in sales
54 units



The destination for a glamorous night out.

\$106 million in sales
16 units



COMMITTED TO Our People

We are a restaurant company, so food is always top of mind. But what we do starts with people. Our 150,000 team members are what make the difference at Darden — they are at the heart of everything we do.

That's why we strive to hire the best and create an inclusive environment where diversity of thought and background is valued — everyone is treated with respect, and everyone has opportunities to develop and grow their careers.

We're extremely proud of our results-oriented people culture — one filled with energy, passion, opportunity and fun. We work hard to achieve our goals, and we all win together when we do.



We succeed because of our people, and with our success comes great opportunity for our team members. That's why *who* we hire is one of our most important decisions, and why we invest in our team members' careers every step of the way. We provide our people with the tools they need to succeed in their current roles, to grow personally and professionally, and to deliver exceptional experiences to our guests each day.



And the results speak for themselves:

- **Our hourly team members, on average, earn nearly \$15/hour**
- **We promote nearly 1,000 team members a year into management**
- **50% of all our Restaurant Managers are promoted from hourly positions**
- **99% of our General Managers and Managing Partners are promoted from within**
- **99% of all Directors of Operations are internal promotions**

With more than 7,000 leadership positions across our restaurants, we provide a pathway for thousands of individuals throughout the country to advance from entry-level jobs into management roles. It's one of the reasons Darden enjoys the lowest annual turnover rates for hourly team members in the industry – 30 points below the industry average.



DEAR FELLOW SHAREHOLDERS

Darden has been on an incredible journey, and this year we were able to accomplish great things by delivering outstanding experiences every day, in every restaurant.

We know that when we focus on creating memorable moments for our guests, we can grow our business. That's why everything we do is rooted in **our mission** – to be financially successful through great people consistently delivering outstanding food, drinks and service in an inviting atmosphere, making every guest loyal.



Eugene I. Lee, Jr.
President and Chief Executive Officer

Charles M. Sonstebly
Chairman of the Board

We bring our mission to life every day through our 150,000 team members in more than 1,500 restaurants across the country who carry out the four pillars of our Back-to-Basics operating philosophy – culinary innovation and execution, attentive service, engaging atmospheres and integrated marketing. To many, this may all sound simple, but consistently doing the little things well to create memorable moments for our guests is extremely difficult.

We continued to leverage our four competitive advantages that are key to helping our businesses drive sales growth and expand margins. They are:

- The significant scale of our Company
- The breadth and depth of our data and consumer insights
- Our commitment to rigorous strategic planning
- Our results-oriented, people culture

At a time when our industry faced considerable headwinds – including increased and more diverse competition – we are proud of the progress we have made. Our businesses outperformed the industry¹, creating significant value for our shareholders, our guests, our team members and the communities we serve.

Delivering Value to Shareholders

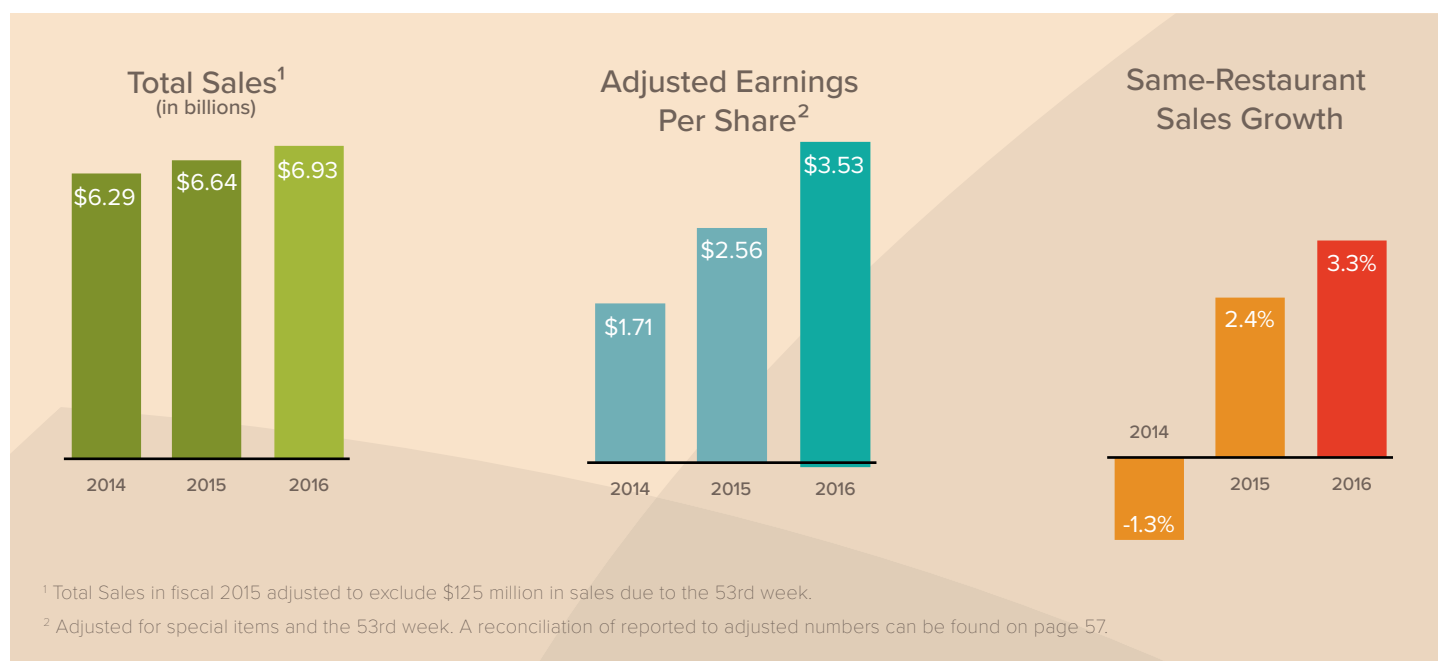
In fiscal 2016, we grew total sales by 4.4 percent² driven by same-restaurant sales growth of 3.3 percent – exceeding the industry by more than 400 basis points¹ while further simplifying our operations to reduce non-guest-facing costs by approximately \$95 million. Our sales growth and cost management efforts resulted in a 37.9 percent increase in adjusted diluted net earnings per share to \$3.53.³ On a reported basis, diluted net earnings per share from continuing operations increased 84.1 percent to \$2.78 in fiscal 2016.

During the year, we completed a thorough review of our strategic options to improve shareholder return resulting in a transaction that was highly successful on many fronts. We meaningfully improved our capital structure by completing our comprehensive real estate strategy – which included a tax-free spinoff of certain real estate and restaurant assets into a new public company, Four Corners Property Trust (FCPT). This strategy enabled us to reduce our debt by approximately \$1 billion while preserving the Company’s investment-grade credit profile. Given the

¹ Industry same-restaurant sales as reported by Knapp-Track (excluding Darden).

² Fiscal 2015 included an extra week of operations, resulting in a 53-week fiscal year. Fiscal 2016 growth excludes the impact of the extra operating week in fiscal 2015 to allow for a 52-week to 52-week comparison.

³ Adjusted for special items and the 53rd week. A reconciliation of reported to adjusted numbers can be found on page 57.



current trading multiples of both companies, we believe we have created significant value for shareholders.

Continuing our commitment to enhancing shareholder value, we returned more than \$450 million through dividends (\$265 million) and share repurchases (\$185 million). As of the end of the fiscal year, we had \$315 million remaining of the \$500 million of share repurchases the Board authorized in December. This June, we increased our quarterly dividend to \$0.56 per share. With this increase, the Darden dividend after the real estate spinoff will be greater than the Darden dividend before the real estate transaction was completed.

We continued to leverage our scale through aggressive cost management programs and supply chain optimization. This, combined with operational simplification and better overall cost management at the restaurants, enabled us to deliver \$130 million in annual savings since fiscal 2015. We also simplified our organizational structure to become more decentralized and operations-focused, with clearer leadership accountability. And across our portfolio, we increased the sharing of data and insights

on our guests' needs and preferences to increase guest traffic, drive in-restaurant behavior, enhance the guest experience and improve financial returns.

In December, we introduced our value-creation framework. Our goal over time is to deliver long-term earnings after tax growth of 7 to 10 percent, derived from:

- Same-restaurant sales growth of 1 to 3 percent
- New restaurant growth of 2 to 3 percent
- EBIT margin expansion of 10 to 40 basis points

We expect to pay out approximately 50 to 60 percent of our earnings after tax as dividends and repurchase \$100 million to \$200 million of our shares annually, leading to a long-term Total Shareholder Return of 10 to 15 percent — composed of EPS growth and dividend yield.

In summary, we have a value-creating business model that generates significant and durable cash flow to fund future growth and return capital to shareholders.



COMMITTED TO

Our Back-to-Basics Operating Philosophy

Our success depends on operating the very best restaurants possible. That's why we are relentlessly focused on:

- Driving culinary innovation and execution
- Delivering attentive service to every guest
- Providing an inviting and engaging atmosphere inside each of our restaurants

We support these operating fundamentals through smart and relevant integrated marketing programs that resonate with our guests. The result is the opportunity to grow market share through same-restaurant sales growth and to deliver best-in-class profitability.

Delivering Value to Our Guests

Our strategy and positioning for each business enabled us to build momentum and identify new ways to exceed the expectations of our guests. In fiscal 2016, we successfully delivered against our mission as we grew total sales to \$6.9 billion with same-restaurant sales growth at each of our businesses.

For the second consecutive year, **Olive Garden** delivered positive same-restaurant sales growth — at 3.1 percent in fiscal 2016. The continued success of Olive Garden is rooted in our laser focus on enhancing the guest experience at every touchpoint. We boosted culinary innovation by leveraging brand equities and flavor profiles that loyal guests enjoy the most, and we complemented this innovation with an expanded menu that offers guests a variety of choices that span a wide range of prices. To further improve the guest experience, we simplified our operations and ensured our restaurants were properly staffed.

Additionally, we continued to meet our guests' growing demand for convenience through our successful OG To-Go platform and the national launch of large-party catering delivery. Finally, to tell our guests about what's new in

our restaurants, we've evolved our marketing to be more integrated, targeted and personally relevant. This focus on enhancing every touchpoint has improved the perceived value of Olive Garden and has resonated with guests as we outperformed the industry by 390 basis points.¹

The momentum at **LongHorn Steakhouse** continued with its third straight year of same-restaurant sales growth — at 3.5 percent in fiscal 2016. This success comes from an emphasis on building loyalty through culinary innovation and our relentless pursuit of delivering flawless guest experiences. Through culinary platforms like Peak Season and Chef Showcase, LongHorn continually introduced new menu offerings that were seasonally relevant and made with fresh, quality ingredients. In addition, we reduced the number of menu items, simplifying procedures to allow our restaurant teams to execute at a higher level. We also invested in team member training, which helped us defend our industry-leading retention. Finally, we continued to reach guests with impactful advertising, which was recognized by Ace Metrix when it named LongHorn the “Brand of the Year” for casual dining for the second year in a row. All of this resulted in LongHorn outperforming the industry by more than 400 basis points.¹

¹Industry same-restaurant sales as reported by Knapp-Track (excluding Darden).

COMMITTED TO

Leveraging Our Competitive Advantages

We support our best-in-class restaurant businesses by helping them reach their full potential. We do this by leveraging four competitive advantages that are keys to unlocking sales growth and expanding margins.

- Significant Scale
- Extensive Data & Insights
- Rigorous Strategic Planning
- Our Results-Oriented People Culture



COMMITTED TO

Long-Term Value Creation

ANNUAL TARGET, OVER TIME

Business Performance (Adj. EAT Growth)

Same-restaurant sales	1-3%	➤	7-10%
New restaurant growth	2-3%		
EBIT margin expansion	10-40bps		

Return of Cash

Dividend payout ratio	50-60%	➤	3-5%
Share repurchase (\$ millions)	\$100-\$200		

Total Shareholder Return ➤ 10-15%

(EPS GROWTH + DIVIDEND YIELD)



Seasons 52 had a strong year, growing same-restaurant sales 4.7 percent. As an on-trend concept — giving guests the opportunity to enjoy hand-crafted cuisine that is healthful without sacrificing taste or style — Seasons 52 is uniquely positioned to capitalize in a dining segment that is poised for continued growth. Our focus on enhancing operational execution and evolving the menu received an incredibly positive reaction from our guests, giving us momentum as we build the pipeline for value-creating new restaurants.

Bahama Breeze continued to significantly outperform the casual dining industry¹ with same-restaurant sales growth of 4.8 percent. Positioned as an island oasis from the everyday, Bahama Breeze paired culinary innovation with high-energy, in-restaurant events. These events created signature experiences that reinforced the business' unique positioning while attracting more guests — particularly Millennials.

At **Yard House**, same-restaurant sales grew 2.3 percent, the third consecutive year of growth, as we continue to build a loyal guest base. It's from this base that we know that our extensive beer selection, scratch kitchen and specially curated rock music continued to strike a chord across multiple demographics that joined us for lunch, happy hour, dinner and late-night happy hour. We are extremely excited about the growth we have planned for this business.

For the sixth consecutive year, **The Capital Grille** grew same-restaurant sales — growing 3.9 percent in fiscal 2016. The Capital Grille is the ultimate relationship brand, offering a welcoming and club-like dining experience. Delivering high-touch experiences is nothing new for us, and we continued to leverage technology to enable us to personally connect with more guests to create exclusively tailored visits.

Eddie V's achieved same-restaurant sales growth of 1.8 percent. With its positioning as the destination for a glamorous night out, this fine-dining restaurant was able to capitalize on its ability to deliver unforgettable experiences — setting new sales records during key holidays throughout the year. Additionally, we were able to implement operational initiatives that simplified execution while preserving the high levels of food quality and service for which we're known.

We have a strong and differentiated portfolio of businesses, each with anticipated growth ahead of them. Reflecting this growth opportunity, we are ramping up the development pipeline for future sites and anticipate opening 24 to 28 new restaurants in the coming fiscal year.

¹Industry same-restaurant sales as reported by Knapp-Track (excluding Darden).

Delivering Value to Our Team Members and Communities

Everything we do starts with people: our 150,000 team members, the nearly one million guests we serve each day and the individuals who live in the communities that are home to our restaurants. That's why we strive to provide meaningful and rewarding employment, deliver outstanding food and service to our guests and give back to our local communities.

For many of our team members, Darden is their first employer. This is a role we take great pride in – and a responsibility we take seriously. For some, a job in our restaurants is the start of a career path to management positions within the Company. In fact, half of our restaurant managers began their careers with us as hourly team members. For others, it enables them to further their education and eventually pursue a

career elsewhere. Whatever the case, we know that the skills and experience we provide will help our team members grow and succeed within the Company – or wherever their career paths ultimately take them.

Inclusion and diversity are woven into the fabric of our culture. Every day we leverage our differences to support the business strategy as we create an environment where all of our team members can reach their greatest potential. In fact, 52 percent of our team members are women, and 49 percent are minorities. Additionally, our team members span five generations – Matures, Baby Boomers, Generation X, Millennials and Centennials. We also maintain strong relationships with more than 25 organizations that have a mission to advance diverse communities. And we're proud to have been recognized by the Human Rights Campaign Foundation for scoring 100 percent on the Corporate Equality Index.

2016 Financial Highlights

FISCAL YEAR ENDED (in millions, except per share amounts)	May 29, 2016	May 31, 2015	May 25, 2014
Sales from Continuing Operations	\$ 6,933.5	\$ 6,764.0	\$ 6,285.6
Earnings from Continuing Operations	\$ 359.7	\$ 196.4	\$ 183.2
Earnings from Discontinued Operations, net of tax	\$ 15.3	\$ 513.1	\$ 103.0
Net Earnings	\$ 375.0	\$ 709.5	\$ 286.2
Basic Net Earnings Per Share:	\$ 2.94	\$ 5.56	\$ 2.18
Earnings from Continuing Operations	\$ 2.82	\$ 1.54	\$ 1.40
Earnings from Discontinued Operations	\$ 0.12	\$ 4.02	\$ 0.78
Diluted Net Earnings Per Share:	\$ 2.90	\$ 5.47	\$ 2.15
Earnings from Continuing Operations	\$ 2.78	\$ 1.51	\$ 1.38
Earnings from Discontinued Operations	\$ 0.12	\$ 3.96	\$ 0.77
Dividends Paid Per Share	\$ 2.10	\$ 2.20	\$ 2.20
Average Shares Outstanding:			
Basic	127.4	127.7	131.0
Diluted	129.3	129.7	133.2

COMMITTED TO
Our Mission

To be financially successful through great people consistently delivering outstanding food, drinks and service in an inviting atmosphere, making every guest loyal.



We have a social responsibility to our guests and communities, which is why our approach to citizenship is a key component of how we fulfill our mission. We bring this to life through:

- A commitment to our Food Principles – that great food starts with quality ingredients that are sustainably sourced
- Our protection of the natural environment and resource conservation efforts in our restaurants
- Connection and support for the vibrant communities where we live, work and serve

We invite you to read more about our commitment to citizenship at www.darden.com/citizenship.

We are doing what matters most for our guests – delivering memorable experiences that will bring them back time and time again. Fiscal 2016 was a great year for Darden, but there's more work ahead.

With that in mind, we want to thank our dedicated team members for their commitment to excellence. They are the foundation of our success. We also want to express our appreciation to the Board of Directors for providing strategic guidance and their commitment to effective, transparent corporate governance. Finally, we want to thank you, our fellow shareholders, for your continued support of Darden and our vision. We look forward to rewarding that support through our ongoing commitment to value creation.

Charles M. Sonstebly
Chairman of the Board

Eugene I. Lee, Jr.
President and Chief Executive Officer

Executive Leadership

DARDEN



Eugene I. Lee, Jr.
President
Chief Executive Officer



Matt Broad
Senior Vice President
General Counsel &
Corporate Secretary



Todd Burrowes
President
LongHorn Steakhouse



Rick Cardenas
Senior Vice President
Chief Financial Officer



Chris Chang
Senior Vice President
Chief Information
Officer



Susan Connelly
Senior Vice President
Communications &
Corporate Affairs



Brian Foye
President
Seasons 52



Dave George
President
Olive Garden
Executive Vice President
Darden Restaurants



Danielle Kirgan
Senior Vice President
Chief Human
Resources Officer



Mike Kneidinger
President
Yard House



John Madonna
Senior Vice President
Corporate Controller



John Martin
President
The Capital Grille
Eddie V's



Doug Milanes
Senior Vice President
Chief Supply Chain
Officer



Rich Renninger
Senior Vice President
Chief Development
Officer



Bill White
Senior Vice President
Treasurer



Darden Restaurants, Inc.

2016 Financial Review

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

DARDEN

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 2016, which ended May 29, 2016, consisted of 52 weeks. Fiscal 2015, which ended May 31, 2015, consisted of 53 weeks and fiscal 2014, which ended May 25, 2014, consisted of 52 weeks.

OVERVIEW OF OPERATIONS

Our business operates in the full-service dining segment of the restaurant industry. At May 29, 2016, we operated 1,536 restaurants through subsidiaries in the United States and Canada under the Olive Garden®, LongHorn Steakhouse®, The Capital Grille®, Yard House®, Bahama Breeze®, Seasons 52®, and Eddie V's Prime Seafood® and Wildfish Seafood Grille® (collectively, Eddie V's) trademarks. We own and operate all of our restaurants in the United States and Canada, except for 6 joint venture restaurants managed by us and 18 franchised restaurants. We also have 32 franchised restaurants in operation located in Latin America, the Middle East and Malaysia. All intercompany balances and transactions have been eliminated in consolidation.

On November 9, 2015, we completed the spin-off of Four Corners Property Trust, Inc. (Four Corners) with the pro rata distribution of one share of common stock for every three shares of Darden common stock to Darden shareholders. The separation included (i) the transfer of 6 LongHorn Steakhouse restaurants located in the San Antonio, Texas area as well as 418 restaurant properties to Four Corners, which were subsequently leased back to Darden; (ii) the issuance to us of all of the outstanding common stock of Four Corners and corresponding pro rata distribution to our shareholders of the outstanding shares of Four Corners common stock as a tax-free stock dividend; and (iii) a cash dividend of approximately \$315.0 million received by us from Four Corners from the proceeds of Four Corners' term loan borrowings. See Note 2 to our consolidated financial statements for further details.

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

With a focus on growing same-restaurant sales, we've implemented a "Back-to-Basics" approach rooted in strong operating fundamentals. We're focused on improving culinary innovation and execution inside each of our brands, delivering attentive service to each and every one of our guests, and creating an inviting and engaging atmosphere inside our restaurants. We support these priorities with smart and relevant integrated marketing programs that resonate with our guests. By delivering on these operational and brand-building imperatives, we expect to increase our market share through new restaurant and same-restaurant sales growth and deliver best-in-class profitability.

The Darden support structure enables our brands to achieve their ultimate potential by: (1) driving advantages in supply chain and general and administrative support; (2) applying insights collected from our significant guest and transactional databases to enhance guest relationships and identify new opportunities to drive sales growth; and (3) relentlessly driving operating efficiencies and continuous improvement, operating with a sense of urgency and inspiring a performance-driven culture.

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 52-week 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
- Segment profit – which is restaurant sales, less food and beverage costs, restaurant labor costs, restaurant expenses and marketing expenses (sometimes referred to as restaurant-level earnings).

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

DARDEN

Increasing same-restaurant sales can improve segment profit 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, and 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 2016 Financial Highlights

Our sales from continuing operations were \$6.93 billion in fiscal 2016 compared to \$6.76 billion in fiscal 2015. The 2.5 percent increase in sales from continuing operations was driven by a combined Darden same-restaurant sales increase of 3.3 percent on a 52-week basis and the addition of two net new company-owned restaurants, partially offset by the impact of the 53rd week of operation in fiscal 2015.

Net earnings from continuing operations for fiscal 2016 were \$359.7 million (\$2.78 per diluted share) compared with net earnings from continuing operations for fiscal 2015 of \$196.4 million (\$1.51 per diluted share). Net earnings from continuing operations for fiscal 2016 increased 83.1 percent and diluted net earnings per share from continuing operations increased 84.1 percent compared with fiscal 2015.

Our net earnings from discontinued operations were \$15.3 million (\$0.12 per diluted share) for fiscal 2016, compared with net earnings from discontinued operations of \$513.1 million (\$3.96 per diluted share) for fiscal 2015. When combined with results from continuing operations, our diluted net earnings per share were \$2.90 and \$5.47 for fiscal 2016 and 2015, respectively.

Outlook

We expect combined Darden same-restaurant sales to increase in fiscal 2017 between 1.0 percent and 2.0 percent, and we expect fiscal 2017 sales from continuing operations to increase between 1.7 percent and 2.7 percent. In fiscal 2017, we expect to open approximately 24 to 28 new restaurants, and we expect capital expenditures incurred to build new restaurants, remodel and maintain existing restaurants and technology initiatives to be between \$310.0 million and \$350.0 million.

In June 2016, we announced a quarterly dividend of \$0.56 per share, payable on August 1, 2016. Based on the \$0.56 quarterly dividend declaration, our expected annual dividend is \$2.24 per share, which reflects an increase of 6.7 percent compared to our fiscal 2016 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.

There are significant risks and challenges that could impact our operations and ability to increase sales and earnings. The 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."

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

DARDEN

RESULTS OF OPERATIONS FOR FISCAL 2016, 2015 AND 2014

To facilitate review of our results of operations, the following table sets forth our financial results for the periods indicated. All information is derived from the consolidated statements of earnings for the fiscal years ended May 29, 2016, May 31, 2015 and May 25, 2014. This information and the following analysis have been presented with the results of operations, costs incurred in connection with the sale and related gain on the sale of Red Lobster and results for the two closed company-owned synergy restaurants classified as discontinued operations for all periods presented.

(in millions)	May 29, 2016	May 31, 2015	May 25, 2014	Percent Change	
				2016 vs 2015	2015 vs 2014
Sales	\$6,933.5	\$6,764.0	\$6,285.6	2.5%	7.6%
Costs and expenses:					
Food and beverage	2,039.7	2,085.1	1,892.2	(2.2)%	10.2%
Restaurant labor	2,189.2	2,135.6	2,017.6	2.5%	5.8%
Restaurant expenses	1,163.5	1,120.8	1,080.7	3.8%	3.7%
Marketing expenses	238.0	243.3	252.3	(2.2)%	(3.6)%
General and administrative expenses	384.9	430.2	413.1	(10.5)%	4.1%
Depreciation and amortization	290.2	319.3	304.4	(9.1)%	4.9%
Impairments and disposal of assets, net	5.8	62.1	16.4	(90.7)%	278.7%
Total operating costs and expenses	\$6,311.3	\$6,396.4	\$5,976.7	(1.3)%	7.0%
Operating income	622.2	367.6	308.9	69.3%	19.0%
Interest, net	172.5	192.3	134.3	(10.3)%	43.2%
Earnings before income taxes	449.7	175.3	174.6	156.5%	0.4%
Income tax expense (benefit) ⁽¹⁾	90.0	(21.1)	(8.6)	(526.5)%	145.3%
Earnings from continuing operations	\$ 359.7	\$ 196.4	\$ 183.2	83.1%	7.2%
Earnings from discontinued operations, net of tax	15.3	513.1	103.0	(97.0)%	398.2%
Net earnings	\$ 375.0	\$ 709.5	\$ 286.2	(47.1)%	147.9%
(1) Effective tax rate	20.0%	(12.0)%	(4.9)%		

The following table details the number of company-owned restaurants currently reported in continuing operations, compared with the number open at the end of fiscal 2015 and the end of fiscal 2014.

	May 29, 2016	May 31, 2015	May 25, 2014
Olive Garden ⁽¹⁾	843	846	837
LongHorn Steakhouse	481	480	464
Yard House	65	59	52
The Capital Grille	54	54	54
Bahama Breeze	37	36	37
Seasons 52	40	43	38
Eddie V's	16	16	15
Other ⁽²⁾	—	—	4
Total	1,536	1,534	1,501

(1) Includes six locations in Canada for all periods presented.

(2) Represents company-owned synergy restaurants in operation. We completed the conversion of all remaining synergy restaurants into stand-alone Olive Garden restaurants during the first quarter of fiscal 2015.

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

DARDEN

SALES

The following table presents our sales and U.S. same-restaurant sales (SRS) by brand for the periods indicated.

(in millions)	Fiscal Years			Percent Change		SRS ⁽¹⁾	
	2016	2015	2014	2016 vs 2015	2015 vs 2014	2016 vs 2015	2015 vs 2014
Olive Garden	\$3,838.6	\$3,789.6	\$3,643.1	1.3%	4.0%	3.1%	1.3%
LongHorn Steakhouse	\$1,587.7	\$1,544.7	\$1,383.9	2.8%	11.6%	3.5%	4.4%
Yard House	\$ 507.0	\$ 469.9	\$ 395.4	7.9%	18.8%	2.3%	3.8%
The Capital Grille	\$ 408.3	\$ 403.3	\$ 363.2	1.2%	11.0%	3.9%	4.8%
Bahama Breeze	\$ 217.9	\$ 209.2	\$ 201.5	4.2%	3.8%	4.8%	1.8%
Seasons 52	\$ 253.8	\$ 238.6	\$ 196.3	6.4%	21.5%	4.7%	2.3%
Eddie V's	\$ 105.8	\$ 96.9	\$ 78.4	9.2%	23.6%	1.8%	5.4%

(1) Same-restaurant sales is a year-over-year comparison of each period's sales volumes for a 52-week year and is limited to restaurants open at least 16 months.

The following table presents our average annual sales per restaurant for the periods indicated. Average annual sales are calculated as net sales divided by total restaurant operating weeks multiplied by 52 weeks.

(in millions)	May 29, 2016	May 31, 2015	May 25, 2014
Olive Garden	\$4.5	\$4.4	\$4.4
LongHorn Steakhouse	\$3.3	\$3.2	\$3.1
Yard House	\$8.2	\$8.3	\$8.2
The Capital Grille	\$7.6	\$7.2	\$7.1
Bahama Breeze	\$5.9	\$5.7	\$5.6
Seasons 52	\$6.0	\$5.7	\$5.7
Eddie V's	\$6.6	\$6.3	\$6.0

Olive Garden's sales increase for fiscal 2016 was driven by a U.S. same-restaurant sales increase partially offset by the impact of the 53rd week in fiscal 2015. The increase in U.S. same-restaurant sales in fiscal 2016 resulted from a 2.0 percent increase in average check combined with a 1.1 percent increase in same-restaurant guest counts. Olive Garden's sales increase for fiscal 2015 was driven by revenue from nine net new restaurants combined with a U.S. same-restaurant sales increase and the impact of the 53rd week. The increase in U.S. same-restaurant sales in fiscal 2015 resulted from a 2.9 percent increase in average check partially offset by a 1.6 percent decrease in same-restaurant guest counts.

LongHorn Steakhouse's sales increase for fiscal 2016 was driven by revenue from one net new restaurant combined with a same-restaurant sales increase, partially offset by the impact of the 53rd week in fiscal 2015. The increase in same-restaurant sales in fiscal 2016 resulted from a 3.0 percent increase in average check combined with a 0.5 percent increase in same-restaurant guest counts. LongHorn Steakhouse's sales increase for fiscal 2015 was driven by revenue from 16 net new restaurants combined with a same-restaurant sales increase and the impact of the 53rd week. The increase in same-restaurant sales in fiscal 2015 resulted from a 3.6 percent increase in average check combined with a 0.8 percent increase in same-restaurant guest counts.

In total, The Capital Grille, Bahama Breeze, Seasons 52, Eddie V's and Yard House generated sales in fiscal 2016 and 2015, which were 5.3 percent and 14.8 percent above fiscal 2015 and fiscal 2014, respectively. The sales increases for fiscal 2016 were primarily driven by the incremental sales from six net new Yard House restaurants since the end of fiscal 2015 and same-restaurant sales increases at all five brands partially offset by the impact of the 53rd week in fiscal 2015. The sales increases for fiscal 2015 were primarily driven by incremental sales from 12 net new restaurants since the end of fiscal 2014 and the impact of the 53rd week. Sales growth for fiscal 2015 also reflected same-restaurant sales increases at all five brands.

COSTS AND EXPENSES

The following table sets forth selected operating data as a percent of sales from continuing operations for the periods indicated. This information is derived from the consolidated statements of earnings for the fiscal years ended May 29, 2016, May 31, 2015 and May 25, 2014. Additionally, this information and the following analysis have been presented with the results of operations, costs incurred in connection with the sale and related gain on the sale of Red Lobster and results for the two closed synergy restaurants classified as discontinued operations for all periods presented.

	Fiscal Years		
	2016	2015	2014
Sales	100.0%	100.0%	100.0%
Costs and expenses:			
Food and beverage	29.4	30.8	30.1
Restaurant labor	31.6	31.6	32.1
Restaurant expenses	16.8	16.6	17.2
Marketing expenses	3.4	3.6	4.0
General and administrative expenses	5.5	6.4	6.6
Depreciation and amortization	4.2	4.7	4.8
Impairments and disposal of assets, net	0.1	0.9	0.3
Total operating costs and expenses	91.0%	94.6%	95.1%
Operating income	9.0	5.4	4.9
Interest, net	2.5	2.8	2.1
Earnings before income taxes	6.5	2.6	2.8
Income tax expense (benefit)	1.3	(0.3)	(0.1)
Earnings from continuing operations	5.2	2.9	2.9
Earnings from discontinued operations, net of taxes	0.2	7.6	1.7
Net earnings	5.4%	10.5%	4.6%

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Total operating costs and expenses from continuing operations were \$6.31 billion in fiscal 2016, \$6.40 billion in fiscal 2015 and \$5.98 billion in fiscal 2014. As a percent of sales, total costs and expenses from continuing operations were 91.0 percent in fiscal 2016, 94.6 percent in fiscal 2015 and 95.1 percent in fiscal 2014.

Fiscal 2016 Compared to Fiscal 2015:

- Food and beverage costs decreased as a percent of sales as a result of favorable menu mix and pricing, cost savings initiatives and food cost deflation, primarily seafood and dairy.
- Restaurant labor costs were flat as a percent of sales as wage-rate inflation, higher manager bonus and salary costs were offset by sales leverage.
- 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 as a percent of sales, primarily as a result of increased rent expense partially offset by sales leverage and cost savings initiatives.
- Marketing expenses decreased as a percent of sales, primarily as a result of sales leverage.
- General and administrative expenses decreased as a percent of sales, primarily due to lower general and administrative expenses incurred in fiscal 2016 related to the real estate plan implementation as compared to the strategic action plan costs incurred in fiscal 2015. General and administrative expenses as a percent of sales also decreased as a result of sales leverage, support cost savings and the favorable settlement of legal matters.
- Depreciation and amortization expense decreased as a percent of sales primarily from the impact of the spin-off of Four Corners, completed sale-leaseback transactions and sales leverage.
- Impairments and disposal of assets, net, decreased as a percent of sales primarily due to higher restaurant-related impairments in fiscal 2015.

Fiscal 2015 Compared to Fiscal 2014:

- Food and beverage costs increased as percent of sales as a result of food cost inflation, primarily dairy and beef, and increased costs for promotional items, partially offset by pricing and favorable menu mix.
- Restaurant labor costs decreased as a percent of sales primarily as a result of sales leverage.
- Restaurant expenses (which include utilities, repairs and maintenance, credit card, lease, property tax, workers' compensation, new restaurant pre-opening, rent expense and other restaurant-level operating expenses) decreased as a percent of sales, primarily as a result of sales leverage and lower new restaurant pre-opening expenses.
- Marketing expenses decreased as a percent of sales, primarily as a result of sales leverage and reduced media costs.
- General and administrative expenses decreased as a percent of sales, primarily as a result of sales leverage and support cost savings net of costs related to implementation of the strategic action plan.
- Depreciation and amortization expense as a percent of sales decreased primarily due to lower net new restaurants and remodel activities as compared to the prior year.

INTEREST EXPENSE

Net interest expense decreased as a percent of sales in fiscal 2016 primarily due to lower average debt balances in fiscal 2016 as compared to fiscal 2015 related to the retirement of \$1.03 billion in principal of long-term debt in fiscal 2016. The decrease was partially offset by higher debt retirement costs of \$106.8 million in fiscal 2016 compared to debt retirement costs of \$91.3 million in fiscal 2015. Net interest expense increased as a percent of sales in fiscal 2015 as compared to fiscal 2014 primarily due to \$91.3 million of debt retirement costs related to the retirement of \$1.01 billion in principal of long-term debt in fiscal 2015.

INCOME TAXES

The effective income tax rates for fiscal 2016, 2015 and 2014 for continuing operations were 20.0 percent, (12.0) percent and (4.9) percent, respectively. Our effective tax rate from continuing operations was negative in both fiscal 2015 and fiscal 2014 primarily due to the impact of certain tax credits on lower earnings before income taxes driven primarily by costs incurred related to our strategic action plan. The increase in our effective tax rate for fiscal 2016 compared to fiscal 2015 is primarily due to higher earnings before income taxes. The decrease in our effective rate for fiscal 2015 compared to fiscal 2014 is primarily attributable to the impact of the favorable resolution of prior-year tax matters.

NET EARNINGS AND NET EARNINGS PER SHARE FROM CONTINUING OPERATIONS

Net earnings from continuing operations for fiscal 2016 were \$359.7 million (\$2.78 per diluted share) compared with net earnings from continuing operations for fiscal 2015 of \$196.4 million (\$1.51 per diluted share) and net earnings from continuing operations for fiscal 2014 of \$183.2 million (\$1.38 per diluted share).

Net earnings from continuing operations for fiscal 2016 increased 83.1 percent and diluted net earnings per share from continuing operations increased 84.1 percent compared with fiscal 2015, primarily due to increased sales, lower food and beverage costs, marketing expenses, general and administrative expenses, depreciation and amortization expenses and impairments and disposal of assets, net as a percent of sales, partially offset by higher restaurant expenses as a percent of sales and a higher effective income tax rate. Our diluted net earnings per share from continuing operations for fiscal 2016 were adversely impacted by approximately \$0.51 due to debt retirement costs and approximately \$0.26 related to the real estate plan implementation and positively impacted by approximately \$0.02 due to a tax benefit associated with the prior year lobster aquaculture divestiture.

Net earnings from continuing operations for fiscal 2015 increased 7.2 percent and diluted net earnings per share from continuing operations increased 9.4 percent compared with fiscal 2014, primarily due to increased sales and a lower effective income tax rate and lower restaurant labor expenses, restaurant expenses and marketing expenses as a percent of sales, partially offset by higher food and beverage costs, general and administrative expenses and impairments and disposal of assets, net as a percent of sales. Our diluted net earnings per share from continuing operations for fiscal 2015 were adversely impacted by approximately \$0.42 related to debt retirement costs and approximately \$0.68 due to the combined impact of a tax benefit related to exiting from our lobster aquaculture project and legal, financial advisory and other costs related to implementation of the strategic action plan and asset impairments.

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EARNINGS FROM DISCONTINUED OPERATIONS

On an after-tax basis, earnings from discontinued operations for fiscal 2016 were \$15.3 million (\$0.12 per diluted share) compared with earnings from discontinued operations for fiscal 2015 of \$513.1 million (\$3.96 per diluted share) and fiscal 2014 of \$103.0 million (\$0.77 per diluted share). Earnings from discontinued operations reflects pre-tax gains of \$17.9 million recorded in fiscal 2016 and \$837.0 million in fiscal 2015, related to the sale of Red Lobster.

SEGMENT RESULTS

We manage our restaurant brands, Olive Garden, LongHorn Steakhouse, The Capital Grille, Yard House, Bahama Breeze, Seasons 52 and Eddie V's in North America as operating segments. We aggregate our operating segments into reportable segments based on a combination of the size, economic characteristics and sub-segment of full-service dining within which each brand operates. Our four reportable segments are: (1) Olive Garden, (2) LongHorn Steakhouse, (3) Fine Dining and (4) Other Business (see Note 6 to our consolidated financial statements).

Our management uses segment profit as the measure for assessing performance of our segments. Olive Garden's segment profit margins were 19.8 percent for fiscal 2016, 18.5 percent for fiscal 2015 and 17.8 percent for fiscal 2014. The growth for fiscal 2016 was driven primarily by leveraging positive same-restaurant sales, food and beverage cost favorability and cost reduction initiatives, partially offset by additional rent expense resulting from real estate transactions. The growth for fiscal 2015 was driven primarily by leveraging positive same-restaurant sales and cost reduction initiatives, partially offset by food and beverage cost inflation. LongHorn's segment profit margins were 17.3 percent for fiscal 2016, 15.5 percent for fiscal 2015 and 14.8 percent for fiscal 2014. The growth for fiscal 2016 was driven primarily by leveraging positive same-restaurant sales as well as improved cost of sales and lower marketing expense, partially offset by additional rent expense resulting from real estate transactions. The growth for fiscal 2015 was driven primarily by leveraging positive same-restaurant sales and cost reduction initiatives, partially offset by food and beverage cost inflation. Fine Dining's segment profit margins were 19.5 percent for fiscal 2016, 19.0 percent for fiscal 2015 and 18.4 percent for fiscal 2014. The growth for fiscal 2016 was driven primarily by improved food and beverage costs. The growth for fiscal 2015 was driven primarily by leveraging positive same-restaurant sales and lower restaurant expenses. The Other Business segment profit margins were 16.9 percent for fiscal 2016, 15.5 percent for fiscal 2015 and 13.4 percent for fiscal 2014. The growth for fiscal 2016 was driven by positive same-restaurant sales leverage and lower food and beverage costs. The growth for fiscal 2015 was driven by positive same-restaurant sales leverage and lower restaurant expenses.

SEASONALITY

Our sales volumes fluctuate seasonally. Typically, our average sales per restaurant are 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.

IMPACT OF INFLATION

We attempt to minimize the annual effects of inflation through appropriate planning, operating practices and menu price increases. We do not believe inflation had a significant overall effect on our annual results of operations during fiscal 2016. We experienced higher than normal inflationary costs during fiscal 2015 and fiscal 2014 and were able to partially reduce the annual impact utilizing these strategies.

CRITICAL ACCOUNTING 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.

Our significant accounting policies are more fully described in Note 1 to the consolidated financial statements. 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 estimates to be most critical in understanding the judgments that are involved in preparing our consolidated financial statements.

Leases

We evaluate our leases at their inception to estimate their expected term, which commences on the date when we have the right to control the use of the leased property and includes the non-cancelable base term plus all option periods we are reasonably assured to exercise. Our judgment in determining the appropriate expected term for each lease affects our evaluation of:

- 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 expected lease terms were used.

Valuation 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. The judgments we make related to the expected useful lives of long-lived assets, definitions of lease terms 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 an

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impairment loss. Based on a review of operating results for each of our restaurants, the amount of net book value associated with lower performing restaurants that would be deemed at risk for impairment is not material to our consolidated financial statements.

Valuation and Recoverability of Goodwill and Trademarks

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 29, 2016, we had the following amounts recorded as goodwill and trademarks at our brands:

<i>(in millions)</i>	Goodwill	Trademarks
Olive Garden	\$ 30.2	\$ —
LongHorn Steakhouse	49.3	307.8
The Capital Grille	401.6	147.0
Yard House	369.2	109.3
Eddie V's	22.0	10.5
Total	\$872.3	\$574.6

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.

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. Based on the results of the step one impairment test, no impairment of goodwill or trademarks was indicated. 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 and trademarks, could result in an impairment loss of a portion or all of our goodwill or trademarks.

A key assumption in our goodwill impairment test is the weighted-average cost of capital utilized for discounting our cash flow estimates in estimating the fair value of our brands under an income approach. A key assumption in our trademark fair value estimate is the discount rate utilized in the relief-from-royalty method. The following table illustrates the sensitivity to a one-percentage-point change in our weighted-average cost of capital assumption for goodwill and our discount rate assumption in our trademark valuation model.

<i>(dollars in millions)</i>	Goodwill Sensitivity			Trademark Sensitivity		
	Weighted-Average Cost of Capital	Amount by Which Fair Value Exceeded Carrying Value	Impact to Fair Value from a One-Percentage-Point Increase in Weighted-Average Cost of Capital	Discount Rate	Amount by Which Fair Value Exceeded Carrying Value	Impact to Fair Value from a One-Percentage-Point Increase in the Discount Rate
LongHorn Steakhouse	9.5%	\$1,928.2	\$(202.0)	10.5%	\$506.0	\$(83.5)
The Capital Grille	9.0%	\$ 306.2	\$ (71.2)	10.0%	\$ 91.3	\$(25.4)
Yard House	12.0%	\$ 368.6	\$ (72.4)	13.0%	\$118.7	\$(20.5)
Eddie V's	15.0%	\$ 88.0	\$ (9.9)	16.0%	\$ 28.7	\$(3.3)

If our annual test resulted in an impairment of our goodwill or trademarks, 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 29, 2016, a write-down of goodwill, other indefinite-lived intangible assets, or any other assets in excess of approximately \$1.22 billion 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.

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Unearned Revenues

Unearned revenues represent our liability for gift cards that have been sold but not yet redeemed. 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 \$19.0 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.

Assessment of uncertain tax positions requires judgments relating to the amounts, timing and likelihood of resolution. As described in Note 13 to our consolidated financial statements, the \$14.3 million balance of unrecognized tax benefits at May 29, 2016, includes \$1.2 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 \$1.2 million relates to items that would impact our effective income tax rate.

LIQUIDITY AND CAPITAL RESOURCES

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

We currently manage our business and financial ratios to target 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-2" (Standard & Poor's) and "F-2" (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.

During fiscal 2015, we conducted a comprehensive evaluation of a wide range of options for the potential monetization of our real estate portfolio. As a result of this evaluation, we undertook the following strategies:

- Sale-leaseback transactions of 64 restaurant properties, 14 of which closed in the fourth quarter of fiscal 2015 and the remaining 50 transactions closed in fiscal 2016. The 64 transactions generated net proceeds of \$238.0 million.
- Transfer of 424 of our restaurant properties into a REIT, with substantially all of the REIT's initial assets being leased back to Darden. We completed the spin-off of Four Corners on November 9, 2015. See Note 2 to our consolidated financial statements for further details.
- Sale-leaseback of our corporate headquarters, which was completed in fiscal 2016, generating net proceeds of \$131.0 million.

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 usual for credit facilities of this type. As of May 29, 2016, we were in compliance with all covenants under the Revolving Credit Agreement.

The Revolving Credit Agreement matures on October 24, 2018, and the proceeds may be used for commercial paper back-up, working capital and capital expenditures, the refinancing of certain indebtedness, certain acquisitions and general corporate purposes. 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 1.100 percent for LIBOR loans and 0.100 percent for base rate loans. As of May 29, 2016, we had no outstanding balances under the Revolving Credit Agreement.

At May 29, 2016, our long-term debt consisted principally of:

- \$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.

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During fiscal 2016, utilizing the proceeds of the Four Corners cash dividend, cash proceeds from the sale-leasebacks of restaurant properties and our corporate headquarters and additional cash on hand, we retired approximately \$1.03 billion aggregate principal of long-term debt consisting of:

- \$285.0 million of our variable-rate term loan, maturing in August 2017;
- \$500.0 million of unsecured 6.200 percent senior notes due in October 2017;
- \$121.9 million of unsecured 4.500 percent senior notes due in October 2021;
- \$111.1 million of unsecured 3.350 percent senior notes due in November 2022; and
- \$10.0 million of unsecured 4.520 percent senior notes due in August 2024.

During fiscal 2016, we recorded approximately \$106.8 million of expenses associated with the \$1.03 billion aggregate principal retirement including cash costs of approximately \$68.7 million for repurchase premiums, make-whole amounts and hedge settlements and non-cash charges of approximately \$38.1 million associated with hedge and loan cost write-offs. These amounts were recorded in interest, net, in our consolidated statement of earnings. Excluding these one-time retirement costs, we expect these debt retirements to reduce our interest expense by approximately \$50.0 million annually.

The interest rate on our \$300.0 million 6.800 percent senior notes due October 2037 is 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. In October 2014, Moody's Investors Service downgraded our senior unsecured ratings to "Ba1" from "Baa3" resulting in an increase of 0.250 percent in the interest rates on our senior notes due in October 2037. In April 2016, Moody's Investors Service subsequently upgraded our rating to "Baa3" and the interest rate was restored to the initial rate.

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.

From time to time, we enter into interest rate derivative instruments to manage interest rate risk inherent in our operations. See Note 8 to our consolidated financial statements.

A summary of our contractual obligations and commercial commitments at May 29, 2016, is as follows:

(in millions)	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Contractual Obligations					
Long-term debt ⁽¹⁾	\$1,080.2	\$ 30.2	\$ 60.3	\$ 60.3	\$ 929.4
Leases ⁽²⁾	3,060.9	310.6	585.7	515.3	1,649.3
Purchase obligations ⁽³⁾	378.6	318.0	50.7	9.9	—
Benefit obligations ⁽⁴⁾	379.6	27.1	58.7	73.5	220.3
Unrecognized income tax benefits ⁽⁵⁾	15.1	1.3	2.4	11.4	—
Total contractual obligations	\$4,914.4	\$687.2	\$757.8	\$670.4	\$2,799.0

(in millions)	Total Amounts Committed	Amount of Commitment Expiration per Period			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Other Commercial Commitments					
Standby letters of credit ⁽⁶⁾	\$124.9	\$124.9	\$ —	\$ —	\$ —
Guarantees ⁽⁷⁾	154.2	36.6	58.3	35.9	23.4
Total commercial commitments	\$279.1	\$161.5	\$58.3	\$35.9	\$23.4

(1) Includes interest payments associated with existing long-term debt, including the current portion. Excludes discount and issuance costs of \$10.0 million.

(2) Inclusive of all arrangements accounted for as operating, capital and financing leases. Includes imputed interest of \$76.6 million over the life of financing lease obligations and imputed interest of \$27.0 million over the life of capital lease obligations.

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

(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 2026.

(5) Includes interest on unrecognized income tax benefits of \$0.7 million, \$0.1 million of which relates to contingencies expected to be resolved within one year.

(6) Includes letters of credit for \$116.5 million of workers' compensation and general liabilities accrued in our consolidated financial statements and letters of credit for \$8.4 million related to contractual operating lease obligations and other payments.

(7) Consists solely of guarantees associated with leased properties that have been assigned to third parties and are primarily related to the disposition of Red Lobster. 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.

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Our fixed-charge coverage ratio, which measures the number of times each year that we earn enough to cover our fixed charges, amounted to 2.7 times and 1.7 times, on a continuing operations basis, for the fiscal years ended May 29, 2016 and May 31, 2015, respectively. Our adjusted debt to adjusted total capital ratio (which includes 6.25 times the total annual minimum rent on a consolidated basis of \$248.5 million and \$182.1 million for the fiscal years ended May 29, 2016 and May 31, 2015, respectively, as components of adjusted debt and adjusted total capital) was 53 percent and 55 percent as of May 29, 2016 and May 31, 2015, respectively. 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.

<i>(in millions, except ratios)</i>	May 29, 2016	May 31, 2015
CAPITAL STRUCTURE		
Current portion long-term debt	\$ —	\$ 15.0
Long-term debt, excluding unamortized discount and issuance costs	450.0	1,466.6
Capital lease obligations	52.0	54.5
Total debt	\$ 502.0	\$1,536.1
Stockholders' equity	1,952.0	2,333.5
Total capital	\$2,454.0	\$3,869.6
CALCULATION OF ADJUSTED CAPITAL		
Total debt	\$ 502.0	\$1,536.1
Lease-debt equivalent	1,553.1	1,138.1
Guarantees	154.2	147.7
Adjusted debt	\$2,209.3	\$2,821.9
Stockholders' equity	1,952.0	2,333.5
Adjusted total capital	\$4,161.3	\$5,155.4
CAPITAL STRUCTURE RATIOS		
Debt to total capital ratio	20%	40%
Adjusted debt to adjusted total capital ratio	53%	55%

Net cash flows provided by operating activities from continuing operations were \$820.4 million, \$874.3 million and \$555.4 million in fiscal 2016, 2015 and 2014, respectively. Net cash flows provided by operating activities include net earnings from continuing operations of \$359.7 million, \$196.4 million and \$183.2 million in fiscal 2016, 2015 and 2014, respectively. Net cash flows provided by operating activities from continuing operations decreased in fiscal 2016 primarily due to current period activity of taxable timing differences and the timing of inventory purchases, offset by higher net earnings from continuing operations. Net cash flows provided by operating activities from continuing operations increased in fiscal 2015 primarily due to higher net earnings from continuing operations, a reduction in current period continuing operations income taxes paid and the timing of inventory purchases.

Net cash flows provided by investing activities from continuing operations were \$75.4 million in fiscal 2016 compared to net cash flows used in investing activities from continuing operations of \$235.1 million and \$436.3 million in fiscal 2015 and 2014, respectively. Proceeds from the disposal of land, buildings and equipment of \$325.2 million in fiscal 2016 reflect the impact of closed sale-leaseback transactions. Capital expenditures incurred principally for building new restaurants, remodeling existing restaurants, replacing equipment, and technology initiatives were \$228.3 million in fiscal 2016, compared to \$296.5 million in fiscal 2015 and \$414.8 million in fiscal 2014. The decreasing trend of expenditures from fiscal 2014 to fiscal 2016 results primarily from decreases in remodel and new restaurant activity.

Net cash flows used in financing activities from continuing operations were \$1.12 billion in fiscal 2016, compared to \$1.78 billion in fiscal 2015 and \$179.2 million in fiscal 2014. Net cash flows used in financing activities in fiscal 2016 reflected long-term debt payments of \$1.10 billion, including repurchase premiums and make-whole provisions, dividend payments of \$268.2 million and share repurchases of \$184.8 million, partially offset by the \$315.0 million cash dividend received by us from Four Corners and proceeds from the exercise of employee stock options. Net cash flows used in financing activities in fiscal 2015 reflected long-term debt payments of \$1.07 billion, including repurchase premiums and make-whole provisions, dividend payments of \$278.9 million, share repurchases of \$502.3 million and net repayments of short-term debt \$207.6 million, partially offset by proceeds from the exercise of employee stock options. Net cash flows used in financing activities in fiscal 2014 included dividend payments of \$288.3 million, partially offset by net proceeds from the issuance of short-term debt and from the exercise of employee stock options.

Our defined benefit and other postretirement benefit costs and liabilities are determined using various actuarial assumptions and methodologies prescribed under Financial Accounting Standards Board Accounting Standards Codification 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 and expected long-term rate of return on plan assets. 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 29, 2016, our discount rate was 4.2 percent and 4.0 percent, respectively, for our defined benefit and postretirement benefit plans. The expected long-term rate of return on plan assets is 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 plans was 6.5 percent for fiscal year 2016, 7.0 percent for fiscal year 2015 and 8.0 percent for fiscal year 2014. In fiscal 2016, we made defined benefit plans contributions of approximately \$25.4 million, which included a voluntary funding contribution of \$25.0 million. We made defined benefit plans contributions of approximately \$0.4 million and \$0.4 million in fiscal years 2015 and 2014, respectively.

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

DARDEN

We have a recognized net loss of \$87.9 million (net of tax) and a recognized net gain of \$2.4 million (net of tax) as components of accumulated other comprehensive income (loss) for the defined benefit plans and postretirement benefit plan, respectively, as of May 29, 2016. These net gains and 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 loss component of our fiscal 2017 net periodic benefit cost for the defined benefit plans is expected to be approximately \$2.0 million (net of tax). The amortization of the net gain component of our fiscal 2017 net periodic benefit cost for the postretirement benefit plan is expected to be approximately \$1.9 million (net of tax).

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. 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 \$1.3 million to our postretirement benefit plan during fiscal 2017.

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 2017.

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 \$820.3 million at May 29, 2016, compared with \$1.06 billion at May 31, 2015. The decrease was primarily due to the decrease in cash and cash equivalents driven by the pay down of our long-term debt.

Our total current liabilities were \$1.19 billion at May 29, 2016, compared with \$1.20 billion at May 31, 2015. The decrease was primarily due to a decrease in other current liabilities related to the recognition of contingent proceeds from the sale of Red Lobster offset by an increase in unearned revenues associated with gift card sales in excess of 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 8 to our consolidated financial statements).

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 29, 2016, 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 \$25.2 million over a period of one year. The value at risk from an increase in the fair value of all of our long-term fixed-rate debt, over a period of one year, was approximately \$73.0 million. The fair value of our long-term fixed-rate debt outstanding as of May 29, 2016, averaged \$492.2 million, with a high of \$536.8 million and a low of \$462.1 million during fiscal 2016. 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

See Note 1 to our consolidated financial statements for a discussion of recently issued accounting standards.

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

DARDEN

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 2017, 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," "outlook" 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 29, 2016, which are summarized as follows:

- 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;
- 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 environmental matters, minimum wage, unionization, data privacy, menu labeling, immigration requirements and taxes;
- The inability to cancel long-term, non-cancelable leases that we may want to cancel or the inability to renew the leases that we may want to extend at the end of their terms;
- Labor and insurance costs;
- 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 guest relationship tactics and ineffective or improper use of social media or other marketing initiatives;
- 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 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 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 AND MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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.



Eugene I. Lee, Jr.
President 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 29, 2016. 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 (2013)*. Management has concluded that, as of May 29, 2016, 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. and subsidiaries' internal control over financial reporting as of May 29, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* 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 29, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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. as of May 29, 2016 and May 31, 2015, 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 29, 2016, and our report dated July 25, 2016 expressed an unqualified opinion on those consolidated financial statements.

The logo for KPMG LLP, featuring the letters 'KPMG' in a large, bold, red, handwritten-style font, followed by 'LLP' in a smaller, black, sans-serif font.

Orlando, Florida
July 25, 2016
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 29, 2016 and May 31, 2015, 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 29, 2016. 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. as of May 29, 2016 and May 31, 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended May 29, 2016, 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 29, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated July 25, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

The logo for KPMG LLP, featuring the letters 'KPMG' in a large, bold, stylized font, with 'LLP' in a smaller, simpler font to the right.

Orlando, Florida
July 25, 2016
Certified Public Accountants

CONSOLIDATED STATEMENTS OF EARNINGS

DARDEN

(in millions, except per share data)	Fiscal Year Ended		
	May 29, 2016	May 31, 2015	May 25, 2014
Sales	\$6,933.5	\$6,764.0	\$6,285.6
Costs and expenses:			
Food and beverage	2,039.7	2,085.1	1,892.2
Restaurant labor	2,189.2	2,135.6	2,017.6
Restaurant expenses	1,163.5	1,120.8	1,080.7
Marketing expenses	238.0	243.3	252.3
General and administrative expenses	384.9	430.2	413.1
Depreciation and amortization	290.2	319.3	304.4
Impairments and disposal of assets, net	5.8	62.1	16.4
Total operating costs and expenses	\$6,311.3	\$6,396.4	\$5,976.7
Operating income	622.2	367.6	308.9
Interest, net	172.5	192.3	134.3
Earnings before income taxes	449.7	175.3	174.6
Income tax expense (benefit)	90.0	(21.1)	(8.6)
Earnings from continuing operations	\$ 359.7	\$ 196.4	\$ 183.2
Earnings from discontinued operations, net of tax expense of \$3.4, \$344.8 and \$32.3, respectively	15.3	513.1	103.0
Net earnings	\$ 375.0	\$ 709.5	\$ 286.2
Basic net earnings per share:			
Earnings from continuing operations	\$ 2.82	\$ 1.54	\$ 1.40
Earnings from discontinued operations	0.12	4.02	0.78
Net earnings	\$ 2.94	\$ 5.56	\$ 2.18
Diluted net earnings per share:			
Earnings from continuing operations	\$ 2.78	\$ 1.51	\$ 1.38
Earnings from discontinued operations	0.12	3.96	0.77
Net earnings	\$ 2.90	\$ 5.47	\$ 2.15
Average number of common shares outstanding:			
Basic	127.4	127.7	131.0
Diluted	129.3	129.7	133.2
Dividends declared per common share	\$ 2.10	\$ 2.20	\$ 2.20

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(in millions)	Fiscal Year Ended		
	May 29, 2016	May 31, 2015	May 25, 2014
Net earnings	\$375.0	\$709.5	\$286.2
Other comprehensive income (loss):			
Foreign currency adjustment	0.5	3.0	(2.9)
Change in fair value of marketable securities, net of taxes of \$0.0, \$0.0 and \$0.0, respectively	—	—	(0.1)
Change in fair value of derivatives and amortization of unrecognized gains and losses on derivatives, net of taxes of \$14.3, \$17.4 and \$3.9, respectively	23.0	31.3	3.4
Net unamortized gain (loss) arising during period, including amortization of unrecognized net actuarial loss, net of taxes of \$(16.0), \$4.8 and \$2.9, respectively	(23.9)	7.2	4.3
Other comprehensive income (loss)	\$ (0.4)	\$ 41.5	\$ 4.7
Total comprehensive income	\$374.6	\$751.0	\$290.9

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

DARDEN

<i>(in millions)</i>	May 29, 2016	May 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 274.8	\$ 535.9
Receivables, net	64.0	78.0
Inventories	175.4	163.9
Prepaid income taxes	46.1	18.9
Prepaid expenses and other current assets	76.4	69.4
Deferred income taxes	163.3	157.4
Assets held for sale	20.3	32.9
Total current assets	\$ 820.3	\$1,056.4
Land, buildings and equipment, net	2,041.6	3,215.8
Goodwill	872.3	872.4
Trademarks	574.6	574.6
Other assets	273.8	275.5
Total assets	\$4,582.6	\$5,994.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 241.9	\$ 198.8
Accrued payroll	135.1	141.1
Accrued income taxes	—	12.6
Other accrued taxes	49.1	51.5
Unearned revenues	360.4	328.6
Current portion of long-term debt	—	15.0
Other current liabilities	400.6	449.1
Total current liabilities	\$1,187.1	\$1,196.7
Long-term debt, less current portion	440.0	1,452.3
Deferred income taxes	255.2	341.8
Deferred rent	249.7	225.9
Other liabilities	498.6	444.5
Total liabilities	\$2,630.6	\$3,661.2
Stockholders' equity:		
Common stock and surplus, no par value. Authorized 500.0 shares; issued 127.5 and 127.9 shares, respectively; outstanding 126.2 and 126.7 shares, respectively	1,502.6	1,405.9
Preferred stock, no par value. Authorized 25.0 shares; none issued and outstanding	—	—
Retained earnings	547.5	1,026.0
Treasury stock, 1.3 and 1.3 shares, at cost, respectively	(7.8)	(7.8)
Accumulated other comprehensive income (loss)	(87.0)	(86.6)
Unearned compensation	(3.3)	(4.0)
Total stockholders' equity	\$1,952.0	\$2,333.5
Total liabilities and stockholders' equity	\$4,582.6	\$5,994.7

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

DARDEN

<i>(in millions, except per share data)</i>	Common Stock and Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total Stockholders' Equity
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 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
Net earnings	—	709.5	—	—	—	709.5
Other comprehensive income	—	—	—	41.5	—	41.5
Dividends declared (\$2.20 per share)	—	(279.5)	—	—	—	(279.5)
Stock option exercises (4.2 shares)	154.6	—	—	—	—	154.6
Stock-based compensation	26.4	—	—	—	—	26.4
ESOP note receivable repayments	—	—	—	—	1.2	1.2
Income tax benefits credited to equity	18.4	—	—	—	—	18.4
Repurchases of common stock (10.0 shares)	(102.5)	(399.8)	—	—	—	(502.3)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.1 shares)	6.8	—	—	—	—	6.8
Balances at May 31, 2015	\$1,405.9	\$1,026.0	\$(7.8)	\$ (86.6)	\$(4.0)	\$2,333.5
Net earnings	—	375.0	—	—	—	375.0
Other comprehensive income	—	—	—	(0.4)	—	(0.4)
Dividends declared (\$2.10 per share)	—	(268.2)	—	—	—	(268.2)
Stock option exercises (2.4 shares)	94.4	—	—	—	—	94.4
Stock-based compensation	14.9	—	—	—	—	14.9
ESOP note receivable repayments	—	—	—	—	0.6	0.6
Income tax benefits credited to equity	17.5	—	—	—	—	17.5
Repurchases of common stock (3.0 shares)	(34.9)	(149.9)	—	—	—	(184.8)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.2 shares)	4.8	—	—	—	0.1	4.9
Separation of Four Corners Property Trust	—	(435.4)	—	—	—	(435.4)
Balances at May 29, 2016	\$1,502.6	\$ 547.5	\$(7.8)	\$ (87.0)	\$(3.3)	\$1,952.0

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

DARDEN

(in millions)	Fiscal Year Ended		
	May 29, 2016	May 31, 2015	May 25, 2014
Cash flows – operating activities			
Net earnings	\$ 375.0	\$ 709.5	\$ 286.2
Earnings from discontinued operations, net of tax	(15.3)	(513.1)	(103.0)
Adjustments to reconcile net earnings from continuing operations to cash flows:			
Depreciation and amortization	290.2	319.3	304.4
Impairments and disposal of assets, net	5.8	62.1	16.4
Amortization of loan costs and losses on interest-rate related derivatives	3.6	8.6	13.8
Stock-based compensation expense	37.3	53.7	38.7
Change in current assets and liabilities	13.7	76.3	0.6
Contributions to pension and postretirement plans	(26.5)	(1.5)	(1.4)
Change in cash surrender value of trust-owned life insurance	3.3	(6.5)	(12.2)
Deferred income taxes	(10.8)	42.0	(44.9)
Change in deferred rent	23.8	22.0	29.5
Change in other assets and liabilities	5.3	3.8	18.9
Loss on extinguishment of debt	106.8	91.3	—
Other, net	8.2	6.8	8.4
Net cash provided by operating activities of continuing operations	\$ 820.4	\$ 874.3	\$ 555.4
Cash flows – investing activities			
Purchases of land, buildings and equipment	(228.3)	(296.5)	(414.8)
Proceeds from disposal of land, buildings and equipment	325.2	67.9	4.4
Purchases of marketable securities	—	—	(3.0)
Proceeds from sale of marketable securities	1.8	9.7	8.7
Purchases of capitalized software and other assets	(23.3)	(16.2)	(31.6)
Net cash provided by (used in) investing activities of continuing operations	\$ 75.4	\$ (235.1)	\$ (436.3)
Cash flows – financing activities			
Proceeds from issuance of common stock	99.3	159.7	58.1
Income tax benefits credited to equity	17.5	18.4	10.9
Special cash distribution from Four Corners Property Trust	315.0	—	—
Dividends paid	(268.2)	(278.9)	(288.3)
Repurchases of common stock	(184.8)	(502.3)	(0.5)
ESOP note receivable repayments	0.6	1.2	0.9
Proceeds from issuance of short-term debt	—	397.4	2,616.3
Repayments of short-term debt	—	(605.0)	(2,573.2)
Repayments of long-term debt	(1,096.8)	(1,065.9)	—
Payment of debt issuance costs	—	—	(1.4)
Principal payments on capital leases	(3.4)	(2.2)	(2.0)
Proceeds from financing lease obligation	—	93.1	—
Net cash used in financing activities of continuing operations	\$ (1,120.8)	\$ (1,784.5)	\$ (179.2)
Cash flows – discontinued operations			
Net cash provided by (used in) operating activities of discontinued operations	(42.4)	(403.3)	214.7
Net cash provided by (used in) investing activities of discontinued operations	6.3	1,986.2	(144.5)
Net cash provided by (used in) discontinued operations	\$ (36.1)	\$ 1,582.9	\$ 70.2
Increase (decrease) in cash and cash equivalents	(261.1)	437.6	10.1
Cash and cash equivalents – beginning of year	535.9	98.3	88.2
Cash and cash equivalents – end of year	\$ 274.8	\$ 535.9	\$ 98.3
Cash flows from changes in current assets and liabilities			
Receivables, net	\$ 14.0	\$ 7.8	\$ (1.5)
Inventories	(11.8)	64.5	(25.6)
Prepaid expenses and other current assets	(10.8)	2.9	0.5
Accounts payable	45.6	(20.9)	27.2
Accrued payroll	(5.9)	23.4	7.5
Prepaid/accrued income taxes	(21.3)	(13.8)	(21.0)
Other accrued taxes	(1.4)	2.2	—
Unearned revenues	46.0	34.9	28.8
Other current liabilities	(40.7)	(24.7)	(15.3)
Change in current assets and liabilities	\$ 13.7	\$ 76.3	\$ 0.6

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DARDEN

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®, LongHorn Steakhouse®, The Capital Grille®, Yard House®, Bahama Breeze®, Seasons 52®, and Eddie V's Prime Seafood® and Wildfish Seafood Grille® (collectively, "Eddie V's") 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 6 joint venture restaurants managed by us and 18 franchised restaurants. We also have 32 franchised restaurants in operation located in Latin America, the Middle East and Malaysia. All significant intercompany 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 and closed the sale on July 28, 2014. For fiscal 2016, 2015 and 2014, all gains and losses on disposition, impairment charges and disposal costs, along with the sales, costs and expenses and income taxes attributable to the discontinued locations, have been aggregated in a single caption entitled "Earnings from discontinued operations, net of tax expense" in our consolidated statements of earnings for all periods presented. See Note 3 for additional information.

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 2016, which ended May 29, 2016, consisted of 52 weeks. Fiscal 2015, which ended May 31, 2015, consisted of 53 weeks and fiscal 2014, which ended May 25, 2014, consisted of 52 weeks.

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 AND 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. The components of cash and cash equivalents are as follows:

<i>(in millions)</i>	May 29, 2016	May 31, 2015
Short-term investments	\$166.7	\$455.5
Credit card receivables	81.1	77.8
Depository accounts	27.0	2.6
Total Cash and Cash Equivalents	\$274.8	\$535.9

As of May 29, 2016, and May 31, 2015, we had cash and cash equivalent accounts in excess of insured limits. We manage the credit risk of our positions through utilizing multiple financial institutions and monitoring the credit quality of those financial institutions that hold our cash and cash equivalents.

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 12.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DARDEN

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 15 years also using the straight-line method. See Note 5 for additional information. Gains and losses on the disposal of land, buildings and equipment are included in impairments and disposal of assets, net, while the write-off of un depreciated book value associated with the replacement of equipment in the normal course of business is recorded as a component of restaurant expenses in our accompanying consolidated statements of earnings. Depreciation and amortization expense from continuing operations associated with buildings and equipment and losses on replacement of equipment were as follows:

<i>(in millions)</i>	Fiscal Year		
	2016	2015	2014
Depreciation and amortization on buildings and equipment	\$274.4	\$305.0	\$296.3
Losses on replacement of equipment	5.5	5.5	4.4

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:

<i>(in millions)</i>	May 29, 2016	May 31, 2015
	Capitalized software	\$169.7
Accumulated amortization	(93.1)	(80.4)
Capitalized software, net of accumulated amortization	\$ 76.6	\$ 67.6

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:

<i>(in millions)</i>	May 29, 2016	May 31, 2015
Other definite-lived intangibles	\$ 14.2	\$ 15.1
Accumulated amortization	(7.3)	(7.3)
Other definite-lived intangible assets, net of accumulated amortization	\$ 6.9	\$ 7.8
Below-market leases	\$ 29.2	\$ 29.2
Accumulated amortization	(13.3)	(11.5)
Below-market leases, net of accumulated amortization	\$ 15.9	\$ 17.7
Above-market leases	\$(21.4)	\$(21.4)
Accumulated amortization	8.3	6.4
Above-market leases, net of accumulated amortization	\$(13.1)	\$(15.0)

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:

<i>(in millions)</i>	Fiscal Year		
	2016	2015	2014
Amortization expense – capitalized software	\$14.9	\$13.3	\$7.0
Amortization expense – other definite-lived intangibles	0.9	1.0	1.1

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:

<i>(in millions)</i>	Fiscal Year		
	2016	2015	2014
Restaurant expense – below-market leases	\$ 1.8	\$ 1.8	\$ 1.8
Restaurant expense – above-market leases	(1.4)	(1.4)	(1.4)

Amortization of capitalized software and other definite-lived intangible assets will be approximately \$17.6 million annually for fiscal 2017 through 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DARDEN

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 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:

	Goodwill		Trademarks	
	May 29, 2016	May 31, 2015	May 29, 2016	May 31, 2015
<i>(in millions)</i>				
Olive Garden ⁽¹⁾	\$ 30.2	\$ 30.2	\$ —	\$ —
LongHorn Steakhouse	49.3	49.3	307.8	307.8
The Capital Grille	401.6	401.7	147.0	147.0
Yard House	369.2	369.2	109.3	109.3
Eddie V's	22.0	22.0	10.5	10.5
Total	\$872.3	\$872.4	\$574.6	\$574.6

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

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.

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 is 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DARDEN

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, sales prices of comparable assets or discounted future net cash flows expected to be generated by the 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 on 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. 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 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 13 for additional information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DARDEN

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 derivatives to manage interest rate and compensation risks inherent in our business operations. Our use of derivative instruments is currently limited to equity forwards 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. 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 8 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 we are reasonably assured to exercise the options. 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. Sale-leasebacks are transactions through which we sell assets (such as restaurant properties) at fair value and subsequently lease them back. The resulting leases generally qualify and are accounted for as operating leases. Financing leases are generally the product of a failed sale-leaseback transaction and result in retention of the "sold" assets within land, buildings and equipment with a financing lease obligation equal to the amount of proceeds received recorded as a component of other liabilities on our consolidated balance sheets.

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. 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. Gains on sale-leaseback transactions are recorded as a deferred 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 and reported as marketing expenses on our consolidated statements of earnings.

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 recognize compensation expense on a straight-line basis over the employee service period for awards granted. We utilize the Black-Scholes option pricing model to estimate the fair value of stock option awards. 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. We utilize a Monte Carlo simulation to estimate the fair value of our market-based equity-settled performance awards. See Note 15 for further information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DARDEN

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, restricted stock and equity-settled performance stock units 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:

<i>(in millions, except per share data)</i>	Fiscal Year		
	2016	2015	2014
Earnings from continuing operations	\$359.7	\$196.4	\$183.2
Earnings from discontinued operations	15.3	513.1	103.0
Net earnings	\$375.0	\$709.5	\$286.2
Average common shares outstanding – Basic	127.4	127.7	131.0
Effect of dilutive stock-based compensation	1.9	2.0	2.2
Average common shares outstanding – Diluted	129.3	129.7	133.2
Basic net earnings per share:			
Earnings from continuing operations	\$ 2.82	\$ 1.54	\$ 1.40
Earnings from discontinued operations	0.12	4.02	0.78
Net earnings	\$ 2.94	\$ 5.56	\$ 2.18
Diluted net earnings per share:			
Earnings from continuing operations	\$ 2.78	\$ 1.51	\$ 1.38
Earnings from discontinued operations	0.12	3.96	0.77
Net earnings	\$ 2.90	\$ 5.47	\$ 2.15

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:

<i>(in millions)</i>	Fiscal Year Ended		
	May 29, 2016	May 31, 2015	May 25, 2014
Anti-dilutive restricted stock and options	0.3	0.1	4.2

FOREIGN CURRENCY

The Canadian dollar is the functional currency for our Canadian restaurant operations and the Malaysian ringgit is the functional currency for our franchises 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 \$1.2 million and \$1.7 million at May 29, 2016 and May 31, 2015, respectively. Net losses from foreign currency transactions recognized in our consolidated statements of earnings were \$1.8 million and \$1.4 million for fiscal 2016 and 2015, respectively, and was not significant for fiscal 2014.

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, 2017, which requires us to adopt these provisions in the first quarter of fiscal 2019. Early adoption is 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 July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory (Topic 330). This update requires inventory within the scope of the standard to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. 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 adoption is permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740). This update requires that deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. 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 adoption is permitted. Other than the revised balance sheet presentation of deferred tax liabilities and assets, we do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This update requires a lessee to recognize on the balance sheet a liability to make lease payments and a corresponding right-of-use asset. The guidance also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. This update is effective for annual and interim periods beginning after December 15, 2018, which will require us to adopt these provisions in the first quarter of fiscal 2020 using a modified retrospective approach. Early adoption is permitted. We have not yet selected a transition date nor have we determined the effect of the standard on our ongoing financial reporting.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718). This update was issued as part of the FASB's simplification initiative and affects all entities that issue share-based payment awards to their employees. The amendments in this update cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. 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. This guidance will be applied either prospectively, retrospectively or using a

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modified retrospective transition method, depending on the area covered in this update. Early adoption is permitted. We have not yet selected a transition date nor have we determined the effect of the standard on our ongoing financial reporting.

NOTE 2 REAL ESTATE TRANSACTIONS

As a result of a comprehensive evaluation for the monetization of our real estate portfolio, we undertook strategies to pursue sale-leaseback transactions of individual restaurant properties and our corporate headquarters and to transfer 424 of our restaurant properties into a REIT, with substantially all of the REIT's initial assets being leased back to Darden.

SALE-LEASEBACKS

During fiscal 2015, we implemented a plan to pursue sale-leaseback transactions of 64 restaurant properties. Fourteen of the transactions closed in the fourth quarter of fiscal 2015, and the remaining 50 transactions closed in fiscal 2016. The 64 individual sale-leasebacks generated net proceeds of \$238.0 million, resulting in deferred gains totaling \$49.0 million which will be amortized over the expected leaseback periods on a straight-line basis. Additionally, during fiscal 2016, we completed the sale-leaseback of our corporate headquarters, generating net proceeds of \$131.0 million, resulting in a deferred gain of \$6.3 million, which will be amortized over the expected leaseback period on a straight-line basis.

REIT TRANSACTION – SEPARATION OF FOUR CORNERS

On June 23, 2015, we announced our plan to separate our business into two separate and independent publicly traded companies. We accomplished this separation on November 9, 2015, with the pro rata distribution of one share of Four Corners Property Trust, Inc. (Four Corners) common stock for every three shares of Darden common stock to holders of Darden common stock. The separation, which was completed pursuant to a separation and distribution agreement between Darden and Four Corners, included (i) the transfer of 6 LongHorn Steakhouse restaurants located in the San Antonio, Texas area (the LongHorn San Antonio Business) as well as 418 restaurant properties (the Four Corners Properties) to Four Corners, which were subsequently leased back to Darden; (ii) the issuance to us of all of the outstanding common stock of Four Corners and corresponding pro rata distribution to our shareholders of the outstanding shares of Four Corners common stock as a tax-free stock dividend; and (iii) a cash dividend of \$315.0 million received by us from Four Corners from the proceeds of Four Corners' term loan borrowings. We requested and received a private letter ruling from the Internal Revenue Service on certain issues relevant to the qualification of the spin-off as a tax-free transaction.

Our shareholders' equity decreased by \$435.4 million as a result of the separation of Four Corners. The components of the decrease, principally comprised of the net book value of the net assets that we contributed to Four Corners in connection with the separation, included \$834.8 million in net book value of fixed assets, \$84.4 million consisting primarily of deferred tax liabilities, offset by the \$315.0 million cash dividend received by us from Four Corners.

AGREEMENTS WITH FOUR CORNERS

We entered into lease agreements with Four Corners, pursuant to which we leased the Four Corners Properties on a triple-net basis with terms comparable to similar leases negotiated on an arm's-length basis. Under the lease agreements, our subsidiaries are the tenant, while Four Corners is the landlord. The leases are triple-net leases that provide for an average initial term of approximately 15 years with stated annual rental payments and options to extend the leases for another 15 years. Under the lease agreements, the rent is subject to annual escalations of 1.5 percent, as well as, in most of the leases, a fair market value adjustment at the start of one of the renewal options.

We entered into franchise agreements with Four Corners pursuant to which we provide certain franchising services to Four Corners' subsidiary which operates the LongHorn San Antonio Business. The franchising services consist of licensing the right to use and display certain trademarks in connection with the operation of the LongHorn San Antonio Business, marketing services, training and access to certain LongHorn operating procedures. The fees and conditions of these franchising services are on terms comparable to similar franchising services negotiated on an arm's-length basis.

DEBT RETIREMENT

During fiscal 2016, utilizing the proceeds of the Four Corners cash dividend, cash proceeds from the sale-leasebacks of restaurant properties and our corporate headquarters and additional cash on hand, we retired approximately \$1.03 billion aggregate principal of long-term debt (see Note 7 for additional details).

NOTE 3 DISPOSITIONS

On July 28, 2014, we closed on the sale of 705 Red Lobster restaurants. All direct cash flows related to operating these businesses were eliminated at the date of sale. Our continuing involvement has primarily been limited to a transition services agreement, pursuant to which we provide limited, specific services for up to two years from the date of sale with minimal impact to our cash flows. In total, we have recognized a pre-tax gain on the sale of Red Lobster of \$854.8 million, which is included in earnings from discontinued operations in our consolidated statements of earnings.

For fiscal 2016, 2015 and 2014, all gains on disposition, impairment charges and disposal costs, along with the sales, costs and expenses and income taxes attributable to these restaurants, have been aggregated in a single caption entitled "Earnings (loss) from discontinued operations, net of tax expense (benefit)" in our consolidated statements of earnings for all periods presented. No amounts for shared general and administrative operating support expense or interest expense were allocated to discontinued operations. Assets associated with those restaurants not yet disposed of, that are considered held for sale, have been segregated from continuing operations and are included in assets held for sale on our accompanying consolidated balance sheets.

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Earnings from discontinued operations, net of taxes in our accompanying consolidated statements of earnings are comprised of the following:

(in millions)	Fiscal Year Ended		
	May 29, 2016	May 31, 2015	May 25, 2014
Sales	\$ —	\$ 400.4	\$ 2,472.1
Costs and expenses:			
Restaurant and marketing expenses	1.8	353.0	2,134.1
Depreciation and amortization	—	0.2	124.6
Other income and expenses ⁽¹⁾	(20.5)	(810.7)	78.1
Earnings before income taxes	18.7	857.9	135.3
Income tax expense	3.4	344.8	32.3
Earnings from discontinued operations, net of tax	\$ 15.3	\$ 513.1	\$ 103.0

(1) Amounts for fiscal years 2016 and 2015 primarily relate to the gain recognized on the sale of Red Lobster.

Assets classified as held for sale on our accompanying consolidated balance sheets as of May 29, 2016, consisted of land, buildings and equipment with carrying amounts of \$20.3 million primarily related to excess land parcels adjacent to our corporate headquarters. Assets classified as held for sale on our accompanying consolidated balance sheets as of May 31, 2015 consisted of land, buildings and equipment with carrying amounts of \$32.9 million related to Red Lobster properties subject to landlord consents and excess land parcels adjacent to our corporate headquarters.

NOTE 4 IMPAIRMENTS AND DISPOSAL OF ASSETS, NET

Impairments and disposal of assets, net, in our accompanying consolidated statements of earnings are comprised of the following:

(in millions)	Fiscal Year		
	2016	2015	2014
Restaurant impairments	\$ 9.2	\$ 49.4	\$ 11.5
Disposal gains	(5.9)	(4.2)	(1.9)
Other	2.5	16.9	6.8
Impairments and disposal of assets, net	\$ 5.8	\$ 62.1	\$ 16.4

Restaurant impairments for fiscal 2016 and 2015 were primarily related to underperforming restaurants and restaurant assets involved in individual sale-leaseback transactions. Restaurant impairments for fiscal 2014 were primarily related to underperforming restaurants.

Disposal gains for fiscal 2016 and 2015 were primarily related to the sale of land parcels and sale-leaseback transactions. Disposal gains for fiscal 2014 were primarily related to the sale of land parcels.

Other impairment charges for fiscal 2016 primarily related to a cost-method investment and the expected disposal of excess land parcels adjacent to our corporate headquarters which are held for sale. During fiscal 2015, other impairment charges related to the expected disposal of excess land parcels adjacent to our corporate headquarters, our lobster aquaculture project and a corporate airplane in connection with the closure of our aviation department. Other impairment charges for fiscal 2014 primarily related to a corporate airplane in connection with its expected sale.

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 discounted future cash flows. These amounts are included in impairments and disposal of assets, net as a component of earnings from continuing operations in the accompanying consolidated statements of earnings.

NOTE 5 LAND, BUILDINGS AND EQUIPMENT, NET

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

(in millions)	May 29, 2016	May 31, 2015
Land	\$ 133.1	\$ 633.5
Buildings	2,297.1	3,338.9
Equipment	1,318.5	1,439.1
Assets under capital leases	71.9	72.0
Construction in progress	40.0	36.9
Total land, buildings and equipment	\$ 3,860.6	\$ 5,520.4
Less accumulated depreciation and amortization	(1,788.3)	(2,277.7)
Less amortization associated with assets under capital leases	(30.7)	(26.9)
Land, buildings and equipment, net	\$ 2,041.6	\$ 3,215.8

NOTE 6 SEGMENT INFORMATION

We manage our restaurant brands, Olive Garden, LongHorn Steakhouse, The Capital Grille, Yard House, Bahama Breeze, Seasons 52 and Eddie V's in North America as operating segments. The brands operate principally in the U.S. within full-service dining. We aggregate our operating segments into reportable segments based on a combination of the size, economic characteristics and sub-segment of full-service dining within which each brand operates. We have four reportable segments: (1) Olive Garden, (2) LongHorn Steakhouse, (3) Fine Dining and (4) Other Business.

The Olive Garden segment includes the results of our company-owned Olive Garden restaurants in the U.S. and Canada. The LongHorn Steakhouse segment includes the results of our company-owned LongHorn Steakhouse restaurants in the U.S. The Fine Dining segment aggregates our premium brands that operate within the fine-dining sub-segment of full-service dining and includes the results of our company-owned The Capital Grille and Eddie V's restaurants in the U.S. The Other Business segment aggregates our remaining brands and includes the results of our company-owned Yard House, Seasons 52 and Bahama Breeze restaurants in the U.S. This segment also includes results from our franchises and consumer-packaged goods sales.

External sales are derived principally from food and beverage sales. We do not rely on any major customers as a source of sales, and the customers and long-lived assets of our reportable segments are predominantly in the U.S. There were no material transactions among reportable segments.

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Our management uses segment profit as the measure for assessing performance of our segments. Segment profit includes revenues and expenses directly attributable to restaurant-level results of operations (sometimes referred to as restaurant-level earnings). These expenses include food and beverage costs, restaurant labor costs, restaurant expenses and marketing expenses (collectively "restaurant and marketing expenses"). The following tables reconcile our segment results to our consolidated results reported in accordance with GAAP:

<i>(in millions)</i>	Olive Garden	LongHorn Steakhouse	Fine Dining	Other Business	Corporate	Consolidated
At May 29, 2016 and for the year ended						
Sales	\$3,838.6	\$1,587.7	\$514.1	\$ 993.1	\$ —	\$6,933.5
Restaurant and marketing expenses	3,079.4	1,312.4	413.6	825.0	—	5,630.4
Segment profit	\$ 759.2	\$ 275.3	\$100.5	\$ 168.1	\$ —	\$1,303.1
Depreciation and amortization	\$ 124.1	\$ 67.9	\$ 27.1	\$ 50.5	\$ 20.6	\$ 290.2
Impairments and disposal of assets, net	(1.4)	(1.5)	0.7	6.0	2.0	5.8
Segment assets	939.2	969.2	857.0	987.6	829.6	4,582.6
Purchases of land, buildings and equipment	95.6	46.9	21.4	60.5	3.9	228.3

<i>(in millions)</i>	Olive Garden	LongHorn Steakhouse	Fine Dining	Other Business	Corporate	Consolidated
At May 31, 2015 and for the year ended						
Sales	\$3,789.6	\$1,544.7	\$500.1	\$ 929.6	\$ —	\$6,764.0
Restaurant and marketing expenses	3,089.1	1,304.8	405.2	785.7	—	5,584.8
Segment profit	\$ 700.5	\$ 239.9	\$ 94.9	\$ 143.9	\$ —	\$1,179.2
Depreciation and amortization	\$ 149.8	\$ 71.6	\$ 26.4	\$ 47.3	\$ 24.2	\$ 319.3
Impairments and disposal of assets, net	28.2	0.4	—	21.0	12.5	62.1
Segment assets	1,625.1	1,261.1	865.6	1,054.6	1,188.3	5,994.7
Purchases of land, buildings and equipment	118.9	67.4	22.9	83.4	3.9	296.5

<i>(in millions)</i>	Olive Garden	LongHorn Steakhouse	Fine Dining	Other Business	Corporate	Consolidated
For the year ended May 25, 2014						
Sales	\$3,643.1	\$1,383.9	\$441.6	\$ 817.0	\$ —	\$6,285.6
Restaurant and marketing expenses	2,995.1	1,179.6	360.2	707.9	—	5,242.8
Segment profit	\$ 648.0	\$ 204.3	\$ 81.4	\$ 109.1	\$ —	\$1,042.8
Depreciation and amortization	\$ 149.6	\$ 66.7	\$ 24.3	\$ 42.7	\$ 21.1	\$ 304.4
Impairments and disposal of assets, net	3.3	0.8	4.8	3.7	3.8	16.4
Purchases of land, buildings and equipment	131.9	114.4	42.3	123.1	3.1	414.8

Reconciliation of segment profit to earnings from continuing operations before income taxes:

<i>(in millions)</i>	Fiscal Year Ended		
	May 29, 2016	May 31, 2015	May 25, 2014
Segment profit	\$1,303.1	\$1,179.2	\$1,042.8
Less general and administrative expenses	(384.9)	(430.2)	(413.1)
Less depreciation and amortization	(290.2)	(319.3)	(304.4)
Less impairments and disposal of assets, net	(5.8)	(62.1)	(16.4)
Less interest, net	(172.5)	(192.3)	(134.3)
Earnings before income taxes	\$ 449.7	\$ 175.3	\$ 174.6

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NOTE 7 DEBT

The components of long-term debt are as follows:

<i>(in millions)</i>	May 29, 2016	May 31, 2015
Variable-rate term loan (1.68% at May 31, 2015) due August 2017	\$ —	\$ 285.0
6.200% senior notes due October 2017	—	500.0
4.500% senior notes due October 2021	—	121.9
3.350% senior notes due November 2022	—	111.1
4.520% senior notes due August 2024	—	10.0
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	\$450.0	\$1,478.0
Fair value hedge	—	3.6
Less unamortized discount and issuance costs	(10.0)	(14.3)
Total long-term debt less unamortized discount and issuance costs	\$440.0	\$1,467.3
Less current portion	—	(15.0)
Long-term debt, excluding current portion	\$440.0	\$1,452.3

During fiscal 2016, utilizing the proceeds of the Four Corners cash dividend, cash proceeds from the sale-leasebacks of restaurant properties and our corporate headquarters and additional cash on hand, we retired approximately \$1.03 billion aggregate principal of long-term debt consisting of:

- \$285.0 million of our variable-rate term loan, maturing in August 2017;
- \$500.0 million of unsecured 6.200 percent senior notes due in October 2017;
- \$121.9 million of unsecured 4.500 percent senior notes due in October 2021;
- \$111.1 million of unsecured 3.350 percent senior notes due in November 2022; and
- \$10.0 million of unsecured 4.520 percent senior notes due in August 2024.

During fiscal 2016, we recorded approximately \$106.8 million associated with the fiscal 2016 retirements including cash costs of approximately \$68.7 million for repurchase premiums, make-whole amounts and hedge settlements and non-cash charges of approximately \$38.1 million associated with hedge and loan cost write-offs. These amounts were recorded in interest, net, in our consolidated statements of earnings.

The interest rate on our \$300.0 million 6.800 percent senior notes due October 2037 is 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. In October 2014, Moody's Investors Service (Moody's) downgraded our senior unsecured ratings to "Ba1" from "Baa3" resulting in an increase of 0.250 percent in the interest rates on our senior notes due in October 2037. In April 2016, Moody's subsequently upgraded our rating to "Baa3" and the interest rate was restored to the initial rate.

The aggregate contractual maturities of long-term debt for each of the five fiscal years subsequent to May 29, 2016, and thereafter are as follows:

<i>(in millions)</i>	2017	2018	2019	2020	2021	Thereafter
Debt repayments	\$ —	\$ —	\$ —	\$ —	\$ —	\$450.0

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 usual for credit facilities of this type. As of May 29, 2016, we were in compliance with all covenants under the Revolving Credit Agreement.

The Revolving Credit Agreement matures on October 24, 2018, and the proceeds may be used for commercial paper back-up, working capital and capital expenditures, the refinancing of certain indebtedness, certain acquisitions and general corporate purposes. 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 1.100 percent for LIBOR loans and 0.100 percent for base rate loans. As of May 29, 2016, we had no outstanding balances under the Revolving Credit Agreement.

NOTE 8 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We use financial derivatives to manage interest rate and equity-based compensation 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 29, 2016, 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.

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During fiscal 2016, in connection with the repayment of our 2017 and 2021 senior notes, we settled our interest-rate swap agreements for a gain of \$4.1 million, which was recorded as a component of interest, net in our consolidated statements of earnings and included in the total \$106.8 million of costs associated with the pay down of our debt in fiscal 2016. The swap agreements effectively swapped 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 2016, 2015 and 2014, \$1.7 million, \$3.6 million and \$2.9 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 29, 2016, we were party to equity forward contracts that were indexed to 0.9 million shares of our

common stock, at varying forward rates between \$40.69 per share and \$60.60 per share, extending through September 2020. 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. 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 general and administrative expenses in our consolidated statements of earnings. As of May 29, 2016, we were party to an equity forward contract that was indexed to 0.1 million shares of our common stock at forward rate of \$41.03 per share, can only be net settled in cash and expires in fiscal 2019.

The notional and fair values of our derivative contracts are as follows:

(in millions)	Notional Values			Fair Values			
	May 29, 2016	May 31, 2015	Balance Sheet Location	Derivative Assets		Derivative Liabilities	
				May 29, 2016	May 31, 2015	May 29, 2016	May 31, 2015
Derivative contracts designated as hedging instruments							
Equity forwards	\$14.9	\$ 11.4	(1)	\$1.2	\$0.4	\$ —	\$ —
Interest rate related	—	200.0	(1)	—	3.6	—	—
				\$1.2	\$4.0	\$ —	\$ —
Derivative contracts not designated as hedging instruments							
Equity forwards	\$28.2	\$ 51.7	(1)	\$2.6	\$1.3	\$ —	\$ —
				\$2.6	\$1.3	\$ —	\$ —
Total derivative contracts				\$3.8	\$5.3	\$ —	\$ —

(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)	Amount of Gain (Loss) Recognized in Earnings (Ineffective Portion) ⁽¹⁾		
	Fiscal Year				Fiscal Year				Fiscal Year		
	2016	2015	2014		2016	2015	2014		2016	2015	2014
Equity	\$2.0	\$2.1	\$(3.5)	(2)	\$ 2.1	\$(1.0)	\$(0.8)	(2)	\$0.9	\$1.1	\$1.4
Interest rate	—	—	—	Interest, net	(37.4)	(45.7)	(10.3)	Interest, net	—	—	—
	\$2.0	\$2.1	\$(3.5)		\$(35.3)	\$(46.7)	\$(11.1)		\$0.9	\$1.1	\$1.4

(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 restaurant labor expenses and general and administrative expenses.

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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		
		2016	2015	2014
Equity forwards	Restaurant labor expenses	\$ 3.9	\$ 4.0	\$(0.5)
Equity forwards	General and administrative expenses	7.5	9.2	(1.3)
		\$11.4	\$13.2	\$(1.8)

Based on the fair value of our derivative instruments designated as cash flow hedges as of May 29, 2016, we expect to reclassify \$0.3 million of net gains on derivative instruments from accumulated other comprehensive income (loss) to earnings during the next 12 months based on the maturity of equity forward contracts. However, the amounts ultimately realized in earnings will be dependent on the fair value of the contracts on the settlement dates.

NOTE 9 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 29, 2016 and May 31, 2015:

(in millions)	Items Measured at Fair Value at May 29, 2016			
	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⁾	\$ 2.0	\$ —	\$2.0	\$ —
U.S. Treasury securities ⁽²⁾	3.9	3.9	—	—
Mortgage-backed securities ⁽¹⁾	1.0	—	1.0	—
Derivatives:				
Equity forwards ⁽³⁾	3.8	—	3.8	—
Total	\$10.7	\$3.9	\$6.8	\$ —

(in millions)	Items Measured at Fair Value at May 31, 2015			
	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⁾	\$ 2.2	\$ —	\$2.2	\$ —
U.S. Treasury securities ⁽²⁾	5.0	5.0	—	—
Mortgage-backed securities ⁽¹⁾	1.6	—	1.6	—
Derivatives:				
Equity forwards ⁽³⁾	1.7	—	1.7	—
Interest rate swaps ⁽⁴⁾	3.6	—	3.6	—
Total	\$14.1	\$5.0	\$9.1	\$ —

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

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

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

(4) 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.

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Our fixed-income 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. As of May 29, 2016, the cost and market value for our securities that qualify as available-for-sale was \$6.9 million. Earnings include insignificant realized gains and loss from sales of available-for-sale securities. At May 29, 2016, our available-for-sale securities of \$2.5 million have maturities of less than one year and \$4.4 million have maturities within one to three years.

The carrying value and fair value of long-term debt, as of May 29, 2016, was \$440.0 million and \$499.5 million, respectively. The carrying value and fair value of long-term debt including the amounts included in current liabilities as of May 31, 2015, was \$1.47 billion and \$1.57 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.

The fair value of non-financial assets measured at fair value on a non-recurring basis, which is classified as Level 3 in the fair value hierarchy, is determined based on appraisals or sales prices of comparable assets and estimates of future cash flows. As of May 29, 2016, long-lived assets held and used with a carrying value of \$5.4 million, primarily related to two underperforming restaurants, were determined to have no fair value resulting in an impairment charge of \$5.4 million. As of May 31, 2015, long-lived assets held and used with a carrying value of \$70.5 million, primarily related to restaurant assets involved in sale-leaseback arrangements, were written down to their fair value of \$55.4 million, resulting in an impairment charge of \$15.1 million. As of May 29, 2016, long-lived assets held for sale with a carrying value of \$17.5 million, related to excess land parcels adjacent to our corporate headquarters, were written down to their fair value of \$16.9 million, resulting in an impairment charge of \$0.6 million. As of May 31, 2015, long-lived assets held for sale with a carrying value of \$21.1 million, related to excess land parcels adjacent to our corporate headquarters, were written down to their fair value of \$17.0 million, resulting in an impairment charge of \$4.1 million.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

<i>(in millions)</i>	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 25, 2014	\$(4.7)	\$0.1	\$(50.4)	\$(73.1)	\$(128.1)
Gain (loss)	(4.3)	—	2.1	3.1	0.9
Reclassification realized in net earnings	7.3	—	29.2	4.1	40.6
Balances at May 31, 2015	\$(1.7)	\$0.1	\$(19.1)	\$(65.9)	\$ (86.6)
Gain (loss)	0.5	—	2.0	(23.5)	(21.0)
Reclassification realized in net earnings	—	—	21.0	(0.4)	20.6
Balances at May 29, 2016	\$(1.2)	\$0.1	\$ 3.9	\$(89.8)	\$ (87.0)

NOTE 10 STOCKHOLDERS' EQUITY

SHARE REPURCHASE PROGRAM

Repurchased common stock has historically been reflected as a reduction of stockholders' equity. On December 16, 2015, our Board of Directors authorized a new share repurchase program under which we may repurchase up to \$500.0 million of our outstanding common stock. As of May 29, 2016, \$315.6 million remains under this authorization. This repurchase program does not have an expiration and replaces all other outstanding share repurchase authorizations.

SHARE RETIREMENTS

As of May 29, 2016, of the 185.0 million cumulative shares repurchased under the current and previous authorizations, 172.3 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 retired and restored to authorized but unissued shares of common stock.

STOCKHOLDERS' RIGHTS PLAN

In connection with the announced REIT transaction, our Board approved a Rights Agreement dated June 23, 2015, to deter any person from acquiring ownership of more than 9.8 percent of our common stock during the period leading up to the REIT transaction. Under the Rights Agreement, each share of our common stock had associated with it one right to purchase one thousandth of a share of our Series A Junior Participating Cumulative Preferred Stock at a purchase price of \$156.26 per share, subject to adjustment under certain circumstances to prevent dilution. On November 10, 2015, the rights expired by their terms following completion of the spin-off of Four Corners. As a result, each share of our common stock is no longer accompanied by a right. The holders of common stock are not entitled to any payment as a result of the expiration of the Rights Agreement and the rights issued thereunder.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Reclassifications related to foreign currency translation in fiscal 2015 primarily relate to the disposition of Red Lobster and are included in earnings from discontinued operations, net of tax expense in our consolidated statement of earnings. The following table presents the amounts and line items in our consolidated statements of earnings where other adjustments reclassified from AOCI into net earnings were recorded:

(in millions) AOCI Components	Location of Gain (Loss) Recognized in Earnings	Fiscal Year	
		May 29, 2016	May 31, 2015
Derivatives			
Equity contracts	(1)	\$ 2.1	\$ (1.0)
Interest rate contracts	(2)	(37.4)	(45.7)
	Total before tax	\$ (35.3)	\$ (46.7)
	Tax benefit	14.3	17.5
	Net of tax	\$ (21.0)	\$ (29.2)
Benefit plan funding position			
Pension/postretirement plans			
Actuarial losses	(3)	\$ (2.8)	\$ (2.6)
Settlement loss	(3)	—	(6.1)
Total – pension/postretirement plans		\$ (2.8)	\$ (8.7)
Recognized net actuarial gain – other plans	(4)	3.4	1.8
	Total before tax	\$ 0.6	\$ (6.9)
	Tax benefit	(0.2)	2.8
	Net of tax	\$ 0.4	\$ (4.1)

(1) Primarily included in restaurant labor costs and general and administrative expenses. See Note 8 for additional details.

(2) Included in interest, net, on our consolidated statements of earnings. Reclassifications primarily related to the acceleration of hedge loss amortization resulting from the pay down of the associated long-term debt.

(3) Included in the computation of net periodic benefit costs – pension and postretirement plans, which is a component of restaurant labor expenses and general and administrative expenses. See Note 14 for additional details.

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

NOTE 11 LEASES

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

(in millions)	Fiscal Year		
	2016	2015	2014
Restaurant minimum rent ⁽¹⁾	\$233.6	\$167.0	\$146.4
Restaurant rent averaging expense	15.9	16.7	26.9
Restaurant percentage rent	8.0	7.7	6.6
Other	8.1	3.5	5.5
Total rent expense	\$265.6	\$194.9	\$185.4

(1) The increase for fiscal 2016 is primarily related to the REIT transaction and individual sale-leaseback transactions. See Note 2 for further information.

Total rent expense included in discontinued operations was \$0.0 million, \$6.2 million and \$36.2 million for fiscal 2016, 2015 and 2014, respectively. These amounts include restaurant minimum rent of \$0.0 million, \$5.8 million and \$33.0 million for fiscal 2016, 2015 and 2014, respectively.

The annual future lease commitments under capital lease obligations and noncancelable operating and financing leases, including those related to restaurants reported as discontinued operations, for each of the five fiscal years subsequent to May 29, 2016 and thereafter is as follows:

(in millions) Fiscal Year	Capital	Financing	Operating
2017	\$ 5.9	\$ 7.1	\$ 297.6
2018	6.0	7.2	287.6
2019	6.0	7.4	271.5
2020	6.1	7.5	255.2
2021	6.0	7.6	232.8
Thereafter	49.0	115.8	1,484.6
Total future lease commitments	\$ 79.0	\$152.6	\$2,829.3
Less imputed interest (at 6.5%), (various)	(27.0)	(76.6)	
Present value of future lease commitments	\$ 52.0	\$ 76.0	
Less current maturities	(2.7)	(1.3)	
Obligations under capital and financing leases, net of current maturities	\$ 49.3	\$ 74.7	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 12 ADDITIONAL FINANCIAL INFORMATION

The tables below provide additional financial information related to our consolidated financial statements:

BALANCE SHEETS

(in millions)	May 29, 2016	May 31, 2015
Receivables, net		
Retail outlet gift card sales	\$ 43.9	\$ 47.1
Landlord allowances due	3.7	12.9
Miscellaneous	16.9	18.9
Allowance for doubtful accounts	(0.5)	(0.9)
	\$ 64.0	\$ 78.0

Other Current Liabilities

Non-qualified deferred compensation plan	\$194.0	\$209.6
Sales and other taxes	58.7	63.9
Insurance-related	36.3	37.4
Employee benefits	35.8	34.3
Contingent proceeds – Red Lobster disposition	—	31.5
Accrued interest	5.1	11.4
Miscellaneous	70.7	61.0
	\$400.6	\$449.1

STATEMENTS OF EARNINGS

(in millions)	Fiscal Year		
	2016	2015	2014
Interest expense ⁽¹⁾	\$165.4	\$186.2	\$134.0
Imputed interest on capital and financing leases	8.9	8.0	3.5
Capitalized interest	(0.7)	(1.3)	(2.6)
Interest income	(1.1)	(0.6)	(0.6)
Interest, net	\$172.5	\$192.3	\$134.3

(1) Interest expense in fiscal 2016 and 2015 includes approximately \$106.8 million and \$91.3 million, respectively, of expenses associated with the retirement of long-term debt. See Note 7.

STATEMENTS OF CASH FLOWS

(in millions)	Fiscal Year		
	2016	2015	2014
Cash paid during the fiscal year for:			
Interest, net of amounts capitalized ⁽¹⁾	\$140.8	\$142.8	\$117.5
Income taxes, net of refunds ⁽²⁾	\$128.0	\$290.7	\$ 90.0
Non-cash investing and financing activities:			
Increase in land, buildings and equipment through accrued purchases	\$ 14.9	\$ 11.1	\$ 24.4
Net book value of assets distributed in Four Corners separation, net of deferred tax liabilities	\$750.4	\$ —	\$ —

(1) Interest paid in fiscal 2016 and 2015 includes approximately \$68.7 million and \$44.0 million, respectively, of payments associated with the retirement of long-term debt. See Note 7.

(2) Income taxes paid in fiscal 2015 were higher primarily as a result of the gain recognized on the sale of Red Lobster.

NOTE 13 INCOME TAXES

Total income tax expense was allocated as follows:

(in millions)	Fiscal Year		
	2016	2015	2014
Earnings from continuing operations	\$90.0	\$ (21.1)	\$ (8.6)
Earnings from discontinued operations	3.4	344.8	32.3
Total consolidated income tax expense	\$93.4	\$323.7	\$23.7

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

(in millions)	Fiscal Year		
	2016	2015	2014
Earnings from continuing operations before income taxes:			
U.S.	\$450.6	\$179.9	\$189.0
Foreign	(0.9)	(4.6)	(14.4)
Earnings from continuing operations before income taxes	\$449.7	\$175.3	\$174.6
Income taxes:			
Current:			
Federal	\$ 89.1	\$ (12.7)	\$ 39.5
State and local	2.7	(8.0)	5.4
Foreign	1.9	6.9	3.0
Total current	\$ 93.7	\$ (13.8)	\$ 47.9
Deferred (principally U.S.):			
Federal	\$ (2.4)	\$ —	\$ (43.7)
State and local	(1.3)	(7.3)	(12.8)
Total deferred	\$ (3.7)	\$ (7.3)	\$ (56.5)
Total income taxes	\$ 90.0	\$ (21.1)	\$ (8.6)

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		
	2016	2015	2014
U.S. statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal tax benefits	1.2	(6.6)	(2.7)
Benefit of federal income tax credits	(12.5)	(34.0)	(30.3)
Other, net	(3.7)	(6.4)	(6.9)
Effective income tax rate	20.0%	(12.0)%	(4.9)%

As of May 29, 2016, we had estimated current prepaid state income taxes of \$17.0 million and current prepaid federal income taxes of \$29.1 million, which are included on our accompanying consolidated balance sheets as prepaid income taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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As of May 29, 2016, we had unrecognized tax benefits of \$14.3 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. Included in the balance of unrecognized tax benefits at May 29, 2016, is \$1.2 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 \$1.2 million relates to items that would impact our effective income tax rate.

A reconciliation of the beginning and ending amount of unrecognized tax benefits follows:

<i>(in millions)</i>	
Balances at May 31, 2015	\$13.7
Additions related to current-year tax positions	3.9
Reductions related to prior-year tax positions	(0.4)
Reductions due to settlements with taxing authorities	(1.0)
Reductions to tax positions due to statute expiration	(1.9)
Balances at May 29, 2016	\$14.3

We recognize accrued interest related to unrecognized tax benefits in income tax expense. Penalties, when incurred, are recognized in 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:

<i>(in millions)</i>	Fiscal Year		
	2016	2015	2014
Interest expense on unrecognized tax benefits	\$0.5	\$1.1	\$0.4

At May 29, 2016, we had \$0.7 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 2015, and state and local, or non-U.S. income tax examinations by tax authorities for years before fiscal 2011.

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

<i>(in millions)</i>	May 29, 2016	May 31, 2015
Accrued liabilities	\$ 109.4	\$ 104.9
Compensation and employee benefits	176.0	186.6
Deferred rent and interest income	97.8	88.9
Net operating loss, credit and charitable contribution carryforwards	47.1	50.1
Other	5.9	6.5
Gross deferred tax assets	\$ 436.2	\$ 437.0
Valuation allowance	(17.0)	(13.5)
Deferred tax assets, net of valuation allowance	\$ 419.2	\$ 423.5
Trademarks and other acquisition related intangibles	(226.4)	(220.6)
Buildings and equipment	(238.6)	(337.1)
Capitalized software and other assets	(34.0)	(28.1)
Other	(12.1)	(22.1)
Gross deferred tax liabilities	\$(511.1)	\$(607.9)
Net deferred tax liabilities	\$ (91.9)	\$(184.4)

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 29, 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 14 RETIREMENT PLANS

DEFINED BENEFIT PLANS AND POSTRETIREMENT BENEFIT PLAN

We sponsor non-contributory defined benefit pension plans, 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. As of December 2014, the plans were frozen and no additional service was eligible to be accrued under such plans. 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 non-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		
	2016	2015	2014
Defined benefit pension plans funding	\$25.4	\$0.4	\$0.4
Postretirement benefit plan funding	1.1	1.1	0.9

During the fourth quarter of fiscal 2016, we made a voluntary funding contribution of \$25.0 million to our defined benefit pension plans. We expect to contribute approximately \$0.4 million to our defined benefit pension plans and approximately \$1.3 million to our postretirement benefit plan during fiscal 2017.

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.

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 29, 2016 and May 31, 2015:

(in millions)	Defined Benefit Plans		Postretirement Benefit Plan	
	2016	2015	2016	2015
Change in Benefit Obligation:				
Benefit obligation at beginning of period	\$288.4	\$283.9	\$ 18.0	\$ 38.5
Service cost	—	1.1	0.2	0.5
Interest cost	10.6	10.0	0.8	1.0
Plan amendments	—	—	—	(26.9)
Plan settlements	—	(15.8)	—	—
Participant contributions	—	—	—	0.4
Benefits paid	(15.9)	(8.6)	(1.1)	(1.5)
Actuarial loss	15.4	17.8	2.0	6.0
Benefit obligation at end of period	\$298.5	\$288.4	\$ 19.9	\$ 18.0
Change in Plan Assets:				
Fair value at beginning of period	\$236.6	\$243.9	\$ —	\$ —
Actual return on plan assets	(4.1)	16.7	—	—
Employer contributions	25.4	0.4	1.1	1.1
Plan settlements	—	(15.8)	—	—
Participant contributions	—	—	—	0.4
Benefits paid	(15.9)	(8.6)	(1.1)	(1.5)
Fair value at end of period	\$242.0	\$236.6	\$ —	\$ —
Unfunded status at end of period	\$ (56.5)	\$ (51.8)	\$ (19.9)	\$ (18.0)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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):

<i>(in millions)</i>	Defined Benefit Plans		Postretirement Benefit Plan	
	May 29, 2016	May 31, 2015	May 29, 2016	May 31, 2015
Components of the Consolidated Balance Sheets:				
Current liabilities	\$ —	\$ —	\$ 1.3	\$ 1.1
Noncurrent liabilities	56.5	51.8	18.6	16.9
Net amounts recognized	\$ 56.5	\$ 51.8	\$ 19.9	\$ 18.0
Amounts Recognized in Accumulated Other Comprehensive Income (Loss), net of tax:				
Prior service (cost) credit	\$ —	\$ —	\$ 11.9	\$ 14.9
Net actuarial gain (loss)	(87.9)	(68.7)	(9.5)	(9.0)
Net amounts recognized	\$ (87.9)	\$ (68.7)	\$ 2.4	\$ 5.9

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

<i>(in millions)</i>	May 29, 2016	May 31, 2015
Accumulated benefit obligation for all defined benefit plans	\$ 298.5	\$ 288.4
Pension plans with accumulated benefit obligations in excess of plan assets:		
Accumulated benefit obligation	298.5	288.4
Fair value of plan assets	242.0	236.6
Projected benefit obligations for all plans with projected benefit obligations in excess of plan assets	298.5	288.4

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

	Defined Benefit Plans		Postretirement Benefit Plan	
	2016	2015	2016	2015
Weighted-average assumptions used to determine benefit obligations at May 29 and May 31 ⁽¹⁾				
Discount rate	4.18%	4.43%	4.00%	4.22%
Rate of future compensation increases	N/A	N/A	N/A	N/A
Weighted-average assumptions used to determine net expense for fiscal years ended May 29 and May 31 ⁽²⁾				
Discount rate	4.43%	4.41%	4.22%	4.26%
Expected long-term rate of return on plan assets	6.50%	7.00%	N/A	N/A
Rate of future compensation increases	N/A	3.86%	N/A	N/A

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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. Additionally, for our mortality assumption as of fiscal year end, we selected the most recent RP-2014 mortality tables and MP-2015 mortality improvement scale to measure the benefit obligations.

The expected long-term rate of return on plan assets is 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 plans from 8.0 percent used in fiscal 2014 to 7.0 percent used in fiscal 2015 and then to 6.5 percent for fiscal 2016 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 6.8 percent, 7.6 percent and 8.7 percent, respectively, as of May 29, 2016. 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 40.0 percent high-quality, long-duration fixed-income securities, 31.0 percent U.S. equities, 16.0 percent international equities, 10.0 percent absolute-return funds and 3.0 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, absolute-return funds, 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, U.S. Treasury securities, an international commingled fund, a global fixed-income commingled fund and public sector utility securities represented approximately 31.1 percent, 15.6 percent, 10.7 percent, 10.3 percent, 10.1 percent and 6.1 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

<i>(in millions)</i>	Defined Benefit Plans			Postretirement Benefit Plan		
	2016	2015	2014	2016	2015	2014
Service cost	\$ —	\$ 1.1	\$ 4.4	\$ 0.2	\$ 0.5	\$ 0.7
Interest cost	10.6	10.0	10.2	0.8	1.0	1.4
Expected return on plan assets	(14.5)	(15.2)	(17.1)	—	—	—
Amortization of unrecognized prior service cost	—	—	0.1	(4.8)	(2.8)	(0.1)
Recognized net actuarial loss	2.8	2.6	9.0	1.2	0.8	—
Settlement loss recognized	—	6.1	—	—	—	—
Curtailment gain recognized	—	—	(0.5)	—	—	—
Net pension and postretirement cost (benefit)	\$ (1.1)	\$ 4.6	\$ 6.1	\$ (2.6)	\$ (0.5)	\$ 2.0

The amortization of the net actuarial gain (loss) component of our fiscal 2017 net periodic benefit cost for the defined benefit plans and postretirement benefit plan is expected to be approximately \$(3.2) million and \$(1.7) million, respectively.

The fair values of the defined benefit pension plans assets at their measurement dates of May 29, 2016 and May 31, 2015, are as follows:

<i>(in millions)</i>	Items Measured at Fair Value at May 29, 2016			
	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⁾	\$ 75.3	\$ —	\$ 75.3	\$ —
International Commingled Fund ⁽²⁾	24.9	—	24.9	—
Emerging Market Commingled Funds ⁽³⁾	6.8	—	6.8	—
Emerging Market Mutual Fund ⁽⁴⁾	5.9	5.9	—	—
Real Estate Commingled Fund ⁽⁵⁾	7.5	—	7.5	—
Fixed-Income:				
U.S. Treasury Securities ⁽⁶⁾	25.9	25.9	—	—
U.S. Corporate Securities ⁽⁶⁾	37.8	—	37.8	—
International Securities ⁽⁶⁾	6.3	—	6.3	—
Public Sector Utility Securities ⁽⁶⁾	14.8	—	14.8	—
Global Fixed-Income Commingled Fund ⁽⁷⁾	24.4	—	24.4	—
U.S. Fixed-Income Commingled Funds ⁽⁶⁾	10.3	—	10.3	—
Cash & Accruals	2.1	2.1	—	—
Total	\$242.0	\$33.9	\$208.1	\$ —

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DARDEN

(in millions)	Items Measured at Fair Value at May 31, 2015			
	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⁾	\$ 75.8	\$ —	\$ 75.8	\$ —
International Commingled Fund ⁽²⁾	25.7	—	25.7	—
Emerging Market Commingled Funds ⁽³⁾	13.1	—	13.1	—
Real Estate Commingled Fund ⁽⁵⁾	6.9	—	6.9	—
Fixed-Income:				
U.S. Treasury Securities ⁽⁶⁾	25.1	25.1	—	—
U.S. Corporate Securities ⁽⁶⁾	41.4	—	41.4	—
International Securities ⁽⁶⁾	8.3	—	8.3	—
Public Sector Utility Securities ⁽⁶⁾	14.5	—	14.5	—
Global Fixed-Income Commingled Fund ⁽⁷⁾	24.0	—	24.0	—
Cash & Accruals	1.8	1.8	—	—
Total	\$236.6	\$26.9	\$209.7	\$ —

(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 using a unit price or net asset value (NAV) based on the fair value of the underlying investments of the funds. There are no redemption restrictions associated with these funds.

(2) International commingled fund is comprised of investments in funds that purchase publicly traded non-U.S. common stock for total return purposes. Investments are valued using a unit price or NAV based on the fair value of the underlying investments of the fund. There are no redemption restrictions associated with this fund.

(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 in emerging economies for total return purposes. Funds are valued using a unit price or NAV based on the fair value of the underlying investments of the funds. There are no redemption restrictions associated with these funds.

(4) Emerging market mutual fund is comprised of securities associated with emerging markets and frontier markets. Fund is valued using quoted market prices from national exchanges.

(5) Real estate commingled fund is comprised of investments in funds that purchase publicly traded common stock of real estate companies for purposes of total return. These investments are valued using a unit price or NAV based on the fair value of the underlying investments of the fund. There are no redemption restrictions associated with this fund.

(6) 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.

(7) Global fixed-income commingled fund is comprised of investments in U.S. and non-U.S. government fixed-income securities. Investments are valued using a unit price or NAV based on the fair value of the underlying investments of the fund. There are no redemption restrictions associated with this fund.

(8) U.S. fixed-income commingled funds are comprised of a diversified portfolio of U.S. investment-grade corporate and government securities. Investments are valued using a unit price or NAV based on the fair value of the underlying investments of the funds. There are no redemption restrictions associated with these funds.

The following benefit payments are expected to be paid between fiscal 2017 and fiscal 2026:

(in millions)	Defined Benefit Plans	Postretirement Benefit Plan
2017	\$12.5	\$1.3
2018	12.6	1.3
2019	13.0	1.3
2020	13.7	1.3
2021	14.2	1.3
2022-2026	79.3	6.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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POSTEMPLOYMENT SEVERANCE PLAN

We accrue for postemployment severance costs in our consolidated financial statements and recognize actuarial gains and losses as well as prior service credits related to our postemployment severance accrual as a component of accumulated other comprehensive income (loss). As of May 29, 2016 and May 31, 2015, \$4.3 million and \$2.3 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 \$643.3 million at May 29, 2016, and \$610.9 million at May 31, 2015. Expense recognized in fiscal 2016, 2015 and 2014 was \$15.1 million, \$0.6 million and \$0.7 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 \$194.0 million and \$209.6 million at May 29, 2016 and May 31, 2015, 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 29, 2016, the ESOP's original debt to us had a balance of \$2.3 million with a variable rate of interest of 0.43 percent and is due to be repaid no later than December 2019. 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 29, 2016, the Additional Loan had a balance of \$1.2 million with a variable interest rate of 0.63 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 2016, 2015 and 2014, the ESOP used dividends received of \$0.7 million, \$1.1 million and \$0.9 million, respectively, and contributions received from us of \$0.1 million, \$0.0 million and \$0.0 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 29, 2016, the ESOP shares included in the basic and diluted net earnings per share calculation totaled 2.7 million shares, representing 2.2 million allocated shares and 0.5 million suspense shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 15 STOCK-BASED COMPENSATION

In September 2015, our shareholders approved the Darden Restaurants, Inc. 2015 Omnibus Incentive Plan (2015 Plan). All equity grants subject to ASC Topic 718 after the date of approval are made under the 2015 Plan. No further equity grants after that date are permitted under the Darden Restaurants, Inc. 2002 Stock Incentive Plan, the RARE Hospitality International, Inc. Amended and Restated 2002 Long-Term Incentive Plan or any other prior stock option and/or stock grant plans (collectively, the Prior Plans). The 2015 Plan and the Prior Plans are administered by the Compensation Committee of the Board of Directors. The 2015 Plan provides for the issuance of up to 7.6 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 employees, consultants and non-employee directors. There are outstanding awards under the Prior Plans that may still vest and be exercised in accordance with their terms. As of May 29, 2016, approximately 6.6 million shares may be issued under outstanding awards that were granted under the Prior Plans. Pursuant to the provisions of our stock plans, in connection with the separation of Four Corners (see Note 2) we made certain adjustments to the exercise price and number of our share-based compensation awards, with the intention of preserving the intrinsic value of the awards immediately prior to the separation. These adjustments are reflected in the activity tables that follow. The separation-related adjustments did not have a material impact on either compensation expense or the potentially dilutive securities to be considered in the calculation of diluted earnings per share of common stock.

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

(in millions)	Fiscal Year		
	2016	2015	2014
Stock options ⁽¹⁾	\$ 7.8	\$20.9	\$19.3
Restricted stock/restricted stock units	1.6	2.0	0.9
Darden stock units	15.9	13.3	12.3
Cash-settled performance stock units ⁽²⁾	6.5	14.5	2.5
Equity-settled performance stock units	2.7	—	—
Employee stock purchase plan	1.1	1.3	1.8
Director compensation program/other	1.7	1.7	1.9
	\$37.3	\$53.7	\$38.7

(1) The higher expense in fiscal 2015 and fiscal 2014 is primarily attributable to the workforce reduction efforts (see Note 16) and a change in mix of equity awards granted.

(2) The higher expense in fiscal 2015 is primarily attributable to the workforce reduction efforts (see Note 16) and the impact of improved financial performance.

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		
	2016	2015	2014
Weighted-average fair value ⁽¹⁾	\$12.72	\$ 9.41	\$10.71
Dividend yield	3.3%	4.5%	4.4%
Expected volatility of stock	28.0%	37.3%	39.6%
Risk-free interest rate	1.9%	2.1%	1.9%
Expected option life (in years)	6.5	6.5	6.4
Weighted-average exercise price per share ⁽¹⁾	\$64.85	\$40.43	\$42.93

(1) Weighted-averages were adjusted for the impact of the separation of Four Corners.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The following table presents a summary of our stock option activity as of and for the year ended May 29, 2016:

	Options (in millions)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Yrs)	Aggregate Intrinsic Value (in millions)
Outstanding beginning of period	7.71	\$44.18	6.08	\$164.6
Awards issued in conversion as a result of the separation of Four Corners	0.97			
Options granted	0.44	64.85		
Options exercised	(2.61)	36.21		
Options canceled	(0.19)	46.77		
Outstanding end of period	6.32	\$42.04	6.00	\$160.6
Exercisable	4.66	\$40.23	5.29	\$127.0

The total intrinsic value of options exercised during fiscal 2016, 2015 and 2014 was \$73.6 million, \$90.2 million and \$39.9 million, respectively. Cash received from option exercises during fiscal 2016, 2015 and 2014 was \$94.4 million, \$154.6 million and \$50.9 million, respectively. Stock options generally vest over 4 years and 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 29, 2016, there was \$8.9 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 1.5 years. The total fair value of stock options that vested during fiscal 2016 was \$7.0 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 generally range from one to four years.

The following table presents a summary of our restricted stock and RSU activity as of and for the fiscal year ended May 29, 2016:

	Shares (in millions)	Weighted-Average Grant Date Fair Value Per Share
Outstanding beginning of period	0.10	\$51.19
Shares granted	0.06	62.38
Shares vested	(0.03)	47.95
Shares canceled	(0.02)	61.97
Outstanding end of period	0.11	\$55.46

As of May 29, 2016, there was \$2.9 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 2.3 years. The total fair value of restricted stock and RSUs that vested during fiscal 2016, 2015 and 2014 was \$1.6 million, \$4.8 million and \$2.3 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 8 for additional information).

The following table presents a summary of our Darden stock unit activity as of and for the fiscal year ended May 29, 2016:

<i>(All units settled in cash)</i>	Units (in millions)	Weighted-Average Fair Value Per Unit
Outstanding beginning of period	1.37	\$65.54
Awards issued in conversion as a result of the separation of Four Corners	0.18	
Units granted	0.32	64.75
Units vested	(0.34)	63.91
Units canceled	(0.10)	47.75
Outstanding end of period	1.43	\$67.48

As of May 29, 2016, our total Darden stock unit liability was \$50.7 million, including \$17.1 million recorded in other current liabilities and \$33.6 million recorded in other liabilities on our consolidated balance sheets. As of May 31, 2015, our total Darden stock unit liability was \$46.1 million, including \$16.2 million recorded in other current liabilities and \$29.9 million recorded in other liabilities on our consolidated balance sheets.

Based on the value of our common stock as of May 29, 2016, there was \$33.7 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 2.8 years. The total fair value of Darden stock units that vested during fiscal 2016 was \$21.5 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The following table presents a summary of our cash-settled performance stock unit activity as of and for the fiscal year ended May 29, 2016:

<i>(All units settled in cash)</i>	Units (in millions)	Weighted-Average Fair Value Per Unit
Outstanding beginning of period	0.38	\$65.54
Awards issued in conversion as a result of the separation of Four Corners	0.05	
Units granted	—	—
Units vested	(0.17)	67.17
Units canceled	(0.10)	43.35
Performance unit adjustment	0.05	43.84
Outstanding end of period	0.21	\$67.48

As of May 29, 2016, our cash-settled performance stock unit liability was \$10.4 million, including \$7.1 million recorded in other current liabilities and \$3.3 million recorded in other liabilities on our consolidated balance sheets. As of May 31, 2015, our cash-settled performance stock unit liability was \$15.9 million, including \$11.2 million recorded in other current liabilities and \$4.7 million recorded in other liabilities on our consolidated balance sheets.

Cash-settled 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 29, 2016, there was \$2.4 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 1.1 years. The total fair value of cash-settled performance stock units that vested in fiscal 2016 was \$11.4 million.

The following table presents a summary of our equity-settled performance stock unit activity as of and for the fiscal year ended May 29, 2016:

	Units (in millions)	Weighted-Average Grant Date Fair Value Per Unit
Outstanding beginning of period	—	\$ —
Units granted	0.19	65.23
Units vested	—	—
Units canceled	(0.02)	65.42
Outstanding end of period	0.17	\$65.21

Beginning in fiscal 2016, two new types of equity-settled performance-based restricted stock units were issued, where 0.0 percent to 150.0 percent of the entire grant is earned or forfeited at the end of the respective vesting periods, which range from three to four years. The number of units that actually vest will be determined based on the achievement of performance criteria set forth in the award agreements and may range from 0.0 percent to 150.0 percent of target. Half of these performance awards, which are measured against company-specific targets, are granted at a value equal to the market price of our common stock on the date of grant, and amortized over the service period. The other half of these awards, which are measured against market-based targets, are measured based on estimated fair value as of the date of grant using a Monte Carlo simulation, and amortized over the service period. As of May 29, 2016, there was \$8.5 million of unrecognized compensation cost related to unvested equity-settled performance stock units granted under our stock plans. This cost is expected to be recognized over a weighted-average period of 2.7 years. The total fair value of equity-settled performance stock units that vested during fiscal 2016 was \$0.0 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 2016, 2015 and 2014 was \$4.8 million, \$5.2 million and \$7.2 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DARDEN

NOTE 16 WORKFORCE REDUCTION

During fiscal 2014 and 2015, we performed 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 throughout fiscal 2014 and 2015. In accordance with these actions, we incurred employee termination benefits costs and other costs, which are included in general and administrative expenses in our consolidated statement of earnings as follows:

(in millions)	Fiscal Year		
	2016 ⁽³⁾	2015	2014
Employee termination benefits ⁽¹⁾	\$ 0.2	\$37.4	\$17.2
Other ⁽²⁾	(0.1)	0.5	0.9
Total	\$ 0.1	\$37.9	\$18.1

(1) Includes salary and stock-based compensation expense.

(2) Includes postemployment medical, outplacement and relocation costs.

(3) Reflects subsequent adjustments to the fiscal 2014 and 2015 plans based on updated information.

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 29, 2016:

(in millions)	Fiscal Year 2014 Plans	Fiscal Year 2015 Plans	Payments	Adjustments	Balance at May 29, 2016
Employee termination benefits ⁽¹⁾	\$13.4	\$24.2	\$(35.9)	\$ 0.9	\$2.6
Other	1.1	0.6	(1.3)	(0.3)	0.1
Total	\$14.5	\$24.8	\$(37.2)	\$ 0.6	\$2.7

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

We expect the remaining liability to be paid by the second quarter of fiscal 2017.

NOTE 17 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 29, 2016, and May 31, 2015, we had \$116.5 million and \$124.2 million, respectively, of standby letters of credit related to workers' compensation and general liabilities accrued in our consolidated financial statements. At May 29, 2016, and May 31, 2015, we had \$8.4 million and \$14.0 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 29, 2016, and May 31, 2015, we had \$154.2 million and \$147.7 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 weighted-average cost of capital at May 29, 2016, and May 31, 2015, amounted to \$119.3 million and \$113.4 million, respectively. We did not record a liability for the guarantees, as the likelihood of the third parties defaulting on the assignment agreements was deemed to be remote. 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 2017 through fiscal 2027.

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

NOTE 18 SUBSEQUENT EVENT

On June 29, 2016, the Board of Directors declared a cash dividend of \$0.56 per share to be paid August 1, 2016, to all shareholders of record as of the close of business on July 11, 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DARDEN

NOTE 19 QUARTERLY DATA (UNAUDITED)

The following table summarizes unaudited quarterly data for fiscal 2016 and fiscal 2015:

<i>(in millions, except per share data)</i>	Fiscal 2016 – Quarters Ended				
	Aug. 30	Nov. 29	Feb. 28	May 29	Total
Sales	\$1,687.0	\$1,608.8	\$1,847.5	\$1,790.2	\$6,933.5
Earnings before income taxes	111.8	24.4	138.1	175.4	449.7
Earnings from continuing operations	81.0	30.1	108.2	140.4	359.7
Earnings (loss) from discontinued operations, net of tax	5.4	13.1	(2.4)	(0.8)	15.3
Net earnings	86.4	43.2	105.8	139.6	375.0
Basic net earnings per share:					
Earnings from continuing operations	0.64	0.23	0.85	1.11	2.82
Earnings (loss) from discontinued operations	0.04	0.11	(0.02)	(0.01)	0.12
Net earnings	0.68	0.34	0.83	1.10	2.94
Diluted net earnings per share:					
Earnings from continuing operations	0.63	0.23	0.84	1.10	2.78
Earnings (loss) from discontinued operations	0.04	0.10	(0.02)	(0.01)	0.12
Net earnings	0.67	0.33	0.82	1.09	2.90
Dividends paid per share	0.55	0.55	0.50	0.50	2.10
Stock price:					
High	75.60	72.11	64.90	68.62	75.60
Low	63.68	53.38	55.01	61.90	53.38

<i>(in millions, except per share data)</i>	Fiscal 2015 – Quarters Ended				
	Aug. 24	Nov. 23	Feb. 22	May 31 ⁽¹⁾	Total ⁽²⁾
Sales	\$1,595.8	\$1,559.0	\$1,730.9	\$1,878.3	\$6,764.0
Earnings (loss) before income taxes	(43.7)	(54.6)	147.1	126.5	175.3
Earnings (loss) from continuing operations	(19.3)	(30.8)	128.4	118.1	196.4
Earnings (loss) from discontinued operations, net of tax	522.5	(2.0)	5.4	(12.8)	513.1
Net earnings (loss)	503.2	(32.8)	133.8	105.3	709.5
Basic net earnings per share:					
Earnings (loss) from continuing operations	(0.14)	(0.24)	1.03	0.94	1.54
Earnings (loss) from discontinued operations	3.95	(0.02)	0.04	(0.11)	4.02
Net earnings (loss)	3.81	(0.26)	1.07	0.83	5.56
Diluted net earnings per share:					
Earnings (loss) from continuing operations	(0.14)	(0.24)	1.01	0.92	1.51
Earnings (loss) from discontinued operations	3.95	(0.02)	0.04	(0.10)	3.96
Net earnings (loss)	3.81	(0.26)	1.05	0.82	5.47
Dividends paid per share	0.55	0.55	0.55	0.55	2.20
Stock price:					
High	51.21	56.85	62.65	70.38	70.38
Low	43.56	46.70	54.96	61.31	43.56

(1) The quarter ended May 31, 2015, consisted of 14 weeks, while all other quarters consisted of 13 weeks.

(2) The year ended May 31, 2015, consisted of 53 weeks, while the year ended May 29, 2016, consisted of 52 weeks.

FIVE-YEAR FINANCIAL SUMMARY

DARDEN

	Fiscal Year Ended				
	May 29, 2016	May 31, 2015 ⁽²⁾	May 25, 2014	May 26, 2013	May 27, 2012
<i>(Dollars in millions, except per share data)</i>					
Operating Results⁽¹⁾					
Sales	\$ 6,933.5	\$ 6,764.0	\$ 6,285.6	\$ 5,921.0	\$ 5,327.1
Costs and expenses:					
Food and beverage	2,039.7	2,085.1	1,892.2	1,743.6	1,553.7
Restaurant labor	2,189.2	2,135.6	2,017.6	1,892.6	1,683.6
Restaurant expenses	1,163.5	1,120.8	1,080.7	980.4	851.0
Marketing expenses	238.0	243.3	252.3	241.1	215.6
General and administrative	384.9	430.2	413.1	384.1	324.9
Depreciation and amortization	290.2	319.3	304.4	278.3	241.3
Impairments and disposal of assets, net	5.8	62.1	16.4	0.9	(0.2)
Total operating costs and expenses	\$ 6,311.3	\$ 6,396.4	\$ 5,976.7	\$ 5,521.0	\$ 4,869.9
Operating income	622.2	367.6	308.9	400.0	457.2
Interest, net	172.5	192.3	134.3	126.0	102.1
Earnings before income taxes	449.7	175.3	174.6	274.0	355.1
Income tax expense (benefit)	90.0	(21.1)	(8.6)	36.7	75.9
Earnings from continuing operations	\$ 359.7	\$ 196.4	\$ 183.2	\$ 237.3	\$ 279.2
Earnings from discontinued operations, net of tax expense of \$3.4, \$344.8, \$32.3, \$72.7 and \$84.9	15.3	513.1	103.0	174.6	196.3
Net earnings	\$ 375.0	\$ 709.5	\$ 286.2	\$ 411.9	\$ 475.5
Basic net earnings per share:					
Earnings from continuing operations	\$ 2.82	\$ 1.54	\$ 1.40	\$ 1.84	\$ 2.15
Earnings from discontinued operations	\$ 0.12	\$ 4.02	\$ 0.78	\$ 1.35	\$ 1.50
Net earnings	\$ 2.94	\$ 5.56	\$ 2.18	\$ 3.19	\$ 3.65
Diluted net earnings per share:					
Earnings from continuing operations	\$ 2.78	\$ 1.51	\$ 1.38	\$ 1.80	\$ 2.10
Earnings from discontinued operations	\$ 0.12	\$ 3.96	\$ 0.77	\$ 1.33	\$ 1.47
Net earnings	\$ 2.90	\$ 5.47	\$ 2.15	\$ 3.13	\$ 3.57
Average number of common shares outstanding:					
Basic	127.4	127.7	131.0	129.0	130.1
Diluted	129.3	129.7	133.2	131.6	133.2
Financial Position					
Total assets	\$ 4,582.6	\$ 5,994.7	\$ 7,082.7	\$ 6,917.3	\$ 5,928.3
Land, buildings and equipment, net	\$ 2,041.6	\$ 3,215.8	\$ 3,381.0	\$ 4,391.1	\$ 3,951.3
Working capital (deficit)	\$ (366.8)	\$ (140.3)	\$ 357.3	\$ (652.0)	\$ (1,017.2)
Long-term debt, less current portion	\$ 440.0	\$ 1,452.3	\$ 2,463.4	\$ 2,476.6	\$ 1,437.8
Stockholders' equity	\$ 1,952.0	\$ 2,333.5	\$ 2,156.9	\$ 2,059.5	\$ 1,842.0
Stockholders' equity per outstanding share	\$ 15.47	\$ 18.42	\$ 16.30	\$ 15.81	\$ 14.28
Other Statistics					
Cash flows from operations ⁽¹⁾	\$ 820.4	\$ 874.3	\$ 555.4	\$ 594.4	\$ 513.5
Capital expenditures ⁽¹⁾	\$ 228.3	\$ 296.5	\$ 414.8	\$ 510.1	\$ 457.6
Dividends paid	\$ 268.2	\$ 278.9	\$ 288.3	\$ 258.2	\$ 223.9
Dividends paid per share	\$ 2.10	\$ 2.20	\$ 2.20	\$ 2.00	\$ 1.72
Advertising expense ⁽¹⁾	\$ 238.0	\$ 243.3	\$ 252.3	\$ 241.1	\$ 215.6
Stock price:					
High	\$ 75.60	\$ 70.38	\$ 55.25	\$ 57.93	\$ 55.84
Low	\$ 53.38	\$ 43.56	\$ 44.78	\$ 44.11	\$ 40.69
Close	\$ 67.48	\$ 65.54	\$ 49.55	\$ 52.83	\$ 53.06
Number of employees	150,942	148,892	206,489	206,578	181,468
Number of restaurants ⁽¹⁾	1,536	1,534	1,501	1,431	1,289

(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 company-owned 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) Fiscal year 2015 consisted of 53 weeks, while all other fiscal years consisted of 52 weeks.

NON-GAAP RECONCILIATIONS

DARDEN

Reported to Adjusted Diluted Net Earnings Per Share Reconciliations

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	Fiscal 2014	Fiscal 2015*	Fiscal 2016	Fiscal 2016 vs. Fiscal 2015 Percent Change
Reported Diluted Net EPS from Continuing Operations	\$1.38	\$1.51	\$2.78	
Real Estate Plan Implementation	—	—	0.26	
Debt Retirement Costs	—	0.42	0.51	
Strategic Action Plan and Other Costs	0.33	0.70	(0.02)	
Adjusted Diluted Net EPS from Continuing Operations	\$1.71	\$2.63	\$3.53	34.2%
Remove 53rd Week Impact	—	(0.07)	—	
Adjusted Diluted Net EPS from Continuing Operations (52-Week Basis)	\$1.71	\$2.56	\$3.53	37.9%

* Fiscal 2015 consisted of 53 weeks.

SHAREHOLDER INFORMATION

Company Headquarters

Darden Restaurants, Inc.
1000 Darden Center Drive
Orlando, FL 32837
(407) 245-4000

Mailing Address

Darden Restaurants, Inc.
P.O. Box 695011
Orlando, FL 32869-5011

Website Addresses

www.darden.com
www.olivegarden.com
www.longhornsteakhouse.com
www.bahamabreeze.com
www.seasons52.com
www.thecapitalgrille.com
www.eddiev.com
www.yardhouse.com

Independent Registered Public Accounting Firm

KPMG LLP
111 North Orange Avenue
Suite 1600
Orlando, FL 32801
Phone: (407) 423-3426

Markets

New York Stock Exchange
Stock Exchange Symbol: DRI

Transfer Agent, Registrar and Dividend Payments

Wells Fargo Shareowner Services
1110 Centre Pointe Curve, Suite 101
MAC N9173-010
Mendota Heights, MN 55120
Phone: (877) 602-7596 or (651) 450-4064
www.shareowneronline.com

Address correspondence as appropriate to the attention of:

Address Changes
Stock Transfers
Shareholder Services

Form 10-K Report

Shareholders may request a free copy of our Form 10-K, including schedules but excluding exhibits, by writing to:

Investor Relations
Darden Restaurants, Inc.
P.O. Box 695011
Orlando, FL 32869-5011

Shareholder Reports/Investor Inquiries

Shareholders seeking information about Darden Restaurants, Inc. are invited to contact the Investor Relations Department at (407) 245-4000. Shareholders may request to receive, free of charge, copies of quarterly earnings releases.

Information may also be obtained by visiting our website at www.darden.com. Annual reports, SEC filings, press releases and other Company news are readily available on the website.

Our website also includes corporate governance information, including our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and Board committee charters, including the charters for our Audit, Compensation and Nominating and Governance Committees.

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. EDT on Thursday, September 29, 2016, at Hilton Orlando, 6001 Destination Parkway, Orlando, Florida 32819. As of the close of business on June 30, 2016, there were 33,973 registered shareholders of record.

Forward-Looking Statements

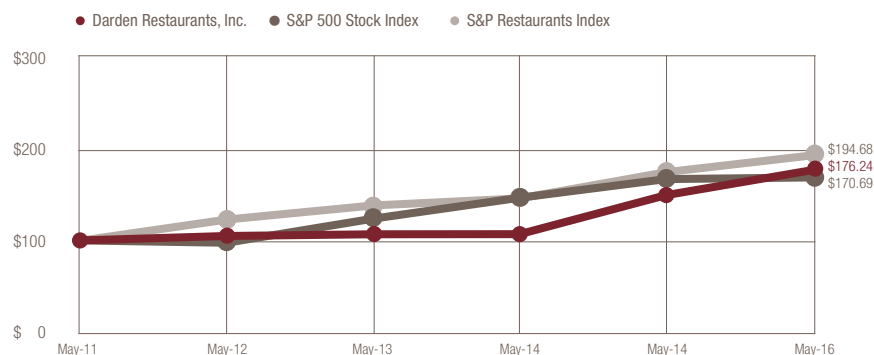
This report contains forward-looking statements. By their nature, forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by such forward-looking statements. Additional cautionary and other information with respect to these forward-looking statements is set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Forward-Looking Statements."

 In alignment with Darden's commitment to sustainability, parts of this report have been printed on paper that is manufactured with 10% post-consumer waste. These forests are certified to a responsibly managed forest management standard.

Diversity is both a core value and a competitive advantage for Darden. As an example of our continuing commitment to diversity, this annual report was designed by a woman-owned company, Corporate Reports Inc., Atlanta, GA. Printed by ColorGraphics, Los Angeles, CA.

Stock Performance

Comparison of Five-Year Total Return for Darden Restaurants, Inc., S&P 500 Stock Index and S&P Restaurants Index



	Darden Restaurants, Inc.	S&P 500 Stock Index	S&P Restaurants Index
2011	\$100.00	\$100.00	\$100.00
2012	\$108.61	\$100.09	\$124.51
2013	\$111.08	\$126.72	\$136.30
2014	\$107.85	\$148.13	\$148.48
2015	\$148.51	\$167.67	\$174.24
2016	\$176.24	\$170.69	\$194.68

On November 9, 2015 we completed the spin-off of Four Corners Property Trust, Inc. (FCPT) with the pro rata distribution of one share of FCPT common stock for every three shares of Darden common stock to Darden shareholders. We reflect the effect of the spin-off of FCPT in the cumulative total return of our common stock as a reinvested dividend. See Note 2 to our Consolidated Financial Statements for further details.

Board of Directors

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Margaret Shân Atkins
Co-Founder and Managing Director of Chetrum Capital LLC, a private investment firm.



Jean M. Birch
Retired Chief Executive Officer and President of Birch Company, LLC, a specialized strategy and leadership consulting firm focused on the hospitality industry.



Bradley D. Blum
Founder and Owner of BLUM Enterprises, LLC, a restaurant company focused on restaurant strategy, concept development and investing.



James P. Fogarty
Former Chief Executive Officer of Orchard Brands, a multi-channel marketer of apparel and home products.



Cynthia T. Jamison
Chairman of the Board of Directors of Tractor Supply Company, the largest operator of retail farm and ranch stores.



Eugene I. Lee, Jr.
President
Chief Executive Officer
Darden Restaurants, Inc.



Lionel L. Nowell, III
Former Senior Vice President and Treasurer of PepsiCo, Inc., one of the world's largest food and beverage companies.



William S. Simon
Former President and
Chief Executive Officer of
Walmart U.S.



Charles M. Sonstebly
Chairman of the Board
Darden Restaurants, Inc.
Vice Chairman, Chief Financial Officer
and Chief Administrative Officer of
The Michaels Companies, Inc.,
the largest arts and crafts specialty
retailer in North America.



Alan N. Stillman
Founder and former Chief Executive
Officer of The Smith & Wollensky
Restaurant Group, Inc., which develops
and operates high-end, high-volume
restaurants in major cities across the
United States.



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Orlando, FL 32837
407-245-4000
www.darden.com

