Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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Operations and Principles of Consolidation

The consolidated financial statements include the operations of Darden Restaurants, Inc. and its wholly owned subsidiaries. We own and operate various restaurant concepts located in the United States and Canada, with no franchising. We also license 38 restaurants in Japan. All significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Year

Our fiscal year ends on the last Sunday in May. Fiscal 2004 consisted of 53 weeks of operation. Fiscal 2003 and 2002 both consisted of 52 weeks of operation.

Cash Equivalents

Cash equivalents include highly liquid investments such as U.S. treasury bills, taxable municipal bonds, and money market funds that have a 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.

Inventories

Inventories are valued at the lower of weighted-average cost or market.

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost less accumulated depreciation. Building components are depreciated over estimated useful lives ranging from seven to 40 years using the straight-line method. Leasehold improvements, which are a component of buildings, are amortized over the lesser of the lease term or the estimated useful lives of the related assets using the straight-line method. Equipment is depreciated over estimated useful lives ranging from two to ten years also using the straight-line method. Accelerated depreciation methods are generally used for income tax purposes. Depreciation and amortization expense associated with land, buildings, and equipment amounted to $203,349, $184,963 and $162,784, in fiscal 2004, 2003, and 2002, respectively. In fiscal 2004, 2003, and 2002, we had losses on disposal of land, buildings, and equipment of $104, $2,456, and $1,803, respectively, which were included in selling, general, and administrative expenses.

Capitalized Software Costs

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 three to ten years. The cost of capitalized software at May 30, 2004, and May 25, 2003, amounted to $46,629 and $44,018, respectively. Accumulated amortization as of May 30, 2004, and May 25, 2003, amounted to $14,301 and $9,963, respectively. Amortization expense associated with capitalized software amounted to $6,655, $6,255, and $3,045, in fiscal 2004, 2003, and 2002, respectively.

Trust-Owned Life Insurance

In August 2001, we caused a trust that we previously had established to purchase 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 of the policies is included in other assets while changes in cash surrender value are included in selling, general, and administrative expenses.

Liquor Licenses

The costs of obtaining non-transferable liquor licenses that are directly issued by local government agencies for nominal fees are expensed as incurred. The costs of purchasing transferable liquor licenses through open markets in jurisdictions with a limited number of authorized liquor licenses are capitalized. Annual liquor license renewal fees are expensed.

Impairment of Long-Lived Assets

Land, buildings, and equipment and certain other assets, including capitalized software costs and liquor licenses, 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