DARDEN RESTAURANTS

Leadership Defined

2004 Annual Report

OUR STRATEGIC BUILDING BLOCKS

A critical part of Darden's foundation is our strategic framework, which consists of four strategic imperatives and two strategic enablers. For the past two years, we have featured one of the Company's strategic building blocks in our annual report to shareholders . We began with **Culinary and Beverage Excellence**, which highlighted our commitment to not only continually improving and innovating in this critically important part of our business, but also to redefining culinary and beverage excellence in casual dining. Last year, we featured **Service and Hospitality Excellence**, underscoring our fundamental recognition that the restaurant business is about creating great experiences, not just great menu offerings. Our goal is to establish and sustain the industry's very highest service and hospitality standards as defined by casual dining guests. This year we focus on a third strategic imperative, **Leadership Excellence.** To achieve our ultimate goal – to be the best in casual dining now and for generations – we must have leaders throughout the Company who inspire in their teams a great passion and enthusiasm for people, restaurants and dining.

These strategic imperatives are joined by a fourth – **Brand Building Excellence** – and all are supported by our strategic enablers – diversity excellence and process and technology excellence. And our entire strategic framework rests on our core values – Integrity and Fairness, Respect and Caring, Diversity, Always Learning/Always Teaching, Being "of Service," Teamwork, and Excellence. To learn more about our strategies and values, we encourage you to visit www.darden.com.

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DARDEN RESTAURANTS®

BUSINESS DESCRIPTION

Darden Restaurants, Inc. is the largest publicly traded casual dining company in the world (based on revenues from company-owned restaurants), serving more than 300 million meals annually at 1,325 restaurants in 49 states and Canada. We operate four distinct restaurant concepts that together generate annual sales of more than $5.0 billion. Our flagship brands, Red Lobster® and Olive Garden®, are the market share leaders in their casual dining segments. Each produces sales in excess of $2 billion annually, making us the only restaurant company in the casual dining industry with two restaurant concepts of this scale. Our emerging brands are Bahama Breeze® and Smokey Bones Barbeque & Grill®, and Seasons 52SM is in the test phase. Based in Orlando, Florida, we employ more than 141,000 people and our Company trades on the New York Stock Exchange under the symbol DRI.

2004 FINANCIAL HIGHLIGHTS

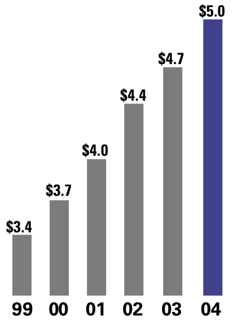
DARDEN RESTAURANTS

Fiscal Year Ended *(In millions, except per share amounts)*	May 30, 2004 *(53 weeks)*	May 25, 2003 *(52 weeks)*	May 26, 2002 *(52 weeks)*
Sales	$5,003.4	$4,655.0	$4,366.9
Net Earnings	$ 231.5	$ 232.3	$ 237.8
Net Earnings per Share:			
Basic	$ 1.42	$ 1.36	$ 1.36
Diluted	$ 1.36	$ 1.31	$ 1.30
Dividends per Share	$ 0.080	$ 0.080	$ 0.053
Average Shares Outstanding:			
Basic	163.5	170.3	174.7
Diluted	169.7	177.4	183.5

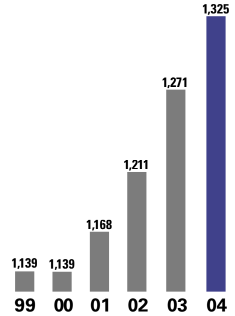
As described in the table below, net earnings and diluted net earnings per share for the fiscal year, excluding the asset impairment and restructuring charges associated with the closing of six Bahama Breeze restaurants and the write-down of the carrying value of four other Bahama Breeze restaurants, one Olive Garden restaurant, and one Red Lobster restaurant, were $254.5 million, or $1.50 per diluted share, on 53-week sales of $5.0 billion.

53 Weeks Ended May 30, 2004 *(In thousands, except per share data)*	Net Earnings	Diluted Net Earnings Per Share
As reported	$ 231,462	$ 1.36
Asset impairment and restructuring charge	23,053	0.14
Adjusted	$ 254,515	$ 1.50

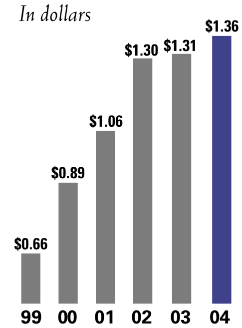
Sales
In billions



Total Restaurants



Diluted Net Earnings Per Share
In dollars



OPERATING COMPANY OVERVIEWS

Red Lobster

A pioneering concept that helped reshape the dining habits of a nation, Red Lobster has been the market leader in the seafood casual dining segment since 1968. Today, Red Lobster has 649 restaurants in the United States and 31 in Canada. Red Lobster's fiscal 2004 sales were $2.4 billion and average annual sales per restaurant were $3.6 million (on a 52-week basis).

Bahama Breeze

Now in its ninth year, Bahama Breeze offers guests a refreshing escape from the ordinary with its unique combination of Caribbean-inspired cuisine, tropical drinks, upbeat atmosphere, and live music. Bahama Breeze had sales of $176 million in fiscal 2004, and now operates 32 restaurants in 19 states, with average annual sales per restaurant of $5.2 million (on a 52-week basis).

Olive Garden

Olive Garden is the largest casual, full-service Italian restaurant company in the world, with 537 restaurants in 47 states and six in Canada. Now in its 21st year, Olive Garden has posted 39 consecutive quarters of U.S. same-restaurant sales growth, and sales totaled $2.2 billion in fiscal 2004, with average annual sales per restaurant of $4.1 million (on a 52-week basis).

Smokey Bones Barbeque & Grill

Combining two of America's favorite pastimes – barbeque and sports – Smokey Bones Barbeque & Grill is Darden's fastest-growing concept. Since its debut in 1999, Smokey Bones has aggressively expanded to 69 restaurants in 18 states as of the end of fiscal 2004. Sales nearly doubled in fiscal 2004 to $174 million, with average annual sales per restaurant of $3.2 million (on a 52-week basis).

New Business Development

With the development of Olive Garden, Bahama Breeze and Smokey Bones, our New Business team has an impressive track record of creating exciting casual dining concepts. In 2003, the team's newest creation, Seasons 52, opened in Orlando, Florida. Now in its test phase, Seasons 52 is a casually sophisticated fresh grill and wine bar with seasonally inspired, nutritionally balanced menus and an extensive international wine list.

DARDEN RESTAURANTS

Leadership Defined

It is said that leadership is the ability to guide or direct others. We would add to that definition the ability to inspire, enthuse, motivate and encourage – for starters. The fact is, at Darden Restaurants leadership manifests itself in hundreds of ways every day. Indeed, we consider leadership excellence to be the essential strategic plank of our business model. So, who better to define leadership than some of the many leaders found in our family of more than 141,000 employees? We wish we could include them all, but this report contains the stories of six individuals who we believe personify leadership at its best. They should give you a good idea of how we define leadership at Darden, as well as how leadership creates value for all of our stakeholders – guests, investors, employees, vendors and the community.

To Our Shareholders, Employees, and Guests

Joe R. Lee
Chairman and Chief Executive Officer

I welcome this opportunity to share with you our fiscal 2004 results. It was clearly a challenging year, with uncertainties such as the war in Iraq, the continuing threat of terrorism, and lackluster job growth affecting our industry and our Company. Our Company was also challenged by management transition in key positions.

Consumer confidence was volatile throughout the year, and the casual dining industry, while showing some growth, did not experience the robust sales growth we had anticipated. And, while we are stronger following our executive leadership changes, we experienced some transition disruption as new responsibilities and reporting relationships were established, which adversely affected our performance.

Despite the challenges, we achieved a great deal in fiscal 2004 and remain focused on our long-term objective of providing industry-leading shareholder value.

• Sales increased 7.5 percent to $5 billion for the fiscal year, driven primarily by new restaurant growth at Olive Garden and Smokey Bones, same-restaurant sales growth at Olive Garden, and an additional operating week in the fourth quarter.

• Net earnings were $231.5 million, or $1.36 per diluted share, for the 53-week fiscal year. These results include fourth quarter asset impairment and restructuring charges totaling approximately $23.1 million after tax associated with the closing of six Bahama Breeze restaurants and the write-down of the carrying value of four other Bahama Breeze restaurants, one Olive Garden restaurant, and one Red Lobster restaurant.

• As described in the 2004 Financial Highlights, net earnings for the fiscal year excluding the asset impairment and restructuring charges were $254.5 million, or $1.50 per diluted share, on 53-week sales of $5.0 billion. Last year, net earnings were $232.3 million, or $1.31 per diluted share, on 52-week sales of $4.7 billion.

• Red Lobster's total sales were a record $2.44 billion, a 0.1 percent increase from last year. Average annual sales per restaurant were $3.6 million (on a 52-week basis), and Red Lobster built seven net new restaurants. Red Lobster's new leadership team is in place and working to improve operating efficiency and sharpen the positioning of the brand, while achieving sustainable and profitable growth.

• Olive Garden's total sales were a record $2.21 billion, up 11.1 percent from last year. Operating profit also reached new record levels, with a double-digit increase versus last year. Average annual sales per restaurant were a record $4.1 million (on a 52-week basis), and Olive Garden built 19 net new restaurants. Olive Garden's U.S. same-restaurant sales growth for the year was 4.6 percent, and Olive Garden ended the year with 39 consecutive quarters of same-restaurant sales growth. Olive Garden continues to demonstrate how strong brand positioning, brilliance with the basics of in-restaurant operations, compelling food news, and great advertising combine to drive excellent guest satisfaction, as well as strong growth in sales, traffic, and operating profit.

• Bahama Breeze's total sales of $176 million were up 28 percent from last year. In May 2004, Bahama Breeze closed six underperforming restaurants as part of our plan to improve overall profitability, *We have a clearly defined core purpose that motivates us every day – to nourish and delight everyone we serve.*

leaving 32 restaurants in operation at the end of the fiscal year. Average annual sales per restaurant, excluding the closed restaurants, were $5.2 million in fiscal 2004 (on a 52-week basis).

- Smokey Bones' total sales were $174 million, an 87 percent increase from last year, as the company nearly doubled in size this year by adding 30 new restaurants to its base of 39. Smokey Bones continued to drive strong consumer acceptance through its unique combination of slow-smoked barbeque and a variety of other grilled favorites, served in a lively yet comfortable mountain-lodge atmosphere, where guests can watch their favorite sports. Annual sales averaged $3.2 million per restaurant (on a 52-week basis) and expansion will continue in fiscal 2005 as it seeks to take advantage of a compelling opportunity.

- Seasons 52, the casually sophisticated fresh grill and wine bar we're testing in Orlando, continued to post impressive results. Plans are in place to open two to three more test restaurants in fiscal 2005 to further explore the concept's viability. Seasons 52 offers seasonally inspired menus with fresh ingredients, to create great tasting, nutritionally balanced meals that are lower in calories than comparable restaurant meals.

- With our strong cash flow and balance sheet, we continued to aggressively buy back shares of our common stock. We repurchased 10.7 million shares in fiscal 2004, which represented more than $235 million in share repurchases. Since we began our repurchase program in 1996, we have repurchased more than 109 million shares, or more than $1.5 billion of our common stock.

While we are proud of our achievements in fiscal 2004, we know we must strengthen several important aspects of our business. That's the key to returning to the high level of performance that will create strong long-term value for our shareholders. We approach our improvement opportunities with a solid foundation, one that features an excellent balance of proven and emerging brands. We also have a clearly defined core purpose that motivates us every day – *to nourish and delight everyone we serve*. And we have a shared goal throughout the Company – we want to be the best in casual dining, now and for generations. We recognize that to achieve our goal, we must build on this strong foundation with even greater attention to two things: operating excellence and effective brand building across the Company.

CASUAL DINING IS A GROWTH INDUSTRY

Our industry, casual dining, is large and continues to grow. In calendar 2003, casual dining industry sales grew 2.6 percent. This compares favorably to the quick-service and mid-scale segments of the restaurant industry, which reported a 1.4 percent increase in sales and a 1.9 percent decline in sales, respectively. However, casual dining's 2003 results are well below the industry's 10-year average growth rate of 7.4 percent.

Despite the slowdown in calendar 2003, industry experts continue to forecast that annualized casual dining sales growth will be between 5 percent and 7 percent over the next decade. The driving factors have not changed and are as important as ever – growth in total employment, growth in real disposable income, an increasing number of women in the workforce, and the aging demographics of the U.S. population.

These drivers, combined with changing lifestyles that place a premium on the time-saving and social reconnection benefits of dining out, give us great confidence that we are in the right industry at the right time. Our confidence is buttressed by the fact that supply and demand within the casual dining industry continue to remain in balance, as they have for the past several years. Although total casual dining visits were down 0.3 percent in calendar 2003, there was an even steeper decline in the number of casual dining units, which fell 2.2 percent. Against that backdrop, it's important to note that casual dining chains experienced a 1.0 percent increase in units. This continues a trend we've seen in recent years and is a strong indicator that well-managed casual dining chains continue to grow and take market share from independent restaurant operators.

OUR SOLID FOUNDATION

As I've said, our business is built on a strong foundation, starting with our compelling core purpose, *to nourish and delight everyone we serve*. Darden also has seven core values that have been forged over our 65-year heritage, which started with the early businesses of our late founder, Bill Darden. We value:

- Integrity and fairness
- Respect and caring
- Diversity
- Always learning / always teaching
- Being "of service"
- Teamwork
- Excellence

These values serve as a constant reminder of who we are, and they guide every decision we make and everything we do. We believe values-based leadership and a values-based organization are more important than ever as predicates for success in today's business environment.

Our foundation also includes a strategic framework that has been in place for nearly six years now and has helped us build a solid track record of success. This framework consists of four strategic imperatives – leadership excellence at all levels, brand building excellence, service and hospitality excellence and culinary and beverage excellence. There are also two strategic enablers we believe can help us accelerate progress in each of the strategic imperatives. These enablers are diversity excellence that embraces and builds upon our differences, and process and technology excellence that maximizes organizational effectiveness and drives both discipline and nimbleness. These important elements – our strategic imperatives and enablers – remain unchanged and rock solid.

New to our strategic framework is the explicit statement of two points that have been implicit in our approach to the business for many years now, and that we believe separate us from much of our competition. We are committed to: (1) being a multi-brand restaurant company bound together by common operating practices and a unifying culture, which serve to make us stronger than the sum of our parts; and (2) listening to our guests and employees for the insights we need to create powerful, broadly appealing brands and develop highly successful people.

We are confident we will create enduring guest and employee loyalty and deliver strong financial performance by combining our strong foundation with consistent brilliance with the basics in everything we pursue, especially our strategic imperatives. We are proud to highlight one of those strategic imperatives in this year's annual report – leadership excellence at all levels of Darden – and introduce you to some of the finest leaders in casual dining.

FISCAL 2005 PRIORITIES

To achieve our financial objectives and continue building our momentum toward becoming the best in casual dining, we will focus our attention and resources on four critical priorities in fiscal 2005:

- Increasing leadership effectiveness
- Driving more growth across all of our brands
- Improving our brand-building efforts
- Fully utilizing our resources

These priorities have been established with the purpose of putting Darden squarely on the path toward growth. Progress on these priorities will increase operating consistency, reinforce leadership effectiveness and stability, and ignite stronger growth.

STRONG LEADERSHIP

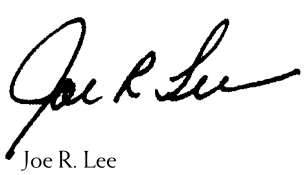
A critical element of effective leadership is having a thoughtful succession plan that provides for a smooth and effective transition of leadership to talented, dynamic and seasoned executives. I am pleased that the Board of Directors has appointed Smokey Bones President Clarence Otis as my successor as Chief Executive Officer, and Olive Garden President Drew Madsen as Darden President and Chief Operating Officer effective December 2004. I will continue to serve as Chairman until my retirement in December 2005.

Our succession plan is the result of years of planning by our Board of Directors, made possible by Darden's deep bench strength. Both Clarence and Drew have been with Darden for many years and have a wide breadth of business acumen and restaurant industry experience. They are talented executives with complementary strengths, mutual respect, and a demonstrated ability to work as an effective team. Their passion for our business will serve us well in the years ahead.

WE ARE READY TO GROW

I am convinced that Darden is well positioned for growth. We start with more than 141,000 dedicated employees who are committed to nourishing and delighting everyone we serve. And we add to that an extraordinarily broad guest base that reflects our balanced mix of two large, dominant companies that each generate over $2 billion in annual sales, and two smaller, emerging growth companies that we believe are each capable of ultimately achieving annual sales of $500 million or more.

Our loyal employees and guests, along with our leadership and financial resources, provide us with an excellent platform to grow and to achieve our ultimate objective, which is to be the best in casual dining, now and for generations.



Joe R. Lee
Chairman and Chief Executive Officer

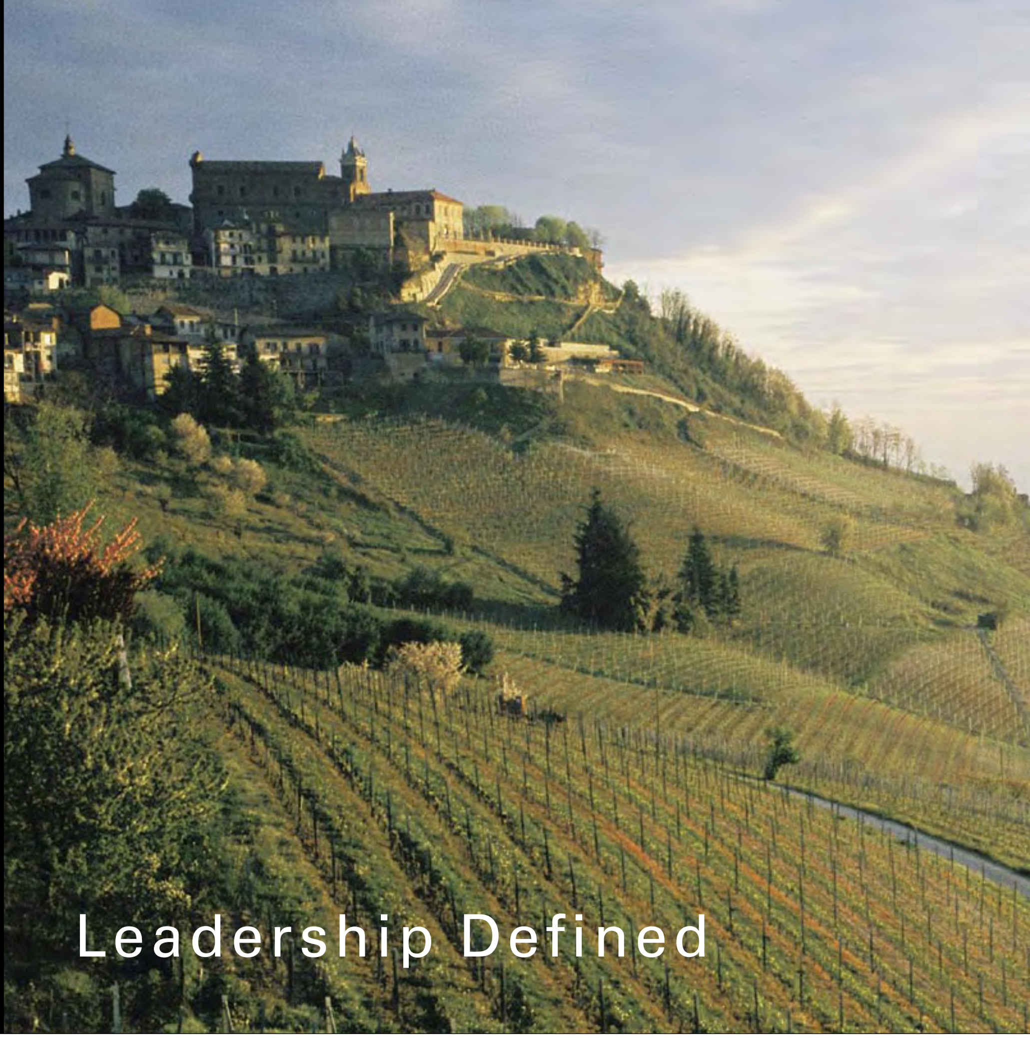
We are confident we will create enduring guest and employee loyalty and deliver strong financial performance by combining our strong foundation with consistent brilliance with the basics in everything we pursue, especially our strategic imperatives.

LEADERSHIP DEFINED

inspiration motivation trust passion vision innovation inspiration motivation trust passion vision innovation inspiration motivation trust passion vision innovation inspiration motivation trust passion vision innovation inspiration motivation trust passion vision innovation

Becki Giese
Director of Operations
Olive Garden

"Hiring the right people in the restaurant business can be tricky, because it's perceived as an easy industry to get into. The fact is, however, that you have to enjoy working with the public and that's not for everyone. As someone who makes hiring decisions, I have had to sharpen my intuition skills. One of the most helpful tools has been Darden's Diversity Learning Experience. The course goes beyond gender and ethnic diversity to really teach you to appreciate many different types of personalities and to broaden your thinking about the role they can play in your restaurant operation."



Inspiration

These days, few people are fortunate enough to find a company where they can envision spending their entire career. Becki Giese says she's one of the lucky ones. In 1988, she started with the Olive Garden as a server, quickly advancing to certified trainer, a position that helped her pay her way through college. Upon graduation, Becki accepted a position with Olive Garden as a restaurant manager, and over the past 16 years she has steadily risen through the ranks. Today, Becki is a Houston-based director of operations, responsible for eight restaurants, and readily says, "I hope to retire with Olive Garden – I can't imagine finding a better place to work."

Longevity is a hallmark of Olive Garden. For two decades it has been America's favorite family of Italian casual dining restaurants, and for 39 consecutive quarters it has posted same-restaurant sales growth on a year-over-year basis, a remarkable feat in the competitive casual dining segment. In fact, Olive Garden's annual sales increased by 11.1 percent in fiscal 2004, with record total sales topping $2.2 billion, and record annual operating profit.

Olive Garden's enduring popularity reflects its ability to delight guests with a genuine Italian dining experience. How do you inspire thousands of employees around the country to do that consistently? One of Becki's favorite ways is to have new hires experience Olive Garden's legendary Hospitaliano!® firsthand. "Often, we will treat a recent hire to a dinner as our guest, " she explains. "The general manager will visit the table to find out how things are going and to let the team member know he or she is surrounded and supported by a real family. We want them to experience the same magic as our guests."

Fresh, simple, delicious Italian food, complemented by a great glass of wine in a comfortable home-like Italian setting, where you're welcomed by people who treat you like family is central to Olive Garden's brand promise, a promise that continues to keep this 21-year casual dining veteran on top. In recent surveys, Olive Garden ranks highest in overall guest satisfaction among the largest operators in casual dining. Olive Garden also continues to outpace the industry benchmark in same-restaurant guest count growth, and leads the industry in top-of-mind brand awareness among consumers.

With 19 net new restaurants opened during fiscal 2004 and plans to continue opening new restaurants, identifying new leadership will continue to be a priority for Olive Garden. Leadership Assessment and Development at Darden Restaurants (LADDR) is a process that helps Olive Garden and all other Darden concepts identify new leaders and create effective career development programs for them. LADDR is a two-day assessment of a restaurant manager's capabilities to become a general manager. If he or she isn't ready yet, LADDR determines what needs to be done to prepare the person for promotion. This intense evaluation process has led to much higher success rates for those who are promoted, and has proven to be an excellent leadership development tool for the Company.

As for Becki Giese, she has developed her own way of identifying up-and-coming talent. She is constantly looking for people who are working "up a level." "I try to spot people who are already acting the role they aspire to," Becki says. "These are the people who will be leading Olive Garden through its next decade of success."

Motivation

Amie Agee
Server and Five-Star Trainer
Smokey Bones Barbeque & Grill

Amie Agee has spent practically her entire life in the restaurant business. Her mother manages a quick-service restaurant and Amie herself began working in the industry at age 15. She feels fortunate to be with Darden. "The best thing about working at Smokey Bones is they give you a chance. Management is very open with everybody and goes out of their way to let the entire team know what's happening in the company and in your own restaurant all the time. They treat you as an equal and that is very comforting, very rewarding."

Understanding. Patient. Knowledgeable. Upbeat. These are the words Amie Agee uses to describe a leader. And when describing Amie herself, we would add – *busy.* Since joining Smokey Bones three years ago, she has advanced quickly from a restaurant greeter to a five-star trainer who has helped open 19 restaurants. In her training role, Amie is responsible for teaching new teammates everything from the details of the Smokey Bones menu to how Smokey Bones approaches treating every guest the right way every time. It's a huge assignment and one that is vital to Smokey Bones' growth.

Since debuting in 1999, Darden's barbeque and sports-based concept has enjoyed rapid expansion, opening 69 restaurants in 18 states as of the end of fiscal 2004, and racking up sales of $174 million. Over the next 12 months, the Company anticipates opening another 30 to 40 Smokey Bones restaurants. That translates into a constant need to attract, train, and retain great new teammates.

Amie says that one of the best tools in her arsenal is the Smokey Bones Fan Survey, the restaurant's mystery guest assessment program. She urges her trainees to approach every situation with a goal of attaining 100 percent on the survey. Along with a host of incentive programs, it's not only a great motivational tool, but also what Amie describes as an "open-book test."

Given its growth to date – Smokey Bones has nearly doubled its number of restaurants every year – we believe Smokey Bones has the potential to one day become as large as Darden's pioneering Red Lobster and Olive Garden concepts, serving as one of the Company's major growth vehicles for years to come.

Trust

How much does Tim O'Brien believe in extraordinary service? For guests who had experienced an unusually long wait, this Bahama Breeze general manager once sprinted to a local mall to buy chocolate ice cream for a young guest. "We only had vanilla, he only wanted chocolate!" Tim remembers. Did going the extra mile pay off? "The family are regular customers and I get chocolate ice cream every time they visit," he reports. When it comes to leadership, no job is too small for Tim, no gesture too insignificant.

It's this type of service and commitment that is helping Bahama Breeze take casual dining to a new level. The brand has established itself as a place where guests can relax, feel refreshed, and forget the the stresses of everyday life. With its menu of Caribbean-inspired cuisine, tropical drinks, and lively deck-side entertainment, Bahama Breeze is the place to go to put yourself in an "island state of mind." The concept had fiscal 2004 sales of $176 million and now operates 32 restaurants in 19 states, with average annual sales per restaurant of $5.2 million (on a 52-week basis), one of the highest levels in the industry.

As with any developing concept, Bahama Breeze continues to evolve and refine its brand positioning to find the best potential for maximizing profits. Recently, Bahama Breeze opened a new prototype restaurant in Pittsburgh, Pennsylvania, with a meaningfully lower initial restaurant investment cost. The Bahama Breeze business plan also has evolved to include lunch as a dining option. The move has helped expand the brand's presence among a new group of diners and boosted same-restaurant sales growth in fiscal 2004.

Tim O'Brien
General Manager
Bahama Breeze

As the first hourly team member ever promoted to general manager, Tim O'Brien holds a distinctive place in Bahama Breeze's leadership history. "I had worked in a number of other restaurants in different positions, but Bahama Breeze really inspired me to reach for a higher level. I really love the concept." Part of the Bahama Breeze proposition is to create a relaxed atmosphere where guests can relieve their stress. How hard is it for Tim to achieve this atmosphere given the demands of serving fresh Caribbean-inspired food to hundreds of guests daily? "We have all the systems in place to make our operation run smoothly and calmly," he explains. "The thought and planning that goes into developing a concept really helps me do my job and the Company is extremely good about providing clear direction. I've received a prompt and clear answer to every question I've ever asked."

Passion

What does it take to manage one of the most successful restaurants in the world's largest casual dining seafood restaurant company? Build a cohesive team. Set clear expectations. Communicate constantly. And, lead by example – consistently. "You say what you do and you do what you say," advises Edward Bermudez, General Manager of the Red Lobster in Wayne, New Jersey. His restaurant is consistently one of the company's top performers and he has a reputation for improving the guest experience in every restaurant where he has worked. "If your crew has an excellent experience, then your guests will have an excellent experience," says Edward.

He attributes much of his ability to create this experience for his crew and guests to training. As a general manager, Edward participates in a variety of continuing education classes, personifying one of Darden's

Edward Bermudez
General Manager
Red Lobster

This native of Peru cannot say enough about Darden's commitment to cultural diversity. "They understand the value of having people with different backgrounds and different life experiences," Edward notes. "Our ability to serve our guests so well is a direct reflection of our ability to embrace diversity." It is a message that Edward is committed to extending well beyond the workplace. He is an active participant and leader in the Hispanic Chamber of Commerce at the local and state level and believes in the business value of community involvement. "You must know your guests and understand who they are and where they come from." It's a lesson that will continue to reward Edward Bermudez and his Company very well.

core values – always learning, always teaching. In fact, the management path at Darden begins with a 12-week Manager-In-Training (MIT) program that focuses heavily on leadership skills, such as coaching and motivating.

"We consider the restaurant general manager to be the most important position in the Company," says Al Frost, Darden's Senior Director of Leadership Development. "Behind every profit-and-loss statement is a general manager. It is imperative to have the right person with the right training in order to get the right results."

Red Lobster's commitment to training and professional development at every level has helped the company grow into a market leader in the casual dining industry, with over $2.4 billion in sales in fiscal 2004.

The coming year will be a significant one for Red Lobster. With a new senior management team at the helm, the company has undertaken a variety of initiatives to strengthen its competitive edge. These include continuing work on a simpler menu, a new LightHouse™ menu showcasing the natural nutritional benefits of seafood, an improved and highly acclaimed kid's menu, new advertising, and a revamped promotional strategy.

Red Lobster's industry leadership truly begins at the local restaurant level with managers like Edward Bermudez. "One of the most rewarding aspects of my job as a manager is to develop new leaders," he notes. "I love going to training sessions and seeing old friends growing in new roles." That kind of passion will certainly help lead the casual dining seafood leader into a new era of growth.

Leadership Defined

Vision

Nat Martin
Director, Bakery Purchasing
Darden Restaurants

As a former football player who attended Purdue University on scholarship, Nat Martin understands the concept of team support. Though he has a corporate-level position, he never thinks in those terms. "Those of us in Restaurant Support really view our responsibilities in terms of the front-line. We never lose sight of the fact that everything we do relates back to the guest sitting in the restaurant. As a purchasing director, my customer base is every general manager in the company. My job is to help them do their job well by providing an excellent experience for their quests."

Often, leadership is a matter of perspective. During his more than 10 years as a supplier of restaurant beverage and cooking equipment, Nat Martin had the opportunity to observe dozens of restaurant companies. When he began interacting with Darden, he saw a leader. "The Company and its people simply stood out in the industry," he remembers. "Their knowledge, their manner, their professionalism – it all had an air of cutting-edge for our industry."

Darden also recognized a leader, and soon recruited Nat as a purchasing manager. Within just two years, he has risen to Director of Bakery Purchasing at Darden's Restaurant Support Center in Orlando, Florida. "I buy the breadsticks!" he jokes. His responsibilities include developing and maintaining good relationships with approximately 40 suppliers at any given time. Nat stresses the relationship part of his job description. "Our approach to suppliers is best described as a strategic partnership," he says. "We ultimately want them to feel like an extension of our Company, with an understanding and appreciation of our corporate culture." This means, for instance, not always focusing solely on costs, but also on building a relationship where Darden and its suppliers have mutually compatible long-term growth and business goals.

Suppliers are a critical part of Darden's success, a fact underscored at an industry gathering, when Darden presents its annual William Darden Distinguished Supplier Awards to nine suppliers whose innovative solutions contribute significantly to Darden's growth. Selected from more than 2,000 suppliers, these recipients truly represent some of the most talented companies in the food service industry.

Innovation

It's a tall order for any chef. Oversee a kitchen where the menu changes weekly. Prepare recipes that feature fresh, seasonal ingredients. And, make sure all dishes are 475 calories or less. This is the mandate for Sous Chef James Petraikis and his culinary colleagues at Seasons 52, Darden's newest test concept that has been in operation for just over a year in Orlando. "You certainly can't complain about monotony," laughs James. "As a chef, it is challenging and intriguing. You're always learning something new."

Seasons 52 is the creation of Darden's internal New Business team that is charged with identifying and developing new restaurant concepts to help drive Darden's future growth. Seasons 52 is designed to not only be a great restaurant with delicious food and excellent service, but also to help our guests celebrate living well through seasonally-inspired, healthier dining. "We use no butter and we have no fryers in the restaurant," says James. "To impart a special flavor, most dishes are cooked on an oak-burning grill." With a constantly changing menu, the development of new seasonal recipes is an ongoing and arduous assignment. Every item undergoes rigorous taste-panel testing before going on the menu, and must pass very high benchmarks for taste and appearance.

Seasons 52's focus on seasonally inspired, nutritionally balanced cuisine, combined with a casually sophisticated atmosphere and wine bar has Darden poised to build a leadership position in yet another segment of casual dining. It's an effort that is well underway with the expansion of the Seasons 52 test to two new Florida locations in the coming months.

James Petraikis
Sous Chef
Seasons 52

Joining Darden's Seasons 52 has been a 180-degree culinary turn-around for James Petraikis. A graduate of the Culinary Institute of America, he is a trained chef whose career has been spent in some of America's finest dining rooms. Why the switch from dishes with rich cream sauces to light marinades? "I had worked several years ago with some of the creators of Seasons 52," he explains. "I was intrigued by the concept and felt a focus on lighter, healthier dining was a growing market that offered more opportunity for me." After just five months, James already is a manager-in-training and will shortly help open the second Seasons 52 in the Orlando area.

CORPORATE RESPONSIBILITY




H.O.P.E. Farm

Enzian Theater

At Darden Restaurants, we believe leadership also means being a leader in the communities where we do business. We believe if you want to make a difference in the world, you have to be involved. The principle of community responsibility has always been one of our core values and a cornerstone of our corporate culture, starting with our founder Bill Darden.

That's why for more than a decade we've poured millions of dollars and countless volunteer hours into the communities in which we operate. We use a multi-pronged philanthropic approach that combines the financial resources of the Darden Restaurants Foundation with the hands-on work of thousands of Darden volunteers across the country. We're also committed to funding programs that foster diversity, fairness, and inclusiveness. Because only by bringing together the skills, knowledge, life experiences, and differing perspectives of all our citizens can we hope to create a lasting impact.

Here are just a few examples of our community involvement during fiscal 2004.

PROMOTING & CELEBRATING DIVERSITY

Throughout the Company and in every community where we do business, Darden Restaurants promotes and celebrates diversity… not just because it's the right thing to do, but also because we know it's critical to our future growth. That's why diversity excellence is a strategic enabler at Darden, and diversity is one of the Company's core values.

We respect and cherish the different perspectives and experiences our diverse employees bring to the workplace and believe they make us a stronger company. In the same way, we also believe supporting and fostering diversity across the nation makes our communities stronger.

That's one of the goals of our Community Alliance Program (CAP). Through CAP, Darden has established partnerships with more than 150 organizations that support diversity efforts on the local and national level, including the Urban League; NAACP; National Council of LaRaza; The East Los Angeles Community Union; National MBA Association Recruitment; INROADS; the United Negro College Fund; and African American, Hispanic, and Asian American Chambers of Commerce.

CAP focuses on helping our restaurant general managers and directors of operations develop ongoing relationships with organizations like these in local communities around the country.

In addition to the CAP Program, Darden and the Darden Restaurants Foundation also support national organizations that further our diversity goals, including the National Minority Supplier Development Council; the Multicultural Foodservice & Hospitality Alliance; the Women's Foodservice Forum; and the Executive Leadership Council.

These efforts have placed Darden among the top U.S. companies recognized for diversity. In October 2003, the Executive Leadership Council – the nation's largest association of African American officers of *Fortune* 100 companies – presented Darden with its Corporate Best Practices Award for diversity excellence; *Fortune* magazine has ranked Darden among the top 50 companies for diversity since 1999, including placing the company at number 33 for 2004, and has recognized the Company for having one of the most diverse boards of directors in corporate America; and *Diversity, Inc.* magazine recently named Darden one of 20 noteworthy companies for diversity, citing, among other things, our multicultural marketing and ethnic media spending.

SUPPORTING KIDS

H.O.P.E. Farm

As a juvenile investigator with the Ft. Worth, Texas, police department, Gary Randle, now executive director and co-founder of H.O.P.E. Farm, saw first-hand the negative effects growing up without a father or positive male role models can have on young boys. "Many of these children end up in the criminal justice system," he says. "I felt something needed to be done for them, something more than arrest and incarceration."

Randle started mentoring school kids on his days off, and later, along with H.O.P.E.'s co-founder Noble Crawford, started an after-school basketball program that eventually grew into H.O.P.E. (Helping Other People Excel) Farm, Inc.

The two men restored an old crack house and turned it into a facility that provides academic help, life skills, and recreational activities every day after school and all day in the summer. The program specifically targets boys from single parent homes who lack a positive male influence in their lives. "Our goal is to help these young boys become productive men who do what's right," Randle explains. "Our posture is that it's easier to prepare than to repair."

ProStart

The program's growth created the need for a larger facility with a commercial kitchen, and a Darden Restaurants Foundation grant helped pay for the new kitchen's equipment. In partnership with the Kid's Cafe Program of America's Second Harvest food banks, H.O.P.E Farm feeds the children a hot meal every day after school, and in the summer provides breakfast, lunch, and a snack.

"What we do at H.O.P.E. Farm is address the spirit, mind, and body of these children. Darden has helped us address a major component of that," Randle says.

ENRICHING THE COMMUNITY THROUGH ART & CULTURE

Enzian Theater

Since 1985, the Enzian Theater in Maitland, Florida, has aspired to entertain, inspire, educate, and connect the community through film. Enzian is the oldest full-time, not-for-profit cinema in Florida, and also sponsors the Florida Film Festival, recently recognized as one of the world's top 10 film festivals.

The theater also hosts various multi-cultural film festivals, which celebrate Florida's finest independent film and video makers and provide a view of diverse cultures, while illuminating the commonalities we all share.

Since its inception, Enzian has screened more than 3,375 films to more than one million people, which puts plenty of wear and tear on its facilities. "We desperately needed to refurbish it and replace the tables and chairs," says Theater President Sigrid Tiedtke. "A Darden Restaurants Foundation grant helped us furnish a good part of the redo of our theatre, and we're thrilled about that."

The Darden Restaurants Foundation grant also helped fund "Popcorn Flicks," an outdoor cinema series offering family-friendly classic films at a park in the heart of the city's downtown. "There's just a wonderful community aspect to this series," Tiedtke says. "People of all ages and socio-economic groups bring their blankets, have picnics and visit with each other. It really is just a lovely time with family and friends.

"We aspire to bring great stories to the community, stories that make our lives more meaningful," Tiedtke says. "We see ourselves as a window to a world of expanded respect, wisdom, and creativity."

EDUCATING FUTURE LEADERS

Showcase of the Stars

Through Showcase of the Stars, minority and economically disadvantaged high school students learn about careers in the restaurant industry from top restaurant and foodservice industry professionals who are also minorities. The traveling event was created by the non-profit trade group, Multicultural Foodservice & Hospitality Alliance, to promote the many career opportunities available in the restaurant, foodservice, and lodging industries.

That mission dovetails perfectly with the goals of the Darden Restaurants Foundation and the Illinois Restaurant Association (IRA) Educational Foundation, which focuses on building Illinois' hospitality workforce through career exploration programs, scholarships, and other programs. The Darden Restaurants Foundation funded a grant to enable the IRA Educational Foundation to bring the Showcase of the Stars to Illinois students.

Many minority youths are unaware of the diverse career options the restaurant and foodservice industry offers. The Showcase of the Stars hopes to change that. "Many of the students we talk to don't really know much about the multitude of opportunities in this industry," says IRA President Colleen McShane. "Most know about being chefs, but many are surprised to learn there are management opportunities, as well as jobs in software design, facilities management, finance, accounting, and other restaurant-related support jobs."

The event has attracted hundreds of young people to the industry. "Showcase of the Stars gives students a wonderful chance to experience a world of opportunities in this industry," says McShane.

SUSTAINING OUR NATURAL RESOURCES

Perry Institute for Marine Science

In many communities throughout the world, people depend on lobster for their livelihood. Not only is it a source of food, but it also provides jobs and income. The world's desire for this delectable crustacean, though, has put enormous pressure on the population of the spiny lobster, one of the most valuable fishery species in the Caribbean.

Unlike shrimp, many types of fish, and even scallops, scientists have never been able to "farm" lobsters from egg to adult using aquaculture. But, Dr. Craig Dahlgren, Senior Research Scientist at the Perry Institute for Marine Science/Caribbean Marine Research Center, says a grant from the Darden Restaurants Foundation is helping the Institute make progress in this area. "We're focusing our research on the Bahamas and Belize

Corporate Responsibility *continued*

Perry Institute

Baghdad "Care Package"

because these areas contain two of the most important lobster fisheries in the Caribbean," says Dr. Dahlgren. "And because these fisheries are close to their maximum level of productivity, it's important for their survival to find a way to increase lobster stocks to meet the increasing demand for lobsters. The Darden grant is helping us find ways to do that without putting the species or the environment at risk."

By experimenting with different methods, like aquaculture and stock and habitat enhancement, Perry's scientists are not only collecting promising data and learning valuable information about the spiny lobster's habitat, but they're also providing information that could ultimately increase all lobster populations throughout the world.

BUILDING STRONG COMMUNITIES

Volunteer Spotlight

At Darden, volunteerism "runs in the family." Red Lobster, Olive Garden, Bahama Breeze, and Smokey Bones and their employees are all involved in a variety of regional and national community events and programs. Through the Cops & Lobsters program, for example, Red Lobster restaurants invite law enforcement officers to work as celebrity servers and collect donations, raising millions of dollars for Special Olympics. And Olive Garden restaurants raise millions for the national Leukemia and Lymphoma Society through its annual Pasta for Pennies program, which raised $3.2 million in fiscal 2004.

When Darden employees see a problem or need in the community, they jump in and go to work. On almost any day of the year, you'll find Darden volunteers throughout North America working to better their communities by serving on boards of charitable organizations, working in local schools, raising funds to fight disease, collecting toys for underprivileged children, mentoring students ... or any of thousands of other acts of community service. Here are a few other examples:

- What started with several Ohio-area Olive Garden and Red Lobster restaurant teams shipping much-requested coffee to the 1485th Army National Guard unit in Dover, OH, became a whole lot more on New Year's Day, 2004. The soldiers, who had been deployed to Iraq the previous May, were planning to have a New Year's Day cookout, and were unaware that a group of Darden employees were planning to make it a feast for them.

  On January 1, 2004, a "care package" arrived in Iraq, courtesy of Red Lobster and Olive Garden, loaded with strip steaks, Maine lobster tails, and enough baked potatoes, breadsticks, salad, desserts, and more to feed the 225 servicemen and women of the 1485th stationed north of Baghdad!

- On a visit to a shelter for battered women and their children in South Central Los Angeles, Linda Landman-Gonzalez, Darden's Director of Diversity and Community Affairs, noticed the home had no window coverings other than sheets strung over a rod.

  So Linda talked to Senior Vice President of Operations for Olive Garden's Los Angeles Division, Rob Viveros, about donating blinds, and Rob made it happen. "The people there were so excited," Rob says. "One lady broke down and cried because the blinds made her feel so much more safe and secure."

- Brad Richmond, SVP Finance & Strategic Planning for Red Lobster, volunteers on the board and executive committee of Florida's Blood Centers (FBC), formerly the Central Florida Blood Bank. FBC is the largest blood bank in Florida, and the fourth largest in the nation. "I volunteer for the pure satisfaction it gives me to be able to use my talents and skills to help this organization," he says. "I think it's a world-class organization and vital to maintaining strong health care in Central Florida."

- When Cynthia Meca, General Manager of an Olive Garden in Tampa, Florida, heard that one of her line cooks was competing in an industry competition and Darden was a sponsor, she knew she wanted to help. "I got so excited about the competition, I said, 'I tell you what, I'll get you chef coats'," Cynthia says. The competition was part of Pro Start, a school-to-career program in which students learn every aspect of food preparation and participate in student competitions.

  "I put a lot of passion into my volunteer service," says Cynthia, who tries to get involved in a community project every month. "It comes from my heart and is a real source of joy and meaning in my life."

2004

Financial Review

Management's Discussion and Analysis
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should be read in conjunction with our consolidated financial statements and related notes found elsewhere in this report.

For financial reporting, we operate on a 52/53 week fiscal year ending on the last Sunday in May. Our 2004 fiscal year, which ended on May 30, 2004, had 53 weeks. Our 2003 fiscal year, which ended on May 25, 2003, and our 2002 fiscal year, which ended on May 26, 2002, each had 52 weeks. We have included in this discussion certain financial information for fiscal 2004 on a 52-week basis in order to assist investors in making comparisons to our prior fiscal years.

OVERVIEW OF OPERATIONS

Our business operates in the casual dining segment of the restaurant industry, primarily in the United States. At May 30, 2004, we operated 1,325 Red Lobster, Olive Garden, Bahama Breeze, Smokey Bones Barbeque & Grill, and Seasons 52 restaurants in the United States and Canada and licensed 38 Red Lobster restaurants in Japan. We own and operate all of our restaurants in the United States and Canada, with no franchising.

Our sales were $5.00 billion in fiscal 2004 and $4.65 billion in fiscal 2003, a 7.5 percent increase. On a 52-week basis, after adjusting for the $90 million of sales contributed by the additional 53rd operating week in fiscal 2004, total sales would have been $4.91 billion for fiscal 2004, a 5.5 percent increase from fiscal 2003. Net earnings for fiscal 2004 were $231 million ($1.36 per diluted share) compared with net earnings for fiscal 2003 of $232 million ($1.31 per diluted share). Net earnings for fiscal 2004 decreased 0.3 percent and diluted net earnings per share increased 3.8 percent compared to fiscal 2003. Although Red Lobster's string of 23 consecutive quarters of U.S. same-restaurant sales gains ended during fiscal 2004, Red Lobster has made progress in some important areas. Red Lobster improved its operating efficiency during fiscal 2004 through improvements in labor management and other cost controls, as well as implementing a less-disruptive promotional strategy in the second half of fiscal 2004, which resulted in higher operating profit than in fiscal 2003. Results from guest satisfaction surveys also improved as the fiscal year progressed. Red Lobster retained a new advertising agency in fiscal 2004 and is in the process of developing a marketing plan designed to achieve more sustainable benefits than have been obtained in prior years. Red Lobster also is developing new entree offerings in the $10-$ 15 price range to strengthen the value offered to its guests. Olive Garden's sales gains in fiscal 2004, combined with lower food and beverage costs, restaurant expenses, and selling, general and administrative expenses as a percent of sales, more than offset increased restaurant labor expenses as a percent of sales. This resulted in a double-digit increase in operating profit for Olive Garden during fiscal 2004 along with record annual operating profit and return on sales.

In fiscal 2005, we expect to increase our number of restaurants by approximately 50 to 60 restaurants. We expect combined same-restaurant sales growth in fiscal 2005 of between one percent and three percent for Red Lobster and Olive Garden. We believe we can achieve diluted net earnings per share growth in the range of 8 percent to 12 percent for fiscal 2005. In fiscal 2005, we also expect Bahama Breeze to be accretive to earnings, and Smokey Bones to remain dilutive to earnings. However, we expect Smokey Bones to be accretive to earnings in the second half of fiscal 2005. As with same-restaurant sales growth, there can always be some quarter-to-quarter variability in operating results, where specific factors put us above or below the expected range of diluted net earnings per share growth. We believe our strong balance sheet and cash flows will be important factors in helping us reach our goals.

Our mission is to be the best in casual dining, now and for generations. To achieve this goal, we focus on four strategic imperatives: leadership excellence, brand management excellence, service and hospitality excellence, and culinary and beverage excellence.

From a financial perspective, we seek to increase sales and profits. To evaluate our operations and assess our financial performance, we use the following two key factors:

- Same-restaurant sales - a year-over-year comparison of each period's sales volumes for restaurants that are open more than 16 months; and
- Operating margins - restaurant sales less restaurant-level cost of sales (food and beverage costs, restaurant labor, and other restaurant expenses).

Increasing same-restaurant sales can increase operating margins, since these incremental sales provide better leverage of our fixed costs. Same-restaurant sales increases can be generated by 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 concept, we gather sales data daily and regularly analyze the guest traffic counts and the mix of menu items sold to assist in developing menu pricing, product offerings, and promotional strategies. We view guest traffic counts as an indication of the long-term health of a concept, while increases in average check and menu mix may contribute more significantly to near-term profitability. We continually focus on balancing our pricing and product offerings with other initiatives to generate sustainable growth in same-restaurant sales.

Incremental same-restaurant sales increases make a significant contribution to our profitability. Many restaurant-level expenses are relatively fixed in nature and do not vary with sales volumes. Therefore, same-restaurant sales increases can improve our profitability. We define same-restaurants as restaurants that have been open at least 16 months. New restaurants experience an adjustment period before sales levels and operating margins normalize, and sales at newly opened restaurants generally do not make a significant contribution to profitability in their initial months of operation. Our sales and expenses can be impacted significantly by the number and timing of the opening of new restaurants, and the closing, relocation, and remodeling of existing restaurants. Pre-opening expenses each period reflect the costs associated with opening new restaurants in current and future periods.

There are significant risks and challenges that could impact our operations and ability to increase sales and earnings. The casual dining restaurant industry is highly competitive and sensitive to economic turns, trends in lifestyles and fluctuating costs. Operating margins for our concepts are susceptible to changes in the price of commodities, including seafood, beef, pork, chicken, cheese, produce, natural gas, and other energy supplies. Other risks and uncertainties include the price and availability of labor, insurance and media,- possible unfavorable publicity relating to food safety or other concerns,- government regulation and litigation,- and factors that could impact our growth plans, including the availability of suitable restaurant locations, construction cost increases, construction delays, and other factors.

RESULTS OF OPERATIONS FOR FISCAL 2004,2003 AND 2002

The following table sets forth selected operating data as a percentage of sales for the 53-week period ended May 30, 2004, and the 52-week periods ended May 25, 2003, and May 26, 2002.

All information is derived from the consolidated statements of

	Fiscal Years		
	2004	2003	2002
Sales	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of sales:			
Food and beverage	30.5	31.1	31.7
Restaurant labor	32.0	31.9	31.5
Restaurant expenses	15.4	15.1	14.4
Total cost of sales, excluding restaurant depreciation and amortization of 3.9%, 3.8%, and 3.6%, respectively	77.9%	78.1%	77.6%
Selling, general, and administrative	9.4	9.3	9.5
Depreciation and amortization	4.2	4.1	3.8
Interest, net	0.9	0.9	0.9
Asset impairment and restructuring charges (credits), net	0.8	0.1	(0.1)
Total costs and expenses	93.2%	92.5%	91.7%
Earnings before income taxes	6.8	7.5	8.3
Income taxes	2.2	2.5	2.9
Net earnings	4.6%	5.0%	5.4%

SALES

Sales were $5.00 billion in fiscal 2004, $4.65 billion in fiscal 2003, and $4.37 billion in fiscal 2002. The 7.5% increase in company-wide sales for fiscal 2004 was primarily due to a net increase of 54 company-owned restaurants since fiscal 2003, same-restaurant sales increases at Olive Garden, and the additional operating week in fiscal 2004. These sales increases were partially offset by decreased same-restaurant sales at Red Lobster. After adjusting for $90 million of sales contributed by the additional operating week, total sales would have been $4.91 billion for fiscal 2004 on a 52-week basis, a 5.5 percent increase from fiscal 2003.

Red Lobster sales of $2.44 billion were 0.1 percent above last year. U.S. same-restaurant sales for Red Lobster decreased 3.5 percent due to a 6.5 percent decrease in same-restaurant guest counts, offset partially by a 3.0 percent increase in average check. Average annual sales per restaurant for Red Lobster were $3.6 million in fiscal 2004 (on a 52-week basis).

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Olive Garden sales of $2.21 billion were 11.1 percent above last year. U.S. same-restaurant sales for Olive Garden increased 4.6 percent due to a 3.0 percent increase in average check and a 1.6 percent increase in same-restaurant guest counts. Average annual sales per restaurant for Olive Garden were $4.1 million in fiscal 2004 (on a 52-week basis). Olive Garden has enjoyed 39 consecutive quarters of U.S. same-restaurant sales increases.

Bahama Breeze sales of $176 million were 28 percent above last year. Bahama Breeze opened four new restaurants during fiscal 2004, including its new prototype restaurant in Pittsburgh, PA. Bahama Breeze also closed six restaurants during the fourth quarter of fiscal 2004 as a result of a comprehensive analysis performed during the fourth quarter of fiscal 2004 that examined restaurants not meeting our minimum return-on-investment thresholds and certain other operating performance criteria. Average annual sales per restaurant (excluding the six closed restaurants) were $5.2 million (on a 52-week basis). Smokey Bones sales of $ 174 million were 87 percent above last year. Average annual sales per restaurant were $3.2 million (on a 52-week basis). Smokey Bones opened 30 new restaurants during fiscal 2004.

The 6.6 percent increase in company-wide sales for fiscal 2003 versus fiscal 2002 was primarily due to same-restaurant sales increases in the U.S. and a net increase of 60 company-owned restaurants since fiscal 2002. Red Lobster sales of $2.43 billion were 4.1 percent above fiscal 2002. U.S. same-restaurant sales for Red Lobster increased 2.7 percent due to a 3.1 percent increase in average check, partially offset by a 0.4 percent decrease in same-restaurant guest counts. Average annual sales per restaurant for Red Lobster were $3.7 million in fiscal 2003. Olive Garden sales of $ 1.99 billion were 6.8 percent above fiscal 2002. U.S. same-restaurant sales for Olive Garden increased 2.2 percent due to a 3.7 percent increase in average check and a 1.5 percent decrease in same-restaurant guest counts. Average annual sales per restaurant for Olive Garden were $3.9 million in fiscal 2003. Bahama Breeze opened five new restaurants during fiscal 2003 and generated sales that exceeded $ 137 million. Smokey Bones opened 20 new restaurants during fiscal 2003 and generated sales of $93 million.

COSTS AND EXPENSES

Total costs and expenses were $4.66 billion in fiscal 2004, $4.31 billion in fiscal 2003, and $4.00 billion in fiscal 2002. Total costs and expenses in fiscal 2004 were 93.2 percent of sales, an increase from 92.5 percent of sales in fiscal 2003. The following analysis of the components of total costs and expenses is presented as a percent of sales.

Food and beverage costs increased $78 million, or 5.4 percent, from $ 1.45 billion to $ 1.53 billion in fiscal 2004 compared to fiscal 2003. Food and beverage costs increased $65 million, or 4.7 percent, from $1.38 billion to $ 1.45 billion in fiscal 2003 compared to fiscal 2002. As a percent of sales, food and beverage costs decreased from the prior year in fiscal 2004 and fiscal 2003 primarily as a result of pricing changes, and favorable changes in promotional and menu mix of sales, which was partially offset by higher seafood costs and by crab usage and additional plate accompaniments at Red Lobster during its crab promotion in the first quarter of fiscal 2004. Other commodity costs, such as chicken and shrimp, decreased modestly.

Restaurant labor increased $ 116 million, or 7.8 percent, from $ 1.49 billion to $ 1.60 billion in fiscal 2004 compared to fiscal 2003. Restaurant labor increased $ 112 million, or 8.1 percent, from $1.37 billion to $ 1.49 billion in fiscal 2003 compared to fiscal 2002. As a percent of sales, restaurant labor increased in fiscal 2004 primarily as a result of a modest increase in wage rates at Red Lobster and Olive Garden, and higher manager bonuses at Olive Garden as a result of their increased operating performance in fiscal 2004. These factors were only partially offset by the favorable impact of higher sales volumes and lower health insurance costs as a result of fewer claims. As a percent of sales, restaurant labor increased in fiscal 2003 primarily as a result of a modest increase in wage rates, higher promotional staffing levels, and increased sales volatility, which made it more difficult to predict staffing needs. These factors were only partially offset by the favorable impact of higher sales volumes.

Restaurant expenses (which include lease, property tax, credit card, utility, workers' compensation, insurance, new restaurant pre-opening, and other restaurant-level operating expenses) increased $64 million, or 9.1 percent, from $704 million to $768 million in fiscal 2004 compared to fiscal 2003. Restaurant expenses increased $75 million, or 11.9 percent, from $629 million to $704 million in fiscal 2003 compared to fiscal 2002. As a percent of sales, restaurant expenses increased in fiscal 2004 and fiscal 2003 primarily due to increased utility, workers' compensation, insurance, and new restaurant pre-opening costs. These cost increases were only partially offset by the favorable impact of higher sales volumes.

Selling, general, and administrative expenses increased $40 million, or 9.4 percent, from $432 million to $472 million in fiscal 2004 compared to fiscal 2003. Selling, general, and administrative expenses increased $15 million, or 3.5 percent, from $417million to $432 million in fiscal 2003 compared to fiscal 2002. As a percent of sales, selling, general, and administrative expenses increased in fiscal 2004 primarily due to increased employee benefit costs, an increase in the amount contributed to the Darden Restaurants, Inc. Foundation, and an increase in litigation related costs, which were only partially offset by the favorable impact of higher sales volumes. As a percent of sales, selling, general, and administrative expenses in fiscal 2003 were less than fiscal 2002 primarily as a result of decreased bonus costs and the favorable impact of higher sales volumes, which were partially offset by increased marketing expense incurred in response to the challenging economic and competitive environment.

Depreciation and amortization expense increased $ 19 million, or 9.8 percent, from $ 191 million to $210 million in fiscal 2004 compared to fiscal 2003. Depreciation and amortization expense increased $25 million, or 15.3 percent, from $166 million to $191 million in fiscal 2003 compared to fiscal 2002. As a percent of sales, depreciation and amortization increased in fiscal 2004 and 2003 primarily as a result of new restaurant and remodel activities, which were only partially offset by the favorable impact of higher sales volumes.

Net interest expense increased $1 million, or 2.5 percent, from $43 million to $44 million in fiscal 2004 compared to fiscal 2003. Net interest expense increased $6 million, or 16.4 percent, from $37 million to $43 million in fiscal 2003 compared to fiscal 2002. As a percent of sales, net interest expense in fiscal 2004 was comparable to fiscal 2003, reflecting lower interest income in fiscal 2004, offset by the favorable impact of higher sales volumes. As a percent of sales, net interest expense in fiscal 2003 was comparable to fiscal 2002 primarily because increased interest expense associated with higher average debt levels in fiscal 2003 was offset by the favorable impact of higher sales volumes.

After a comprehensive analysis performed during the fourth quarter of fiscal 2004 that examined restaurants not meeting our minimum return-on-investment thresholds and other operating performance criteria, we recorded a $36.5 million pre-tax ($22.4 million after-tax) charge for long-lived asset impairments associated with the closing of six Bahama Breeze restaurants and the write-down of the carrying value of four other Bahama Breeze restaurants, one Olive Garden restaurant, and one Red Lobster restaurant, which continued to operate. We also recorded a $ 1.1 million pre-tax ($0.7 million after-tax) restructuring charge primarily related to severance payments made to certain restaurant employees and exit costs associated with the closing of the six Bahama Breeze restaurants. During fiscal 2004, certain changes were made at Bahama Breeze to improve its sales, financial performance, and overall long-term potential, including the addition of lunch at most restaurants and introduction of a new dinner menu. The decision to close certain Bahama Breeze restaurants and write down the carrying value of others was based on our on-going review of each individual restaurant's performance against our expectations and their ability to successfully implement these changes. Based on our review of the other 28 Bahama Breeze restaurants, we believe their locations and ability to execute these and future initiatives will minimize the likelihood that additional impairment charges will be required. The write-down of the carrying value of one Olive Garden restaurant and one Red Lobster restaurant was a result of less-than-optimal locations. We will continue to evaluate all of our locations to minimize the risk of future asset impairment charges. In addition to the fiscal 2004 fourth quarter action, we recognized asset impairment charges in the amount of $5.7 million and $4.9 million in fiscal 2004 and 2003, respectively, related to the relocation and rebuilding of certain restaurants. Asset impairment credits related to the sale of assets that were previously impaired amounted to $1.4 million and $0.6 million in fiscal 2004 and 2003, respectively. Pre-tax restructuring credits of $0.4 million and $2.6 million were recorded in fiscal 2003 and 2002, respectively. The credits resulted from lower than projected costs of lease terminations in connection with our fiscal 1997 restructuring. All fiscal 1997 restructuring actions were completed as of May 25,2003.

INCOME TAXES

The effective income tax rates for fiscal 2004, 2003, and 2002 were 31.9 percent, 33.2 percent, and 34.6 percent, respectively. The rate decrease in fiscal 2004 and fiscal 2003 was primarily a result of favorable resolutions of prior year tax matters and an increase in FICA tax credits for employee-reported tips.

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NET EARNINGS AND NET EARNINGS PER SHARE

Net earnings for fiscal 2004 were $231 million ($1.36 per diluted share) compared with net earnings for fiscal 2003 of $232 million ($ 1.31 per diluted share) and net earnings for fiscal 2002 of $238 million ($ 1.30 per diluted share).

Net earnings for fiscal 2004 decreased 0.3 percent and diluted net earnings per share increased 3.8 percent compared to fiscal 2003. The decrease in net earnings was primarily due to the $38 million pre-tax ($23 million after-tax) asset impairment and restructuring charges recognized during fiscal 2004 related to the closing of six Bahama Breeze restaurants and write-down of another four Bahama Breeze restaurants, one Olive Garden restaurant, and one Red Lobster restaurant. Net earnings were also impacted by decreases in food and beverage costs as a percent of sales, which were only partially offset by increases in restaurant labor, restaurant expenses, selling, general, and administrative expenses, and depreciation and amortization expense as a percent of sales. The increase in diluted net earnings per share is due to a reduction in the average diluted shares outstanding from fiscal 2003 to fiscal 2004 because of our continuing repurchase of our common stock.

Net earnings for fiscal 2003 decreased 2.3 percent and diluted net earnings per share increased 0.8 percent, compared to fiscal 2002. The decrease in net earnings was primarily due to increases in restaurant labor, restaurant expenses, and depreciation and amortization expenses as a percent of sales, which were only partially offset by decreases in food and beverage costs and selling, general, and administrative costs as a percent of sales. The increase in diluted net earnings per share was due to a reduction in the average diluted shares outstanding from fiscal 2002 to fiscal 2003 because of our continuing repurchase of our common stock.

SEASONALITY

Our sales volumes fluctuate seasonally. During fiscal 2004, 2003, and 2002, our sales were highest in the spring, lowest in the fall, and comparable during winter and summer. Holidays, 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 do not believe inflation had a significant overall effect on our operations during fiscal 2004, 2003, and 2002. We believe we have historically been able to pass on increased operating costs through menu price increases and other strategies.

CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. 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.

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

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost less accumulated depreciation. Building components are depreciated over estimated useful lives ranging from seven to 40 years using the straight-line method. Leasehold improvements, which are reflected on our consolidated balance sheets as 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 10 years, also using the straight-line method. Accelerated depreciation methods are generally used for income tax purposes.

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

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 these assets are determined to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Fair value is generally determined based on appraisals or sales prices of comparable assets. Restaurant sites and certain other assets to be disposed of are reported at the lower of their carrying amount or fair value, less estimated costs to sell. Restaurant sites and certain other assets to be disposed of are included in assets held for disposal when certain criteria are met. These criteria include the requirement that the likelihood of disposing of these assets within one year is probable. Those assets whose disposal is not probable within one year remain in land, buildings, and equipment until their disposal is probable within one year.

The judgments we make related to the expected useful lives of long-lived assets and our ability to realize undiscounted cash flows in excess of the carrying amounts of these assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in economic conditions, and changes in usage or operating performance. As we assess the ongoing expected cash flows and carrying amounts of our long-lived assets, significant adverse changes in these factors could cause us to realize a material impairment charge. In fiscal 2004, we recognized asset impairment charges of $37 million ($22 million after-tax) for the closing of six Bahama Breeze restaurants and the write-down of four other Bahama Breeze restaurants, one Olive Garden restaurant, and one Red Lobster restaurant based on an evaluation of expected cash flows.

Self-Insurance Accruals

We self-insure a significant portion of expected losses under our workers' compensation, employee medical, and general liability programs. Accrued liabilities have been recorded based on our estimates of the ultimate costs to settle incurred claims, both reported and not yet reported.

Our accounting policies regarding self-insurance programs include our judgments and independent actuarial assumptions regarding economic conditions, the frequency or severity of claims and claim development patterns, and claim reserve, management, and settlement practices. Unanticipated changes in these factors may produce materially different amounts of reported expense under these programs.

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.

Our estimates are based on the best available information at the time that we prepare the provision. We generally file our annual income tax returns several months after our fiscal year-end. Income tax returns are subject to audit by federal, 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.

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LIQUIDITY AND CAPITAL RESOURCES

Cash flows generated from operating activities provide us with a significant source of liquidity. Since substantially all our sales are for cash and cash equivalents, and accounts payable are generally due in five 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 manage our business and our financial ratios to maintain an investment grade bond rating, which allows flexible access to financing at reasonable costs. Currently, our publicly issued long-term debt carries "Baal" (Moody's Investors Service), "BBB+" (Standard & Poor's), and "BBB+" (Fitch) ratings. Our commercial paper has ratings of "P-2" (Moody's Investors Service), "A-2" (Standard & Poor's), and "F-2" (Fitch). These ratings are as of the date 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 may be changed, superseded, or withdrawn at any time.

Our commercial paper program serves as our primary source of short-term financing. At May 30, 2004, $ 15 million was outstanding under the program. To support our commercial paper program, we have a credit facility under a Credit Agreement dated October 17, 2003, as amended, with a consortium of banks, including Wachovia Bank, N.A., as administrative agent, under which we can borrow up to $400 million. The credit facility allows us to borrow at interest rates based on a spread over (i) LIBOR or (ii) a base rate that is the higher of the prime rate, or one-half of one percent above the federal funds rate, at our option. The interest rate spread over LIBOR is determined by our debt rating. The credit facility expires on October 17, 2008, and contains various restrictive covenants, including a leverage test that requires us to maintain a ratio of consolidated total debt to consolidated total capitalization of less than 0.55 to 1.00 and a limitation of $25 million on priority debt, subject to certain exceptions. The credit facility does not, however, contain a prohibition on borrowing in the event of a ratings downgrade or a material adverse change in and of itself. None of these covenants are expected to impact our liquidity or capital resources. At May 30, 2004, we were in compliance with all covenants under the Credit Agreement.

At May 30,2004, our long-term debt consisted principally of: (l)$150millionof unsecured 8.3 75 percent senior notes due in September 2005, (2) $ 150 million of unsecured 6.375 percent notes due in February 2006, (3) $150 million of unsecured 5.75 percent medium-term notes due in March 2007, (4) $75 million of unsecured 7.45 percent medium-term notes due in April 2011, (5) $ 100 million of unsecured 7.125 percent debentures due in February 2016, and (6) an unsecured, variable rate, $29 million commercial bank loan due in December 2018 that supports two loans from us to the Employee Stock Ownership Plan portion of the Darden Savings Plan. Through a shelf registration on file with the Securities and Exchange Commission (SEC), we may issue up to an additional $ 125 million of unsecured debt securities from time to time. The debt securities may bear interest at either fixed or floating rates, and may have maturity dates of nine months or more after issuance.

A summary of our contractual obligations and commercial commitments at May 30, 2004, is as follows (in thousands):

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Short-term debt	$ 14,500	$ 14,500	$ –	$ –	$ –
Long-term debt [(1)]	654,403	–	450,000	–	204,403
Operating leases	373,699	62,070	108,218	80,009	123,402
Purchase obligations [(2)]	670,019	575,836	94,183	–	–
Total contractual cash obligations	$1,712,621	$652,401	$652,401	$80,009	$327,805

		Amount of Commitment Expiration per Period			
Other Commercial Commitments	Total Amounts Committed	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Trade letters of credit	$ 242	$ 242	$ –	$ –	$ –
Standby letters of credit [(3)]	88,376	88,376	–	–	–
Guarantees [(4)]	4,346	796	1,488	1,147	915
Other	2,125	750	1,375	–	–
Total commercial commitments	$95,089	$90,164	$2,863	$1,147	$915

1) Excludes issuance discount of $1,054.

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

3) Includes letters of credit for $72,480 of workers' compensation and general liabilities accrued in our consolidated financial statements; also includes letters of credit for $7,635 of lease payments included in contractual operating lease obligation payments noted above.

4) Consists solely of guarantees associated with sub-leased properties. We are not aware of any non-performance under these sub-lease arrangements that would result in us having to perform in accordance with the terms of the guarantees.

As disclosed in Exhibit 12 to our Annual Report on Form 10-K, our fixed-charge coverage ratio, which measures the number of times each year that we earn enough to cover our fixed charges, amounted to 5.8 times and 6.0 times for the fiscal years ended May 30, 2004 and May 25, 2003, respectively. Our adjusted debt to adjusted total capital ratio (which includes 6.25 times the total annual restaurant minimum rent ($56.5 million and $48.1 million for the fiscal years ended May 30,2004 and May 25,2003, respectively) and 3.00 times the total annual restaurant equipment minimum rent ($. 1 million and $5.7 million for the fiscal years ended May 30, 2004 and May 25, 2003, respectively) as components of adjusted debt and adjusted total capital) was 45 percent at May 30, 2004 and May 25, 2003. We use the lease-debt equivalent in our adjusted debt to adjusted total capital ratio as we believe its inclusion better represents the optimal capital structure that we target from period to period.

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

(In millions, except ratios)	May 30, 2004	May 25, 2003
CAPITAL STRUCTURE		
Short-term debt	$ 15	$ –
Long-term debt	653	658
Stockholders' equity	1,246	1,196
Total capital	$1,914	$1,854
ADJUSTMENTS TO CAPITAL		
Short-term debt	$ 15	$ –
Long-term debt	653	658
Lease-debt equivalent	353	318
Adjusted debt	$1,021	$ 976
Stockholders' equity	1,246	1,196
Adjusted total capital	$2,267	$2,172
CAPITAL STRUCTURE RATIOS		
Debt to total capital ratio	35%	35%
Adjusted debt to adjusted total capital ratio	45%	45%

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Net cash flows used in financing activities included our repurchase of 10.7 million shares of our common stock for $235 million in fiscal 2004, compared to 10.7 million shares for $213 million in fiscal 2003, and 9.0 million shares for $209 million in fiscal 2002. Our Board of Directors has authorized us to repurchase up to 115.4 million shares of our common stock. At May 30, 2004, a total of 109.2 million shares have been repurchased under the authorization. The repurchased common stock is reflected as a reduction of stockholders' equity. Net cash flows used in financing activities also included dividends paid to stockholders of $13 million, $14 million, and $9 million in fiscal 2004, 2003, and 2002, respectively.

Net cash flows used in investing activities included capital expenditures incurred principally for building new restaurants, replacing equipment, and remodeling existing restaurants. Capital expenditures were $354 million in fiscal 2004, compared to $423 million in fiscal 2003, and $318 million in fiscal 2002. The decreased expenditures in fiscal 2004 resulted primarily from decreased spending associated with building fewer new restaurants and fewer remodels. The increased expenditures in fiscal 2003 resulted primarily from increased spending associated with building more new restaurants and replacing equipment. We estimate that our fiscal 2005 capital expenditures will approximate $360 million.

Net cash flows provided by operating activities for fiscal 2003 included a $20 million contribution to our defined benefit pension plans, which enabled the plans to maintain a fully funded status as of the plans' February 28,2003 annual valuation date. Less than $0.1 million was required to fund our defined benefit pension plans in fiscal 2004 and fiscal 2002. Our defined benefit and other postretirement benefit costs and liabilities are calculated using various actuarial assumptions and methodologies prescribed under the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions" and No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". We use certain assumptions including, but not limited to, the selection of a discount rate, expected long-term rate of return on plan assets, and expected health care cost trend rates. We set the discount rate assumption annually for each plan at its valuation date to reflect the yield of high quality fixed-income debt instruments, with lives that approximate the maturity of the plan benefits. At May 30, 2004, our discount rate was 6.0 percent. The expected long-term rate of return on plan assets and health care cost trend rates are based upon several factors, including our historical assumptions compared with actual results, an analysis of current market conditions, asset allocations, and the views of leading financial advisers and economists. Based on our analysis during fiscal 2003, we lowered our defined benefit plans' expected long-term rate of return on plan assets for fiscal 2004 from 10.4 percent to 9.0 percent. The change in our defined benefit plans' expected long-term rate of return on plan assets decreased earnings before income taxes by approximately $2 million in fiscal 2004. At May 30,2004, our expected health care cost trend rates ranged from 11.0 percent to 12.0 percent for fiscal 2005, depending on the medical service category. The rates gradually decrease to 5.0 percent through fiscal 2010 and remain at that level thereafter.

The expected long-term rate of return on plan assets component of our net periodic benefit cost is calculated based on the market-related value of plan assets. Our target asset allocation is 35 percent U.S. equities, 30 percent high-quality, long-duration fixed-income securities, 15 percent international equities, 10 percent private equities, and 10 percent real assets. We monitor our actual asset allocation to ensure that it approximates our target allocation and believe that our long-term asset allocation will continue to approximate our target allocation. Our historical ten-year rate of return on plan assets, calculated using the geometric method average of returns, is approximately 10.5 percent as of May 30,2004.

We have an unrecognized net actuarial loss for the defined benefit plans and postretirement benefit plan as of May 30, 2004, of $62 million and $6 million, respectively. The unrecognized net actuarial loss represents 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 unrecognized net actuarial loss component of our fiscal 2005 net periodic benefit cost for the defined benefit plans and postretirement benefit plan is expected to be approximately $5 million and $0.3 million, respectively.

We believe our defined benefit and postretirement benefit plan assumptions are appropriate based upon the factors discussed above. However, other assumptions could also be reasonably applied that could differ from the assumptions used. A quarter percentage point change in the defined benefit plans' discount rate and the expected long-term rate of return on plan assets would increase or decrease earnings before income taxes by $0.8 million and $0.4 million, respectively. A quarter percentage point change in our postretirement benefit plan discount rate would increase or decrease earnings before income taxes by $0.1 million. A one percentage point increase in the health care cost trend rates would have increased the accumulated postretirement benefit obligation (APBO) by $4 million at May 30, 2004, and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost by $0.3 million for fiscal 2004. A one percentage point decrease in the health care cost trend rates would have decreased the APBO by $3 million at May 30, 2004, and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost by $0.3 million for fiscal 2004. These changes in assumptions would not significantly impact our funding requirements.

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, borrowings available under our shelf registration for unsecured debt securities, and short-term commercial paper program should be sufficient to finance our capital expenditures, stock repurchase program, and other operating activities through fiscal 2005.

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

FINANCIAL CONDITION

Our current assets totaled $346 million at May 30,2004, compared to $326 million at May 25, 2003. The increase resulted primarily from increases in inventories of $25 million that resulted from opportunistic product purchases made during fiscal 2004.

Our current liabilities were $683 million at May 30,2004, compared to $640 million at May 25, 2003. At May 30, 2004, $15 million of short-term debt was outstanding under our commercial paper program, which was used to fund current operations and capital expenditures. Accrued payroll of $103 million at May 30, 2004, increased from $86 million at May 25, 2003, principally due to higher incentive compensation earned in fiscal 2004. Other current liabilities of $228 million at May 30, 2004, increased from $202 million at May 25, 2003, principally due to a $19 million increase in liabilities associated with our non-qualified deferred compensation plan and a $7 million increase in sales tax payable as a result of higher fourth quarter sales in fiscal 2004. Accrued income taxes of $49 million at May 30, 2004, decreased from $68 million at May 25, 2003, principally due to timing of income tax payments made and changes in temporary differences included in the deferred tax balances associated with current income tax deductions for certain land, buildings, and equipment. The $ 19 million decrease in accrued income taxes is offset by the related increase in net non-current deferred income tax liabilities at May 30, 2004.

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, and commodity prices. To manage this exposure, we periodically enter into interest rate, foreign currency exchange, and commodity instruments for other than trading purposes (see Notes 1 and 8 of the Notes to 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 30, 2004, our potential losses in future net earnings resulting from changes in foreign currency exchange rate instruments, commodity instruments, and floating rate debt interest rate exposures were approximately $2 million over a period of one year (including the impact of the interest rate swap agreements discussed in Note 8 to the Notes to Consolidated Financial Statements). 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 $22 million. The fair value of our long-term fixed rate debt during fiscal 2004 averaged $690 million, with a high of $714 million and a low of $669 million. 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.

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FORWARD-LOOKING STATEMENTS

Certain statements included in this report and other materials filed or to be filed by us with the SEC (as well as information included in oral or written statements made or to be made by us) may contain statements that are forward-looking within the meaning of Section 27Aof the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Words or phrases such as "believe," "plan," "will," "expect," "intend," "estimate," and "project," and similar expressions are intended to identify forward-looking statements. All of these statements, and any other statements in this report that are not historical facts, are forward-looking. Examples of forward-looking statements include, but are not limited to, projections regarding: our growth plans and the number and type of expected new restaurant openings,- same-restaurant sales growth for Red Lobster and Olive Garden,- diluted net earnings per share growth in fiscal 2005,- and expectations regarding when Bahama Breeze and Smokey Bones will become accretive to earnings. These forward-looking statements are based on assumptions concerning important factors, risks, and uncertainties that could significantly affect anticipated results in the future and, accordingly, could cause the actual results to differ materially from those expressed in the forward-looking statements. These factors, risks, and uncertainties include, but are not limited to:

- the highly competitive nature of the restaurant industry, especially pricing, service, location, personnel, and type and quality of food,-
- economic, market, and other conditions, including a protracted economic slowdown or worsening economy, industry-wide cost pressures, public safety conditions (including ongoing concerns about terrorism threats or the continuing conflict in Iraq), weak consumer demand, changes in consumer preferences, demographic trends, weather conditions, construction costs, and the cost and availability of borrowed funds,-
- the price and availability of food, labor, utilities, insurance and media, and other costs, including seafood costs, employee benefits, workers' compensation insurance, litigation costs, and the general impact of inflation,-
- unfavorable publicity relating to food safety or other concerns, including litigation alleging poor food quality, food-borne illness, or personal injury,-
- the availability of desirable restaurant locations,-
- government regulations and litigation relating to federal and state labor laws, zoning, land use, environmental matters, and liquor licenses,- and
- growth plans, including real estate development and construction activities, the issuance and renewal of licenses and permits for restaurant development, and the availability of funds to finance growth.

REPORT OF MANAGEMENT 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 that provides reasonable assurance that assets are adequately safeguarded, and transactions are recorded accurately, in all material respects, in accordance with managements authorization. We maintain a strong audit program that independently evaluates the adequacy and effectiveness of internal controls. 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.

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. Their report follows.

Joe R. Lee
Chairman of the Board and Chief Executive Officer

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 30,2004, and May 25, 2003, and the related consolidated statements of earnings, changes in stockholders' equity and accumulated other comprehensive income (loss), and cash flows for each of the years in the three-year period ended May 30, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Darden Restaurants, Inc. and subsidiaries as of May 30, 2004, and May 25,2003, and the results of their operations and their cash flows for each of the years in the three-year period ended May 30,2004, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Tampa, Florida
June 18, 2004

Consolidated Statements of Earnings

(In thousands, except per share data)	Fiscal Year Ended May 30, 2004	May 25, 2003	May 26, 2002
Sales	$5,003,355	$4,654,971	$ 4,366,911
Costs and expenses:			
Cost of sales:			
Food and beverage	1,526,875	1,449,162	1,384,481
Restaurant labor	1,601,258	1,485,046	1,373,416
Restaurant expenses	767,584	703,554	628,701
Total cost of sales, excluding restaurant depreciation and amortization of $195,486, $177,127, and $155,837, respectively	$3,895,717	$ 3,637,762	$3,386,598
Selling, general, and administrative	472,109	431,722	417,158
Depreciation and amortization	210,004	191,218	165,829
Interest, net	43,659	42,597	36,585
Asset impairment and restructuring charges (credits), net	41,868	3,924	(2,568)
Total costs and expenses	$4,663,357	$ 4,307,223	$4,003,602
Earnings before income taxes	339,998	347,748	363,309
Income taxes	108,536	115,488	125,521
Net earnings	$ 231,462	$ 232,260	$ 237,788
Net earnings per share:			
Basic	$ 1.42	$ 1.36	$ 1.36
Diluted	$ 1.36	$ 1.31	$ 1.30
Average number of common shares outstanding:			
Basic	163,500	170,300	174,700
Diluted	169,700	177,400	183,500

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(In thousands)	May 30, 2004	May 25, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,694	$ 48,630
Receivables	30,258	29,023
Inventories	198,781	173,644
Prepaid expenses and other current assets	25,316	25,126
Deferred income taxes	55,258	49,206
Total current assets	$ 346,307	$ 325,629
Land, buildings, and equipment	2,250,616	2,157,132
Other assets	183,425	181,872
Total assets	$2,780,348	$2,664,633
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 174,624	$ 175,991
Short-term debt	14,500	–
Accrued payroll	103,327	85,975
Accrued income taxes	48,753	67,975
Other accrued taxes	38,440	35,069
Unearned revenues	75,513	72,698
Other current liabilities	228,324	202,201
Total current liabilities	$ 683,481	$ 639,909
Long-term debt	653,349	658,086
Deferred income taxes	176,216	150,537
Other liabilities	21,532	19,910
Total liabilities	$1,534,578	$1,468,442
Stockholders' equity:		
Common stock and surplus, no par value. Authorized 500,000 shares; issued 264,907 and 261,463 shares, respectively; outstanding 158,431 and 164,950 shares, respectively	$1,584,115	$1,525,957
Preferred stock, no par value. Authorized 25,000 shares; none issued and outstanding	–	–
Retained earnings	1,197,921	979,443
Treasury stock, 106,476 and 96,513 shares, at cost, respectively	(1,483,768)	(1,254,293)
Accumulated other comprehensive income (loss)	(9,959)	(10,489)
Unearned compensation	(41,401)	(42,848)
Officer notes receivable	(1,138)	(1,579)
Total stockholders' equity	$1,245,770	$1,196,191
Total liabilities and stockholders' equity	$2,780,348	$2,664,633

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity and Accumulated Other Comprehensive Income (Loss)

(In thousands, except per share data)	Common Stock and Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Officer Notes Receivable	Total Stockholders' Equity
Balance at May 27, 2001	$1,405,799	$ 532,121	$ (840,254)	$(13,102)	$ (49,322)	$(1,924)	$1,033,318
Comprehensive income:							
Net earnings	–	237,788	–	–	–	–	237,788
Other comprehensive income (loss):							
Foreign currency adjustment	–	–	–	169	–	–	169
Change in fair value of derivatives, net of tax of $234	–	–	–	380	–	–	380
Minimum pension liability adjustment, net of tax benefit of $177	–	–	–	(288)	–	–	(288)
Total comprehensive income							238,049
Cash dividends declared ($0.053 per share)	–	(9,225)	–	–	–	–	(9,225)
Stock option exercises (4,310 shares)	34,742	–	1,364	–	–	–	36,106
Issuance of restricted stock (438 shares), net of forfeiture adjustments	5,666	–	815	–	(6,493)	–	(12)
Earned compensation	–	–	–	–	4,392	–	4,392
ESOP note receivable repayments	–	–	–	–	5,315	–	5,315
Income tax benefits credited to equity	24,989	–	–	–	–	–	24,989
Purchases of common stock for treasury (8,972 shares)	–	–	(208,578)	–	–	–	(208,578)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (290 shares)	2,858	–	1,738	–	–	–	4,596
Issuance of officer notes, net	–	–	–	–	–	(73)	(73)
Balance at May 26, 2002	$1,474,054	$ 760,684	$(1,044,915)	$(12,841)	$ (46,108)	$(1,997)	$1,128,877
Comprehensive income:							
Net earnings	–	232,260	–	–	–	–	232,260
Other comprehensive income (loss):							
Foreign currency adjustment	–	–	–	2,579	–	–	2,579
Change in fair value of derivatives, net of tax of $0	–	–	–	2	–	–	2
Minimum pension liability adjustment, net of tax benefit of $141	–	–	–	(229)	–	–	(229)
Total comprehensive income							234,612
Cash dividends declared ($0.080 per share)	–	(13,501)	–	–	–	–	(13,501)
Stock option exercises (3,133 shares)	27,261	–	1,652	–	–	–	28,913
Issuance of restricted stock (148 shares), net of forfeiture adjustments	4,429	–	600	–	(5,029)	–	–
Earned compensation	–	–	–	–	3,579	–	3,579
ESOP note receivable repayments	–	–	–	–	4,710	–	4,710
Income tax benefits credited to equity	16,385	–	–	–	–	–	16,385
Purchases of common stock for treasury (10,746 shares)	–	–	(213,311)	–	–	–	(213,311)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (280 shares)	3,828	–	1,681	–	–	–	5,509
Issuance of officer notes, net	–	–	–	–	–	418	418
Balance at May 25, 2003	$1,525,957	$ 979,443	$(1,254,293)	$(10,489)	$ (42,848)	$(1,579)	$1,196,191
Comprehensive income:							
Net earnings	–	231,462	–	–	–	–	231,462
Other comprehensive income (loss):							
Foreign currency adjustment	–	–	–	394	–	–	394
Change in fair value of derivatives, net of tax of $51	–	–	–	205	–	–	205
Minimum pension liability adjustment, net of tax benefit of $45	–	–	–	(69)	–	–	(69)
Total comprehensive income							231,992
Cash dividends declared ($0.080 per share)	–	(12,984)	–	–	–	–	(12,984)
Stock option exercises (3,464 shares)	30,972	–	3,685	–	–	–	34,657
Issuance of restricted stock (409 shares), net of forfeiture adjustments	7,605	–	173	–	(7,778)	–	–
Earned compensation	–	–	–	–	4,198	–	4,198
ESOP note receivable repayments	–	–	–	–	5,027	–	5,027
Income tax benefits credited to equity	15,650	–	–	–	–	–	15,650
Purchases of common stock for treasury (10,749 shares)	–	–	(235,462)	–	–	–	(235,462)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (357 shares)	3,931	–	2,129	–	–	–	6,060
Issuance of officer notes, net	–	–	–	–	–	441	441
Balance at May 30, 2004	$1,584,115	$1,197,921	$(1,483,768)	$ (9,959)	$ (41,401)	$(1,138)	$1,245,770

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)	Fiscal Year Ended May 30, 2004	May 25, 2003	May 26, 2002
Cash flows – operating activities			
Net earnings	$ 231,462	$ 232,260	$ 237,788
Adjustments to reconcile net earnings to cash flows:			
Depreciation and amortization	210,004	191,218	165,829
Asset impairment charges, net	40,756	4,282	–
Restructuring charge (credit)	1,112	(358)	(2,568)
Amortization of unearned compensation and loan costs	7,599	6,901	7,578
Change in current assets and liabilities	2,207	36,046	49,604
Change in other liabilities	1,794	420	(496)
Contribution to defined benefit pension plans and postretirement plan	(257)	(20,203)	(164)
Loss on disposal of land, buildings, and equipment	104	2,456	1,803
Change in cash surrender value of trust-owned life insurance	(6,106)	2,441	743
Deferred income taxes	19,621	35,890	22,743
Income tax benefits credited to equity	15,650	16,385	24,989
Non-cash compensation expense	861	758	–
Other, net	604	139	252
Net cash provided by operating activities	$ 525,411	$ 508,635	$ 508,101
Cash flows – investing activities			
Purchases of land, buildings, and equipment	(354,326)	(423,273)	(318,392)
Increase in other assets	(5,128)	(8,100)	(24,700)
Purchase of trust-owned life insurance	–	(6,000)	(31,500)
Proceeds from disposal of land, buildings, and equipment	16,197	7,641	10,741
Proceeds from maturities of (purchases of) short-term investments	–	10,000	(9,904)
Net cash used in investing activities	$(343,257)	$(419,732)	$(373,755)
Cash flows – financing activities			
Proceeds from issuance of common stock	39,856	33,664	40,520
Dividends paid	(12,984)	(13,501)	(9,225)
Purchases of treasury stock	(235,462)	(213,311)	(208,578)
ESOP note receivable repayments	5,027	4,710	5,315
Increase (decrease) in short-term debt	14,500	–	(12,000)
Proceeds from issuance of long-term debt	–	–	149,655
Repayment of long-term debt	(5,027)	(4,710)	(7,962)
Payment of loan costs	–	–	(1,010)
Net cash used in financing activities	$(194,090)	$(193,148)	$ (43,285)
(Decrease) increase in cash and cash equivalents	(11,936)	(104,245)	91,061
Cash and cash equivalents – beginning of year	48,630	152,875	61,814
Cash and cash equivalents – end of year	$ 36,694	$ 48,630	$ 152,875
Cash flows from changes in current assets and liabilities			
Receivables	(279)	66	3,781
Inventories	(25,137)	(1,231)	(23,984)
Prepaid expenses and other current assets	(190)	(8,523)	1,987
Accounts payable	(1,027)	15,927	3,205
Accrued payroll	17,352	(1,961)	5,348
Accrued income taxes	(19,222)	(529)	20,806
Other accrued taxes	3,371	4,595	3,045
Unearned revenues	2,815	16,066	18,487
Other current liabilities	24,524	11,636	16,929
Change in current assets and liabilities	$ 2,207	$ 36,046	$ 49,604

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1

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

Notes to Consolidated Financial Statements

is measured by the amount by which the carrying amount of the assets exceeds their fair value. Fair value is generally determined based on appraisals or sales prices of comparable assets. Restaurant sites and certain other assets to be disposed of are reported at the lower of their carrying amount or fair value, less estimated costs to sell. Restaurant sites and certain other assets to be disposed of are included in assets held for disposal when certain criteria are met. These criteria include the requirement that the likelihood of disposing of these assets within one year is probable. Those assets whose disposal is not probable within one year remain in land, buildings, and equipment until their disposal is probable within one year.

Self-Insurance Accruals

We self-insure a significant portion of expected losses under our workers' compensation, employee medical, and general liability programs. Accrued liabilities have been recorded based on our estimates of the ultimate costs to settle incurred claims, both reported and unreported.

Revenue Recognition

Revenue from restaurant sales is recognized when food and beverage products are sold. Unearned revenues represent our liability for gift cards and certificates that have been sold but not yet redeemed and are recorded at their expected redemption value. When the gift cards and certificates are redeemed, we recognize restaurant sales and reduce unearned revenues.

Food and Beverage Costs

Food and beverage costs include inventory, warehousing, and related purchasing and distribution costs. 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. These allowances are recognized as earned in accordance with the underlying agreement with the vendor and completion of the earning process. Vendor agreements are generally for a period of one year or less and payments received are recorded as a current liability until earned.

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.

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 account for derivative financial instruments and hedging activities in accordance with the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities – an Amendment of FASB Statement No. 133." SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at fair value. We use financial and commodities derivatives to manage interest rate and commodities pricing risks inherent in our business operations. Our use of derivative instruments is currently limited to interest rate hedges and commodities futures contracts. These instruments are structured as hedges of forecasted transactions or the variability of cash flows to be paid related to a recognized asset or liability (cash flow hedges). No derivative instruments are entered into for trading or speculative purposes. All derivatives are recognized on the balance sheet at fair value. 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.

Notes to Consolidated Financial Statements

Changes in the fair value of derivatives that are highly effective and that are designated and qualify as cash flow hedges are recorded in other comprehensive income until earnings are affected by the variability in cash flows of the designated hedged item. Where applicable, we discontinue hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item or the derivative is terminated. Any changes in the fair value of a derivative where hedge accounting has been discontinued or is ineffective are recognized immediately in earnings. Cash flows related to derivatives are included in operating activities.

Pre-Opening Expenses

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

Advertising

Production costs of commercials are charged to operations in the fiscal period the advertising is first aired. The costs of programming and other advertising, promotion, and marketing programs are charged to operations in the fiscal period incurred. Advertising expense amounted to $210,989, $200,020, and $184,163, in fiscal 2004, 2003, and 2002, respectively.

Stock-Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," encourages the use of a fair-value method of accounting for stock-based awards under which the fair value of stock options is determined on the date of grant and expensed over the vesting period. As allowed by SFAS No. 123, we have elected to account for our stock-based compensation plans under an intrinsic value method that requires compensation expense to be recorded only if, on the date of grant, the current market price of our common stock exceeds the exercise price the employee must pay for the stock. Our policy is to grant stock options at the fair market value of our underlying stock on the date of grant. Accordingly, no compensation expense has been recognized for stock options granted under any of our stock plans because the exercise price of all options granted was equal to the current market value of our stock on the grant date. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for voluntary change to the fair value method of accounting for stock-based compensation. In addition, SFAS No. 148 requires more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results.

Had we determined compensation expense for our stock options based on the fair value at the grant date as prescribed under SFAS No. 123, our net earnings and net earnings per share would have been reduced to the pro forma amounts indicated below:

	Fiscal Year 2004	2003	2002
Net earnings, as reported	$231,462	$232,260	$ 237,788
Add: Stock-based compensation expense included in reported net earnings, net of related tax effects	3,158	2,642	2,695
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(17,980)	(19,801)	(18,386)
Pro forma	$216,640	$215,101	$222,097
Basic net earnings per share			
As reported	$ 1.42	$ 1.36	$ 1.36
Pro forma	$ 1.33	$ 1.26	$ 1.27
Diluted net earnings per share			
As reported	$ 1.36	$ 1.31	$ 1.30
Pro forma	$ 1.28	$ 1.22	$ 1.21

To determine pro forma net earnings, reported net earnings have been adjusted for compensation expense associated with stock options granted that are expected to eventually vest. The preceding pro forma results were determined using the Black Scholes option-pricing model, which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, expected dividend payments, and the risk-free interest rate over the expected life of the option. The dividend yield was calculated by dividing the current annualized dividend by the option exercise price for each grant. The expected volatility was determined considering stock prices for the fiscal year the grant occurred and prior fiscal years, as well as considering industry volatility data. The risk-free interest rate was the rate available on zero coupon U.S. government obligations with a term equal to the expected life of each grant. The expected life of the option was estimated based on the exercise history from previous grants.

Notes to Consolidated Financial Statements

The weighted-average assumptions used in the Black Scholes model were as follows:

	Stock Options Granted in Fiscal Year		
	2004	2003	2002
Risk-free interest rate	2.62%	4.37%	4.50%
Expected volatility of stock	30.0%	30.0%	30.0%
Dividend yield	0.2%	0.2%	0.1%
Expected option life	6.0 years	6.0 years	6.0 years

Restricted stock and restricted stock unit (RSU) awards are recognized as unearned compensation, a component of stockholders' equity, based on the fair market value of our common stock on the award date. These amounts are amortized to compensation expense, using the straight-line method, over the vesting period using assumed forfeiture rates for different types of awards. Compensation expense is adjusted in future periods if actual forfeiture rates differ from initial estimates.

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 issued by us represent the only dilutive effect reflected in diluted weighted-average shares outstanding. Options do not impact the numerator of the diluted net earnings per share computation.

Options to purchase 4,643,389 shares, 3,952,618 shares, and 161,220 shares of common stock were excluded from the calculation of diluted net earnings per share for fiscal 2004, 2003, and 2002, respectively, because their exercise prices exceeded the average market price of common shares for the period.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net earnings and other comprehensive income (loss) items that are excluded from net earnings under U.S. generally accepted accounting principles. Other comprehensive income (loss) items include foreign currency translation adjustments, the effective unrealized portion of changes in the fair value of cash flow hedges, and amounts associated with minimum pension liability adjustments.

Foreign Currency

The Canadian dollar is the functional currency for our Canadian restaurant operations. Assets and liabilities denominated in Canadian dollars 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 accumulated other comprehensive income (loss) in stockholders' equity. Aggregate cumulative translation losses were $9,960 and $10,354 at May 30, 2004, and May 25, 2003, respectively. Gains (losses) from foreign currency transactions, which amounted to $(53), $(105), and $33, are included in the consolidated statements of earnings for fiscal 2004, 2003, and 2002, respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Segment Reporting

As of May 30, 2004, we operated 1,325 Red Lobster, Olive Garden, Bahama Breeze, Smokey Bones Barbeque & Grill and Seasons 52 restaurants in North America as part of a single operating segment. The restaurants operate principally in the U.S. within the casual dining industry, providing similar products to similar customers. The restaurants also possess similar pricing structures, resulting in similar long-term expected financial performance characteristics. Revenues from external customers are derived principally from food and beverage sales. We do not rely on any major customers as a source of revenue. We believe we meet the criteria for aggregating our operations into a single reporting segment.

Reclassifications

Certain reclassifications, including the reclassification of asset impairment charges and credits from selling, general, and administrative expenses, have been made to prior year amounts to conform to current year presentation.

Notes to Consolidated Financial Statements

Adoption of New Accounting Standards

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. We adopted SFAS No. 143 in the first quarter of fiscal 2004. Adoption of SFAS No. 143 did not materially impact our consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." Interpretation No. 46, which was revised in December 2003, addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. Interpretation No. 46 is effective for interests in structures that are commonly referred to as special-purpose entities for periods ending after December 15, 2003. Interpretation No. 46 is also effective for all other types of variable interest entities for periods ending after March 15, 2004. We do not have any interests that would change our current consolidated reporting entity or require additional disclosures required by Interpretation No. 46.

In April 2003, the FASB issued SFAS No. 149, "Amendment to Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies the financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement is effective for hedging relationships designated and contracts entered into or modified after June 30, 2003, except for the provisions that relate to SFAS No. 133 implementation issues, which will continue to be applied in accordance with their respective dates. We adopted SFAS No. 149 in the first quarter of fiscal 2004. Adoption of SFAS No. 149 did not materially impact our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes accounting standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires certain financial instruments that were previously classified as equity to be classified as assets or liabilities. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period starting after June 15, 2003. We adopted SFAS No. 150 in the second quarter of fiscal 2004. Adoption of SFAS No. 150 did not materially impact our consolidated financial statements.

In December 2003, the FASB revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 132, as revised, establishes additional disclosures for defined benefit pension and other postretirement plans. It requires additional annual disclosures about the assets, obligations, cash flows, net periodic benefit cost and other quantitative and qualitative information regarding defined benefit pension and other postretirement plans. It also requires quarterly disclosures of the components of the net periodic benefit cost recognized for each period presented and significant changes in the estimated amount of annual contributions previously disclosed for defined benefit pension and other postretirement plans. The additional disclosure requirements of SFAS No. 132, as revised, are effective for annual periods ending after December 15, 2003, and interim periods beginning after December 15, 2003. We adopted the additional disclosure requirements of SFAS No. 132 in the fourth quarter of fiscal 2004. Adoption of the additional disclosure requirements of SFAS No. 132 did not materially impact our consolidated financial statements.

ACCOUNTS RECEIVABLE

2

Our accounts receivable is primarily comprised of receivables from national storage and distribution companies with which we contract to provide services that are billed to us on a per-case basis. In connection with these services, certain of our inventory items are conveyed to these storage and distribution companies to transfer ownership and risk of loss prior to delivery of the inventory to our restaurants. We reacquire these items when the inventory is subsequently delivered to our restaurants. These transactions do not impact the consolidated statements of earnings. Receivables from national storage and distribution companies amounted to $20,276 and $19,628 at May 30, 2004, and May 25, 2003, respectively. The allowance for doubtful accounts associated with all of our receivables amounted to $350 and $330 at May 30, 2004, and May 25, 2003, respectively.

Notes to Consolidated Financial Statements

RESTRUCTURING AND ASSET IMPAIRMENT ACTIVITIES

3 During fiscal 2004, we recorded pre-tax asset impairment charges of $36,526 for long-lived asset impairments associated with the closing of six Bahama Breeze restaurants and the write-down of the carrying value of four other Bahama Breeze restaurants, one Olive Garden restaurant, and one Red Lobster restaurant, which continued to operate. We also recorded a restructuring charge of $1,112 primarily related to severance payments made to certain restaurant employees and exit costs associated with the closing of the six Bahama Breeze restaurants in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Below is a summary of the restructuring costs and the remaining liability for fiscal 2004:

	Balance at May 25, 2003	Additions	Utilizations	Balance at May 30, 2004
One-time termination benefits	$ –	$ 433	$(384)	$ 49
Lease termination costs	–	113	(113)	–
Other exit costs	–	566	(255)	311
	$ –	$1,112	$(752)	$360

Asset impairment charges related to the decision to relocate or rebuild certain restaurants amounted to $5,667 and $4,876 in fiscal 2004 and 2003, respectively. Asset impairment credits related to assets sold that were previously impaired amounted to $1,437 and $594 in fiscal 2004 and 2003, respectively. All impairment amounts are included in asset impairment and restructuring charges (credits) in the consolidated statements of earnings.

During fiscal 2003 and fiscal 2002, we recognized restructuring credits of $358 and $2,568, respectively, resulting from lease terminations completed on more favorable terms than previously anticipated from our fiscal 1997 restructuring action. All restaurant closings and other activities under this restructuring action were completed as of May 25, 2003.

LAND, BUILDINGS, AND EQUIPMENT

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

	May 30, 2004	May 25, 2003
Land	$ 545,191	$ 505,444
Buildings	2,138,376	1,898,716
Equipment	1,008,133	922,592
Construction in progress	87,655	195,078
Total land, buildings, and equipment	3,779,355	3,521,830
Less accumulated depreciation	(1,528,739)	(1,364,698)
Net land, buildings, and equipment	$ 2,250,616	$ 2,157,132

OTHER ASSETS

5 The components of other assets are as follows:

	May 30, 2004	May 25, 2003
Prepaid pension costs	$ 67,077	$ 68,873
Trust-owned life insurance	40,422	34,316
Capitalized software costs, net	32,328	34,055
Liquor licenses	22,201	21,219
Prepaid interest and loan costs	12,396	14,863
Miscellaneous	9,001	8,546
Total other assets	$183,425	$181,872

SHORT-TERM DEBT

6 Short-term debt at May 30, 2004, and May 25, 2003, consisted of $14,500 and $0, respectively, of unsecured commercial paper borrowings with original maturities of one month or less. The debt bore an interest rate of 1.09 percent at May 30, 2004.

Notes to Consolidated Financial Statements

LONG-TERM DEBT

7 The components of long-term debt are as follows:

	May 30, 2004	May 25, 2003
8.375% senior notes due September 2005	$150,000	$150,000
6.375% notes due February 2006	150,000	150,000
5.75% medium-term notes due March 2007	150,000	150,000
7.45% medium-term notes due April 2011	75,000	75,000
7.125% debentures due February 2016	100,000	100,000
ESOP loan with variable rate of interest (1.43% at May 30, 2004) due December 2018	29,403	34,430
Total long-term debt	654,403	659,430
Less issuance discount	(1,054)	(1,344)
Total long-term debt less issuance discount	653,349	658,086
Less current portion	–	–
Long-term debt, excluding current portion	$653,349	$658,086

In July 2000, we registered $500,000 of debt securities with the Securities and Exchange Commission (SEC) using a shelf registration process. Under this process, we may offer, from time to time, up to an aggregate of $500,000 of debt securities. In September 2000, we issued $150,000 of unsecured 8.375 percent senior notes due in September 2005. The senior notes rank equally with all of our other unsecured and unsubordinated debt and will be senior in right of payment to any future subordinated debt we may issue. In April 2001, we issued $75,000 of unsecured 7.45 percent medium-term notes due in April 2011. In March 2002, we issued $150,000 of unsecured 5.75 percent medium-term notes due in March 2007. At May 30, 2004, our shelf registration provides for the issuance of an additional $125,000 of unsecured debt securities.

In January 1996, we issued $150,000 of unsecured 6.375 percent notes due in February 2006 and $100,000 of unsecured 7.125 percent debentures due in February 2016. Concurrent with the issuance of the notes and debentures, we terminated, and settled for cash, interest-rate swap agreements with notional amounts totaling $200,000, which hedged the movement of interest rates prior to the issuance of the notes and debentures. The cash paid in terminating the interest-rate swap agreements is being amortized to interest expense over the life of the notes and debentures. The effective annual interest rate is 7.57 percent for the notes and 7.82 percent for the debentures, after consideration of loan costs, issuance discounts, and interest-rate swap termination costs.

We also maintain a credit facility that expires in October 2008, with a consortium of banks under which we can borrow up to $400,000. The credit facility allows us to borrow at interest rates that vary based on a spread over (i) LIBOR or (ii) a base rate that is the higher of the prime rate, or one-half of one percent above the federal funds rate, at our option. The interest rate spread over LIBOR is determined by our debt rating. The credit facility supports our commercial paper borrowing program. We are required to pay a facility fee of 12.5 basis points per annum on the average daily amount of loan commitments by the consortium. The amount of interest and the annual facility fee are subject to change based on our maintenance of certain debt ratings and financial ratios, such as maximum debt to capital ratios. Advances under the credit facility are unsecured. At May 30, 2004, and May 25, 2003, no borrowings were outstanding under this credit facility.

The aggregate maturities of long-term debt for each of the five fiscal years subsequent to May 30, 2004, and thereafter are $0 in 2005, $300,000 in 2006, $150,000 in 2007, $0 in 2008 and 2009, and $204,403 thereafter.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

8 We use interest rate-related derivative instruments to manage our exposure on debt instruments, as well as commodities derivatives to manage our exposure to commodity price fluctuations. 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. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates or commodity prices. We minimize this market risk by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Futures Contracts and Commodity Swaps

During fiscal 2004 and 2003, we entered into futures contracts and commodity swaps to reduce the risk of natural gas and coffee price fluctuations. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair value are not included in current earnings but are

Notes to Consolidated Financial Statements

reported as other comprehensive income. These changes in fair value are subsequently reclassified into earnings when the natural gas and coffee are purchased and used by us in our operations. Net gains (losses) of $(439) and $941 related to these derivatives were recognized in earnings during fiscal 2004 and 2003, respectively. The fair value of these contracts was a net gain of $106 at May 30, 2004, and is expected to be reclassified from accumulated other comprehensive income (loss) into food and beverage costs or restaurant expenses during the next 12 months. To the extent these derivatives are not effective, changes in their fair value are immediately recognized in current earnings. Outstanding derivatives are included in other current assets or other current liabilities.

At May 30, 2004, the maximum length of time over which we are hedging our exposure to the variability in future natural gas cash flows is 12 months. At May 30, 2004, we are not hedging our exposure to the variability in future coffee cash flows. No gains or losses were reclassified into earnings during fiscal 2004 or 2003 as a result of the discontinuance of natural gas and coffee cash flow hedges.

Interest Rate Lock Agreement

During fiscal 2002, we entered into a treasury interest rate lock agreement (treasury lock) to hedge the risk that the cost of a future issuance of fixed-rate debt may be adversely affected by interest rate fluctuations. The treasury lock, which had a $75,000 notional principal amount of indebtedness, was used to hedge a portion of the interest payments associated with $150,000 of debt subsequently issued in March 2002. The treasury lock was settled at the time of the related debt issuance with a net gain of $267 being recognized in other comprehensive income. The net gain on the treasury lock is being amortized into earnings as an adjustment to interest expense over the same period in which the related interest costs on the new debt issuance are being recognized in earnings. Amortization of $53, $53, and $14 was recognized in earnings as an adjustment to interest expense during fiscal 2004, 2003, and 2002, respectively. It is expected that $53 of this gain will be recognized in earnings as an adjustment to interest expense during the next 12 months.

Interest Rate Swaps

During fiscal 2004, we entered into interest rate swap agreements (swaps) to hedge the risk of changes in interest rates on the cost of a future issuance of fixed-rate debt. The swaps, which have a $75,000 notional principal amount of indebtedness, will be used to hedge a portion of the interest payments associated with a forecasted issuance of debt in fiscal 2006. To the extent the swaps are effective in offsetting the variability of the hedged cash flows, changes in the fair value of the swaps are not included in current earnings but are reported as other comprehensive income. The accumulated gain or loss at the swap settlement date will be amortized into earnings as an adjustment to interest expense over the same period in which the related interest costs on the new debt issuance are recognized in earnings. The fair value of the swaps at May 30, 2004 was a gain of $698 and is included in accumulated other comprehensive income (loss) at May 30, 2004. No amounts were recognized in earnings during fiscal 2004.

We had interest rate swaps with a notional amount of $200,000, which we used to convert variable rates on our long-term debt to fixed rates effective May 30, 1995. We received the one-month commercial paper interest rate and paid fixed-rate interest ranging from 7.51 percent to 7.89 percent. The interest rate swaps were settled during January 1996 at a cost to us of $27,670. This cost is being recognized as an adjustment to interest expense over the term of our 10-year, 6.375 percent notes and 20-year, 7.125 percent debentures (see Note 7).

9 FINANCIAL INSTRUMENTS

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

The carrying value and fair value of long-term debt at May 30, 2004, was $653,349 and $700,383, respectively. The carrying value and fair value of long-term debt at May 25, 2003, was $658,086 and $740,130, respectively. The fair value of long-term debt 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.

10 STOCKHOLDERS' EQUITY

Treasury Stock

Our Board of Directors has authorized us to repurchase up to 115.4 million shares of our common stock. In fiscal 2004, 2003, and 2002, we purchased treasury stock totaling $235,462, $213,311, and $208,578, respectively. At May 30, 2004, a total of 109.2 million shares have been repurchased under the authorization. The repurchased common stock is reflected as a reduction of stockholders' equity.

Notes to Consolidated Financial Statements

Stock Purchase/Loan Program

We have share ownership guidelines for our officers. To assist them in meeting these guidelines, we implemented the 1998 Stock Purchase/Option Award Loan Program (Loan Program) in conjunction with our Stock Option and Long-Term Incentive Plan of 1995. The Loan Program provided loans to our officers and awarded two options for every new share purchased, up to a maximum total share value equal to a designated percentage of the officer's base compensation. Loans are full recourse and interest bearing, with a maximum principal amount of 75 percent of the value of the stock purchased. The stock purchased is held on deposit with us until the loan is repaid. The interest rate for loans under the Loan Program is fixed and is equal to the applicable federal rate for mid-term loans with semi-annual compounding for the month in which the loan originates. Interest is payable on a weekly basis. Loan principal is payable in installments with 25 percent, 25 percent, and 50 percent of the total loan due at the end of the fifth, sixth, and seventh years of the loan. Effective July 30, 2002, and in compliance with the Sarbanes-Oxley Act of 2002, we no longer issue new loans to our executive-level officers under the Loan Program. We account for outstanding officer notes receivable as a reduction of stockholders' equity.

Stockholders' Rights Plan

Under our amended Rights Agreement, each share of our common stock has associated with it two-thirds of a right to purchase one-hundredth of a share of our Series A Participating Cumulative Preferred Stock at a purchase price of $62.50, subject to adjustment under certain circumstances to prevent dilution. The number of rights associated with each share of our common stock reflects an adjustment resulting from our three-for-two stock split in May 2002. The rights are exercisable when, and are not transferable apart from our common stock until, a person or group has acquired 20 percent or more, or makes a tender offer for 20 percent or more, of our common stock. If the specified percentage of our common stock is then acquired, each right will entitle the holder (other than the acquiring company) to receive, upon exercise, common stock of either us or the acquiring company having a value equal to two times the exercise price of the right. The rights are redeemable by our Board of Directors under certain circumstances and expire on May 24, 2005.

Accumulated Other Comprehensive Income (Loss)

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

	May 30, 2004	May 25, 2003
Foreign currency translation adjustment	$(9,960)	$(10,354)
Unrealized gains on derivatives	587	382
Minimum pension liability adjustment	(586)	(517)
Total accumulated other comprehensive income (loss)	$(9,959)	$(10,489)

Reclassification adjustments associated with pre-tax net derivative income (losses) realized in net earnings for fiscal 2004, 2003, and 2002 amounted to $(386), $994, and ($262), respectively.

LEASES

11

An analysis of rent expense incurred under operating leases is as follows:

	Fiscal Year 2004	2003	2002
Restaurant minimum rent	$56,462	$48,121	$43,113
Restaurant percentage rent	3,820	3,682	3,550
Restaurant equipment minimum rent	57	5,719	8,386
Restaurant rent averaging expense	300	(663)	(518)
Transportation equipment	2,514	2,665	2,481
Office equipment	1,302	1,138	1,526
Office space	1,286	1,713	1,387
Warehouse space	315	303	237
Total rent expense	$66,056	$62,678	$60,162

Minimum rental obligations are accounted for on a straight-line basis over the term of the lease. Percentage rent expense is generally based on sales levels. Many of our leases have renewal periods totaling five to 20 years, exercisable at our option, and require payment of property taxes, insurance, and maintenance costs in addition to the rent payments. The annual non-cancelable future lease commitments for each of the five fiscal years subsequent to May 30, 2004, and thereafter are: $62,070 in 2005, $57,348 in 2006, $50,870 in 2007, $43,651 in 2008, $36,358 in 2009, and $123,402 thereafter, for a cumulative total of $373,699.

Notes to Consolidated Financial Statements

12 INTEREST, NET

The components of interest, net, are as follows:

	Fiscal Year 2004	2003	2002
Interest expense	$ 47,710	$ 47,566	$41,493
Capitalized interest	(3,500)	(3,470)	(3,653)
Interest income	(551)	(1,499)	(1,255)
Interest, net	$43,659	$42,597	$36,585

Capitalized interest was computed using our average borrowing rate. We paid $39,661, $38,682, and $31,027, for interest (excluding amounts capitalized) in fiscal 2004, 2003, and 2002, respectively.

13 INCOME TAXES

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

	Fiscal Year 2004	2003	2002
Earnings before income taxes:			
U.S.	$335,606	$345,496	$359,947
Canada	4,392	2,252	3,362
Earnings before income taxes	$339,998	$ 347,748	$363,309
Income taxes:			
Current:			
Federal	$ 75,121	$ 68,178	$ 88,063
State and local	13,663	11,396	14,582
Canada	131	24	133
Total current	$ 88,915	$ 79,598	$ 102,778
Deferred (principally U.S.)	19,621	35,890	22,743
Total income taxes	$ 108,536	$ 115,488	$ 125,521

During fiscal 2004, 2003, and 2002, we paid income taxes of $92,265, $65,398, and $56,839, respectively.

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

	Fiscal Year 2004	2003	2002
U.S. statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal tax benefits	3.2	3.0	3.1
Benefit of federal income tax credits	(5.2)	(4.5)	(3.9)
Other, net	(1.1)	(0.3)	0.4
Effective income tax rate	31.9%	33.2%	34.6%

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

	May 30, 2004	May 25, 2003
Accrued liabilities	$ 13,286	$ 12,616
Compensation and employee benefits	63,234	55,935
Asset disposition and restructuring liabilities	2,651	2,004
Other	2,918	2,638
Gross deferred tax assets	$ 82,089	$ 73,193
Buildings and equipment	(143,910)	(116,148)
Prepaid pension costs	(25,452)	(25,987)
Prepaid interest	(1,333)	(1,454)
Deferred rent and interest income	(15,432)	(13,117)
Capitalized software and other assets	(15,976)	(16,115)
Other	(944)	(1,703)
Gross deferred tax liabilities	$(203,047)	$(174,524)
Net deferred tax liabilities	$(120,958)	$(101,331)

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. At May 30, 2004, and May 25, 2003, no valuation allowance has been recognized for deferred tax assets because we believe that sufficient projected future taxable income will be generated to fully utilize the benefits of these deductible amounts.

Notes to Consolidated Financial Statements

RETIREMENT PLANS

14

Defined Benefit Plans and Postretirement Benefit Plan

Substantially all of our employees are eligible to participate in a retirement plan. We sponsor non-contributory defined benefit pension plans for our salaried employees, in which benefits are based on various formulas that include years of service and compensation factors, and for a group of hourly employees, in which a fixed level of benefits are provided. Pension plan assets are primarily invested in U.S., international, and private equities, long duration fixed income securities, and real assets. 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. We also sponsor a contributory postretirement benefit plan that provides health care benefits to our salaried retirees. During fiscal 2004, 2003, and 2002, we funded the defined benefit pension plans in the amount of $85, $20,063, and $41, respectively. We expect to contribute approximately $100 to our defined benefit pension plans during fiscal 2005. During fiscal 2004, 2003, and 2002, we funded the postretirement benefit plan in the amount of $172, $140, and $123, respectively. We expect to contribute approximately $260 to our postretirement benefit plan during fiscal 2005.

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 February 28, 2004 and 2003:

	Defined Benefit Plans		Postretirement Benefit Plan	
	2004	2003	2004	2003
Change in Benefit Obligation:				
Benefit obligation at beginning of period	$ 129,636	$ 111,155	$ 14,809	$ 9,356
Service cost	4,516	3,732	626	388
Interest cost	7,076	7,088	919	648
Participant contributions	–	–	128	112
Benefits paid	(5,553)	(4,558)	(299)	(252)
Actuarial loss	8,014	12,219	702	4,557
Benefit obligation at end of period	$ 143,689	$ 129,636	$ 16,885	$ 14,809
Change in Plan Assets:				
Fair value at beginning of period	$ 115,962	$ 109,574	$ –	$ –
Actual return on plan assets	34,759	(9,117)	–	–
Employer contributions	85	20,063	172	140
Participant contributions	–	–	128	112
Benefits paid	(5,554)	(4,558)	(300)	(252)
Fair value at end of period	$ 145,252	$ 115,962	$ –	$ –
Reconciliation of the Plan's Funded Status:				
Funded status at end of period	$ 1,563	$ (13,675)	$ (16,885)	$ (14,809)
Unrecognized prior service cost	(479)	(936)	–	29
Unrecognized actuarial loss	62,062	79,805	6,458	6,089
Contributions for March to May	22	19	77	35
Prepaid (accrued) benefit costs	$ 63,168	$ 65,213	$ (10,350)	$ (8,656)
Components of the Consolidated Balance Sheets:				
Prepaid benefit costs	$ 67,077	$ 68,873	$ –	$ –
Accrued benefit costs	(4,859)	(4,496)	(10,350)	(8,656)
Accumulated other comprehensive loss	950	836	–	–
Net asset (liability) recognized	$ 63,168	$ 65,213	$ (10,350)	$ (8,656)

Notes to Consolidated Financial Statements

The accumulated benefit obligation for all pension plans was $135,950 and $119,070 at May 30, 2004, and May 25, 2003, respectively. The accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $4,881 and $0, respectively, at February 28, 2004, and $4,515 and $0, respectively, at February 28, 2003. The projected benefit obligation for pension plans with projected benefit obligations in excess of plan assets approximated their accumulated benefit obligation at February 28, 2004 and February 28, 2003.

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

	Defined Benefit Plans		Postretirement Benefit Plan	
	2004	2003	2004	2003
Weighted-average assumptions used to determine benefit obligations at May 30 and May 25,[1]				
Discount rate	6.00%	6.25%	6.00%	6.25%
Rate of future compensation increases	3.75%	3.75%	N/A	N/A
Weighted-average assumptions used to determine net expense for fiscal years ended May 30 and May 25,[2]				
Discount rate	6.25%	7.00%	6.25%	7.00%
Expected long-term rate of return on plan assets	9.00%	10.40%	N/A	N/A
Rate of future compensation increases	3.75%	3.75%	N/A	N/A

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

We set the discount rate assumption annually for each of the plans at their valuation dates to reflect the yield of high-quality fixed-income debt instruments, with lives that approximate the maturity of the plan benefits. The expected long-term rate of return on plan assets and health care cost trend rates are based upon several factors, including our historical assumptions compared with actual results, an analysis of current market conditions, asset allocations, and the views of leading financial advisers and economists. Our target asset allocation is 35 percent U.S. equities, 30 percent high-quality, long-duration fixed-income securities, 15 percent international equities, 10 percent real assets, and 10 percent private equities. We monitor our actual asset allocation to ensure that it approximates our target allocation and believe that our long-term asset allocation will continue to approximate our target allocation. The defined benefit pension plans have the following asset allocations at their measurement dates of February 28, 2004, and 2003, respectively:

	2004	2003
U.S. equities	38%	42%
High-quality, long-duration fixed-income securities	26%	23%
International equities	18%	17%
Real assets	12%	11%
Private equities	6%	7%
Total	100%	100%

Based on an analysis performed in fiscal 2003, we lowered our defined benefit plans' expected long-term rate of return on plan assets for fiscal 2004 to 9.0 percent, a reduction from its previous level of 10.4 percent. Our historical ten-year rate of return on plan assets, calculated using the geometric method average of returns, is approximately 10.5 percent as of May 30, 2004.

The discount rate and expected return on plan assets assumptions have a significant effect on amounts reported for defined benefit pension plans. A quarter percentage point change in the defined benefit plans' discount rate and the expected long-term rate of return on plan assets would increase or decrease earnings before income taxes by $769 and $357, respectively.

The assumed health care cost trend rate increase in the per-capita charges for benefits ranged from 11.0 percent to 12.0 percent for fiscal 2005, depending on the medical service category. The rates gradually decrease to 5.0 percent through fiscal 2010 and remain at that level thereafter.

The assumed health care cost trend rate has a significant effect on amounts reported for retiree health care plans. A one-percentage-point variance in the assumed health care cost trend rate would increase or decrease the total of the service and interest cost components of net periodic postretirement benefit cost by $341 and $267, respectively, and would increase or decrease the accumulated postretirement benefit obligation by $3,572 and $2,805, respectively.

Notes to Consolidated Financial Statements

Components of net periodic benefit cost (income) are as follows:

	Defined Benefit Plans			Postretirement Benefit Plan		
	2004	2003	2002	2004	2003	2002
Service cost	$ 4,516	$ 3,732	$ 3,586	$ 626	$ 388	$291
Interest cost	7,076	7,088	7,145	919	648	500
Expected return on plan assets	(12,821)	(12,739)	(12,416)	–	–	–
Amortization of unrecognized transition asset	–	–	(642)	–	–	–
Amortization of unrecognized prior service cost	(348)	(348)	(456)	29	18	18
Recognized net actuarial loss	3,710	1,924	1,104	334	46	–
Net periodic benefit cost (income)	$ 2,133	$ (343)	$ (1,679)	$1,908	$1,100	$809

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act). The Act introduces a prescription drug benefit beginning in 2006 under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. We have elected to defer accounting for the effects of the Act until we are able to determine whether the benefits provided under our postretirement benefit plan are actuarily equivalent to Medicare Part D. Therefore, our postretirement benefit obligation has not been remeasured for the effects of the Act. We do not believe the impact of the Act will be material to our results of operations, financial position, or cash flows.

Defined Contribution Plan

We have a defined contribution plan covering most employees age 21 and older. We match contributions for participants with at least one year of service at up to six 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 $390,461 at May 30, 2004, and $334,319 at May 25, 2003. Expense recognized in fiscal 2004, 2003, and 2002 was $2,666, $1,732, and $1,593, respectively. Employees classified as "highly compensated" under the Internal Revenue Code are not eligible to participate in this plan. Instead, highly compensated employees are eligible to participate in a separate non-qualified deferred compensation plan. This plan allows eligible employees to defer the payment of all or part of their annual salary and 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 non-qualified deferred compensation plan totaled $88,569 and $69,653 at May 30, 2004, and May 25, 2003, respectively. These amounts are included in other current liabilities.

The defined contribution plan includes an Employee Stock Ownership Plan (ESOP). This ESOP originally borrowed $50,000 from third parties, with guarantees by us, and borrowed $25,000 from us at a variable interest rate. The $50,000 third party loan was refinanced in 1997 by a commercial bank's loan to us and a corresponding loan from us to the ESOP. Compensation expense is recognized as contributions are accrued. In addition to matching plan participant contributions, our contributions to the plan are also made to pay certain employee incentive bonuses. Fluctuations in our stock price impact the amount of expense to be recognized. Contributions to the plan, plus the dividends accumulated on allocated and 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 fiscal 2004, 2003, and 2002, the ESOP incurred interest expense of $473, $697, and $1,258, respectively, and used dividends received of $454, $1,002, and $735, respectively, and contributions received from us of $4,093, $4,266, and $5,166, respectively, to pay principal and interest on our debt.

The ESOP shares we own are included in average common shares outstanding for purposes of calculating net earnings per share. At May 30, 2004, the ESOP's debt to us had a balance of $29,403 with a variable rate of interest of 1.43 percent; $12,503 of the principal balance is due to be repaid no later than December 2007, with the remaining $16,900 due to be repaid no later than December 2014. The number of our common shares within the ESOP at May 30, 2004, approximated 10,699,000 shares, representing 4,271,000 allocated shares, 6,000 committed-to-be-released shares, and 6,422,000 suspense shares.

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STOCK PLANS

15 We maintain three active stock option and stock grant plans under which new awards may still be issued: the Stock Option and Long-Term Incentive Plan of 1995 (1995 Plan); the 2002 Stock Incentive Plan (2002 Plan); and the Stock Plan for Directors (Director Stock Plan). We also have two other stock option and stock grant plans under which we no longer can make new awards, although awards outstanding under the plans may still vest and be exercised in accordance with their terms: the Restaurant Management and Employee Stock Plan of 2000 (2000 Plan); and the Stock Option and Long-Term Incentive Conversion Plan (Conversion Plan). All of the plans are administered by the Compensation Committee of the Board of Directors. The 1995 Plan provides for the issuance of up to 33,300,000 common shares in connection with the granting of non-qualified stock options, restricted stock, or restricted stock units (RSUs) to key employees. Up to 2,250,000 shares may be granted under the plan as restricted stock and RSUs. No new awards may be made under the 1995 Plan after September 30, 2004. The 2002 Plan provides for the issuance of up to 8,550,000 common shares in connection with the granting of non-qualified stock options, incentive stock options, stock appreciation rights, stock awards, restricted stock, or RSUs to key employees and non-employee directors. Up to 1,700,000 shares may be granted under the plan as restricted stock and RSUs. The Director Stock Plan provides for the issuance of up to 375,000 common shares out of our treasury in connection with the granting of non-qualified stock options and restricted stock and RSUs to non-employee directors. The 2000 Plan provided for the issuance of up to 5,400,000 shares of common stock out of our treasury as non-qualified stock options, restricted stock, or RSUs. The Conversion Plan provided for the issuance of stock options and other awards to our officers and employees in connection with our spin-off from our former parent, General Mills, Inc., in 1995. As noted above, no new awards may be made under the 2000 Plan and Conversion Plan, although awards outstanding under those plans may still vest and be exercised in accordance with their terms. Under all of the plans, stock options are granted at a price equal to the fair value of the shares at the date of grant, for terms not exceeding ten years, and have various vesting periods at the discretion of the Compensation Committee. Outstanding options generally vest over one to four years. Restricted stock and RSUs granted under the 1995, 2000, and 2002 Plans generally vest over periods ranging from three to five years and no sooner than one year from the date of grant. The restricted period for certain grants may be accelerated based on performance goals established by the Compensation Committee.

We also maintain the Compensation Plan for Non-Employee Directors. This plan provides that non-employee directors may elect to receive their annual retainer and meeting fees in any combination of cash, deferred cash, or our common shares, and authorizes the issuance of up to 105,981 common shares out of our treasury for this purpose. The common shares issuable under the plan have an aggregate fair value equal to the value of the foregone retainer and meeting fees.

The per share weighted-average fair value of stock options granted during fiscal 2004, 2003, and 2002 was $6.83, $9.01, and $6.05, respectively.

Notes to Consolidated Financial Statements

Stock option activity during the periods indicated was as follows:

	Options Exercisable	Weighted-Average Exercise Price Per Share	Options Exercisable	Weighted-Average Exercise Price Per Share
Balance at May 27, 2001	12,222,339	$ 7.62	26,132,288	$ 9.68
Options granted			5,776,350	$17.36
Options exercised			(4,310,327)	$ 8.36
Options cancelled			(675,776)	$13.49
Balance at May 26, 2002	12,152,538	$ 8.31	26,922,535	$ 11.44
Options granted			4,200,086	$25.99
Options exercised			(3,132,894)	$ 9.23
Options cancelled			(1,298,094)	$16.86
Balance at May 25, 2003	13,481,166	$ 9.59	26,691,633	$13.73
Options granted			3,336,655	$20.36
Options exercised			(3,463,615)	$10.01
Options cancelled			(911,036)	$18.98
Balance at May 30, 2004	14,380,195	$11.00	25,653,637	$14.91

The following table provides information regarding exercisable and outstanding options at May 30, 2004:

Range of Exercise Price Per Share	Options Exercisable	Weighted-Average Exercise Price Per Share	Options Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Years)
$ 4.00 – $10.00	5,150,315	$ 6.87	5,150,315	$ 6.87	1.9
$10.01 – $15.00	7,613,735	12.20	9,075,619	11.96	5.3
$15.01 – $20.00	1,268,145	17.00	6,744,078	17.77	7.8
Over $20.00	348,000	24.01	4,683,625	25.34	8.4
	14,380,195	$11.00	25,653,637	$14.91	5.8

We granted restricted stock and RSUs during fiscal 2004, 2003, and 2002 totaling 513,305, 275,610, and 428,280 shares, respectively. The per share weighted-average fair value of the awards granted in fiscal 2004, 2003, and 2002 was $19.45, $26.53, and $17.10, respectively. After giving consideration to assumed forfeiture rates and subsequent forfeiture adjustments, compensation expense recognized in net earnings for awards granted in fiscal 2004, 2003, and 2002 amounted to $4,198, $3,579, and $4,392, respectively.

EMPLOYEE STOCK PURCHASE PLAN

16 We maintain the Darden Restaurants 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) an opportunity to purchase shares of our common stock, subject to certain limitations. Under the plan, up to an aggregate of 2,100,000 shares are available for purchase by employees at the lower of 85 percent of the fair market value of our common stock as of the first or last trading days of each quarterly participation period. During fiscal 2004, 2003, and 2002, employees purchased shares of common stock under the plan totaling 319,299, 261,409, and 284,576, respectively. At May 30, 2004, an additional 459,157 shares were available for issuance.

No compensation expense has been recognized for shares issued under the plan. The impact of recognizing compensation expense for purchases made under the plan in accordance with the fair value method specified in SFAS No. 123 is less than $900 and has no impact on reported basic or diluted net earnings per share.

Notes to Consolidated Financial Statements

17 COMMITMENTS AND CONTINGENCIES

We make trade commitments in the course of our normal operations. At May 30, 2004, and May 25, 2003, we were contingently liable for approximately $242 and $8,301, respectively, under outstanding trade letters of credit issued in connection with purchase commitments. These letters of credit have terms of two months or less and are used to collateralize our obligations to third parties for the purchase of inventories.

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 30, 2004, and May 25, 2003, we had $72,480 and $41,442, respectively, of standby letters of credit related to workers' compensation and general liabilities accrued in our consolidated financial statements. At May 30, 2004, and May 25, 2003, we had $15,896 and $7,503, 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 30, 2004, and May 25, 2003, we had other commercial commitments of $2,125 and $2,250, respectively.

At May 30, 2004, and May 25, 2003, we had $4,346 and $4,254, respectively, of guarantees associated with third-party sublease or assignment obligations. These amounts represent the maximum potential amount of future payments under the guarantees. The fair value of these potential payments discounted at our pre-tax cost of capital at May 30, 2004, and May 25, 2003 amounted to $3,131 and $2,935, respectively. We did not accrue for the guarantees, as the likelihood of the third parties defaulting on the sublease or assignment agreements was less than probable. In the event of default by a third party, the indemnity and/or default clauses in our sublease and 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 sublease or assignment agreements, except to the extent that the sublease or assignment allows us to repossess the building and personal property. These guarantees expire over their respective lease terms, which range from fiscal 2005 through fiscal 2012.

In March 2003 and March 2002, three of our current and former hourly restaurant employees filed two purported class action lawsuits against us in California Superior Court of Orange County alleging violations of California labor laws with respect to providing meal and rest breaks. The lawsuits seek penalties under Department of Labor rules providing a one hundred dollar penalty per violation per employee, plus attorney's fees on behalf of the plaintiffs and other purported class members. Discovery is currently underway in these matters. One of the cases was removed to our mandatory arbitration program, although the Court retained the authority to permit a sample of class-wide discovery. We are prosecuting an appeal to cause the other case to be similarly removed to arbitration. In September 2003, three former employees in Washington State filed a similar purported class action in Washington State Superior Court in Spokane County alleging violations of Washington labor laws with respect to providing meal and rest breaks. The Court stayed the action, and ordered the plaintiffs into our mandatory arbitration program; the plaintiffs have filed a motion for reconsideration. We intend to vigorously defend our position in all of these cases. Although the outcome of the cases cannot be ascertained at this time, we do not believe that the disposition of these cases, either individually or in the aggregate, would have a material adverse effect on our financial position, results of operations, or liquidity.

We are subject to other private lawsuits, administrative proceedings, and claims that arise in the ordinary course of our business. These matters typically involve claims from guests, employees, and others related to operational issues common to the restaurant industry. A number of these lawsuits, proceedings, and claims may exist at any given time. We do not believe that the final disposition of the lawsuits and claims in which we are currently involved will have a material adverse effect on our financial position, results of operations, or liquidity.

Notes to Consolidated Financial Statements

QUARTERLY DATA (UNAUDITED)

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The following table summarizes unaudited quarterly data for fiscal 2004 and 2003:

	Aug. 24	Nov. 23	Fiscal 2004 - Quarters Ended Feb. 22	May 30 (1)	Total
Sales	$1,259,689	$1,142,543	$1,241,952	$1,359,171	$5,003,355
Earnings before income taxes	103,984	46,626	113,005	76,383	339,998
Net earnings	68,594	31,253	77,899	53,716	231,462
Net earnings per share:					
Basic	0.42	0.19	0.47	0.34	1.42
Diluted	0.40	0.18	0.46	0.32	1.36
Dividends paid per share	–	0.04	–	0.04	0.08
Stock price:					
High	21.62	22.77	22.50	25.60	25.60
Low	17.80	18.25	18.48	21.40	17.80

	Aug. 25	Nov. 24	Fiscal 2003 - Quarters Ended Feb. 23	May 25	Total
Sales	$1,174,565	$1,071,531	$1,181,383	$1,227,492	$4,654,971
Earnings before income taxes	109,005	56,220	93,325	89,198	347,748
Net earnings	71,886	37,478	61,786	61,110	232,260
Net earnings per share:					
Basic	0.42	0.22	0.36	0.36	1.36
Diluted	0.40	0.21	0.35	0.35	1.31
Dividends paid per share	–	0.04	–	0.04	0.08
Stock price:					
High	27.83	26.13	22.96	20.27	27.83
Low	19.17	17.96	16.46	16.70	16.46

(1) Earnings before income taxes includes asset impairment charges of $36,526 ($22,372 after-tax) for long-lived asset impairments associated with the closing of six Bahama Breeze restaurants and the write-down of the carrying value of four other Bahama Breeze restaurants, one Olive Garden restaurant, and one Red Lobster restaurant, which continued to operate. Earnings before income taxes also includes charges of $1,112 ($681 after-tax) related to severance payments made to certain restaurant employees and exit costs associated with the closing of six Bahama Breeze restaurants.

Five-Year Financial Summary

(In thousands, except per share data)	May 30, 2004 (1)	May 25, 2003	May 26, 2002	May 27, 2001	May 28, 2000
Operating Results					
Sales	$ 5,003,355	$ 4,654,971	$ 4,366,911	$ 3,992,419	$ 3,675,461
Costs and expenses:					
Cost of sales:					
Food and beverage	1,526,875	1,449,162	1,384,481	1,302,926	1,199,709
Restaurant labor	1,601,258	1,485,046	1,373,416	1,261,837	1,181,156
Restaurant expenses	767,584	703,554	628,701	559,670	510,727
Total cost of sales, excluding restaurant depreciation and amortization(2)	$ 3,895,717	$ 3,637,762	$ 3,386,598	$3,124,433	$ 2,891,592
Selling, general, and administrative	472,109	431,722	417,158	389,240	363,041
Depreciation and amortization	210,004	191,218	165,829	146,864	130,464
Interest, net	43,659	42,597	36,585	30,664	22,388
Asset impairment and restructuring charges (credits), net	41,868	3,924	(2,568)	–	(5,931)
Total costs and expenses	$ 4,663,357	$ 4,307,223	$ 4,003,602	$ 3,691,201	$ 3,401,554
Earnings before income taxes	339,998	347,748	363,309	301,218	273,907
Income taxes	108,536	115,488	125,521	104,218	97,202
Net earnings	$ 231,462	$ 232,260	$ 237,788	$ 197,000	$ 176,705
Net earnings per share:					
Basic	$ 1.42	$ 1.36	$ 1.36	$ 1.10	$ 0.92
Diluted	$ 1.36	$ 1.31	$ 1.30	$ 1.06	$ 0.89
Average number of common shares outstanding, net of shares held in Treasury:					
Basic	163,500	170,300	174,700	179,600	192,800
Diluted	169,700	177,400	183,500	185,600	197,800
Financial Position					
Total assets	$ 2,780,348	$ 2,664,633	$ 2,529,736	$ 2,216,534	$ 1,969,555
Land, buildings, and equipment	2,250,616	2,157,132	1,926,947	1,779,515	1,578,541
Working capital (deficit)	(337,174)	(314,280)	(157,662)	(226,116)	(316,427)
Long-term debt	653,349	658,086	662,506	520,574	306,586
Stockholders' equity	1,245,770	1,196,191	1,128,877	1,033,318	958,602
Stockholders' equity per outstanding share	7.86	7.25	6.56	5.87	5.23
Other Statistics					
Cash flow from operations	$ 525,411	$ 508,635	$ 508,101	$ 420,570	$ 342,626
Capital expenditures	354,326	423,273	318,392	355,139	268,946
Dividends paid	12,984	13,501	9,225	9,458	10,134
Dividends paid per share	0.080	0.080	0.053	0.053	0.053
Advertising expense	210,989	200,020	184,163	177,998	165,590
Stock price:					
High	25.60	27.83	29.767	19.660	15.375
Low	17.80	16.46	15.400	10.292	8.292
Close	$ 22.50	$ 18.35	$ 25.030	$ 19.267	$ 12.583
Number of employees	141,300	140,700	133,200	128,900	122,300
Number of restaurants	1,325	1,271	1,211	1,168	1,139

(1) Fiscal year 2004 consisted of 53 weeks while all other fiscal years consisted of 52 weeks.

(2) Total cost of sales, excluding restaurant depreciation and amortization of $195,486, $177,127, $155,837, $138,229, and $123,477, respectively.

Shareholder Information

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Phone: (407) 245-4000

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Web Site Addresses

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www.olivegarden.com
tuscany.olivegarden.com
www.bahamabreeze.com
www.smokeybones.com
www.seasons52.com

Transfer Agent, Registrar and Dividend Payments

Wachovia Bank National Association
1525 West W.T. Harris Boulevard, 3C3
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Address correspondence as appropriate to the attention of:
Address Changes
Stock Transfers
Shareholder Services

Independent Registered Public Accounting Firm

KPMG LLP
100 North Tampa Street
Suite 1700
Tampa, FL 33602
Phone: (813) 223-1466

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 593330, Orlando, FL 32859-3330.

Shareholder Reports/Investor Inquiries

Shareholders seeking information about Darden Restaurants are invited to contact the Investor Relations Department at (800) 832-7336. Recorded summaries of quarterly earnings announcements and other news are available on the toll-free line. Shareholders may also request to receive, free of charge, copies of our quarterly earnings releases.

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

Our Web Site 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. We believe we are in compliance with the applicable corporate governance listing standards of the New York Stock Exchange as of the date of this report.

Darden Restaurants Foundation Annual Report

To receive a copy of the 2004 Darden Restaurants Foundation Annual Report, mail a request to the Foundation Administrator, Darden Restaurants, Inc., P.O. Box 593330, Orlando, FL 32859-3330, or visit our Web site at www.darden.com.

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held at 10:00 a.m. Eastern Daylight Savings Time, Wednesday, September 29, 2004, at Gaylord Palms Orlando Resort Hotel, 6000 W. Osceola Parkway, Kissimmee, FL 34746.

Markets

New York Stock Exchange
Stock Exchange Symbol: DRI

Board of Directors

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Professor of Marketing, Mays Business School Texas A&M University

Odie C. Donald
President, Odie Donald Investment Enterprises, LLC, a private investment firm, and retired President, DIRECTV, Inc., a satellite TV service

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Chairman of the Board, Hughes Supply, Inc., a building supply company

Joe R. Lee
Chairman and Chief Executive Officer, Darden Restaurants, Inc.

Connie Mack, III
Senior Policy Advisor, Shaw, Pittman, Potts & Trowbridge, a law firm, and former U.S. Senator

Michael D. Rose
Chairman, Gaylord Entertainment Company, a diversified entertainment company

Maria A. Sastre
Vice President, Total Guest Satisfaction Services, Royal Caribbean International, a unit of Royal Caribbean Cruises, Ltd., a global cruise line company

Jack A. Smith
Retired Chairman of the Board, The Sports Authority, Inc., a national sporting goods chain

Blaine Sweatt, III
President, New Business Development and Executive Vice President, Darden Restaurants, Inc.

Rita P. Wilson
Retired President, Allstate Indemnity Company, a subsidiary of Allstate Insurance Co.

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Senior Vice President; President, Bahama Breeze

Valerie K. Collins
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Linda J. Dimopoulos
Senior Vice President, Chief Financial Officer

Stephen E. Helsel
Senior Vice President, Corporate Controller

Kim Lopdrup
Senior Vice President; President, Red Lobster

Daniel M. Lyons
Senior Vice President, Human Resources

Andrew Madsen
Senior Vice President; President, Olive Garden

Barry Moullet
Senior Vice President, Purchasing, Distribution and Food Safety

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Senior Vice President, General Counsel and Secretary

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