December 15, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856

Re: File Reference No. 1850-100 – Exposure Draft, Leases

Darden Restaurants, Inc. ("Darden") appreciates the opportunity to comment on the exposure draft, Leases (the ‘exposure draft’ or ‘proposed guidance’). Darden is the world’s largest company-owned and operated full service restaurant company, operating over 1,800 Red Lobster®, Olive Garden®, LongHorn Steakhouse®, The Capital Grille®, Bahama Breeze® and Seasons 52® restaurants in the United States and Canada. We are a Fortune 500 company and included in the S&P 500 with over $7 billion in annual revenues and $5 billion in total assets. We currently have over 1,000 lease arrangements, primarily as a lessee, accounted for under US GAAP, and accordingly, we anticipate the proposed guidance to have a significant impact on our financial reporting systems, processes and internal controls.

We acknowledge the deficiencies of the current lease accounting models as they generally do not provide for a faithful representation of the economic substance of leasing transactions in a company’s statement of financial position. We appreciate the Boards’ efforts to pursue an approach that would allow financial statement users to more readily understand companies’ obligations under leasing arrangements and believe the right-of-use model in the proposed guidance would generally accomplish that objective. That said, we believe financial statement users currently have sufficient information to obtain an understanding of the impact of a company’s leasing arrangements based on footnote disclosures that accompany the financial statements under US GAAP. Accordingly, we are concerned that the cost and level of effort to: (1) implement the systems and processes necessary for financial statement preparers to comply with the proposed guidance; (2) provide for quarterly monitoring and evaluation of the assumptions and estimates required in the proposed guidance; (3) recast comparative financial statements under the proposed transition rules; and (4) educate financial statement users, would far outweigh the incremental improvements of the presentation of
a company’s financial position given the amount of information that is currently available in companies’ financial statements and related footnotes.

In our opinion, we believe there are opportunities to provide significant relief to our concerns expressed above through modifications to the measurement provisions of the proposed guidance. We believe these modifications could also improve the overall consistency in application of the proposed guidance. As currently proposed, the measurement provisions around lease terms and lease payments are subject to significant judgment and could be difficult to estimate with any degree of accuracy. We believe the current US GAAP requirements regarding the definition of a lease term and lease payments provide for a model that can be more consistently applied than do the provisions of the proposed guidance. The “more-likely-than-not” threshold in defining lease term provides companies more discretion and, thus, more variability in application, than does the “reasonably certain” threshold in current US GAAP. The inclusion of contingent payments in the measurement of the asset and liability introduces inherent variability in companies’ financial statements and relies on the ability of financial statement preparers to develop reasonable forecasts of events and circumstances that may not occur for 20-30 years or longer. As a result, there will be significant volatility and variability across companies’ financial position and results of operations from period to period, further reducing the usefulness of the financial statements to the users.

Please refer to the attached appendix to this letter for our responses to certain of the questions posed in the Exposure Draft.

We appreciate the opportunity to submit these comments on the Exposure Draft, and we thank you for considering our views. If you have any questions about our comments or wish to discuss this matter further, please contact me at 407-245-5286.

Sincerely,

C. Bradford Richmond
Senior Vice President, Chief Financial Officer
Appendix – Responses to the questions in the Exposure Draft Leases

Question 1: Lessees
(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?
(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

We agree that the right-of-use model generally provides for a more faithful representation of the economic substance of leasing arrangements in companies' statements of financial position. However, we believe the proposed guidance does not provide for a practical approach to measure lease assets and liabilities that arise under the right-of-use model. We believe the proposed guidance would allow for significant volatility and variability across companies' financial statements. Additionally, we believe financial statement users currently have sufficient information on leasing arrangements, based on current US GAAP disclosure requirements. Therefore, we believe any potential benefits would be far outweighed by the overall cost and level of effort required to implement and maintain the proposed guidance. See responses to questions 8-10 for suggested improvements addressing our concerns with the measurement requirements in the proposed guidance.

We agree that an amortized cost-based approach to subsequent measurement of the lease asset and an amortized cost using the effective interest method approach for the obligation to make lease payments are appropriate. We believe this is consistent with the overall objective of providing for a more faithful representation of leases as financing arrangements, whereby rights to an asset are acquired with a corresponding future obligation to pay.

Question 6: Contracts that contain service components and lease components
Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

We agree with the objective of the proposed guidance to separate service components from lease components, however, we believe further clarifications are needed on the definition of what constitutes a “distinct service” and direct examples of the costs most commonly included in lease contracts that should be considered service components and accounted for separately. As we noted in our letter, we have over 1,000 leases, which vary significantly in form and substance. Having clear direction on the allocation of costs between lease and service components will help ensure an accurate and consistent application of the guidance.
Question 8: Measurement - Lease Term
Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

We believe that the lease term should only include optional lease periods that are reasonably certain to be exercised. We view this threshold as higher than more-likely-than-not and consistent with the threshold used currently in practice when determining the lease term as of the inception of a lease. Under this approach, only optional lease periods for which a lessee is likely to exercise its extension, due to the existence of a significant economic incentive to renew or penalty not to renew, should be included in the lease term. This is consistent with the current definition of a lease term under US GAAP, which we believe works well in practice.

Question 9: Measurement - Lease Payments
Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

We do not agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique. Darden’s lease agreements are typically long-term arrangements that extend far beyond our typical planning horizon and may include a percentage rent factor based on operating metrics particular to each operating period. Additionally, lease terms may differ from restaurant to restaurant as we conduct business with many different lessors across the US and Canada. We would find it extremely burdensome and likely very difficult to reliably forecast operating results of individual restaurants, by year, on a long-term basis into the future. Due to the provisions of the proposed guidance to use an expected outcome method for discounted cash flows and the sensitivity of such calculations to the estimates of the expected timing and probability of these cash flows, we believe there could be a significant amount of volatility in our financial statements from period to period. Additionally, we believe it would be unlikely that different companies across the same or similar industries would apply these measurement provisions in a similar manner such that financial statements would be less reliable as a means for comparing companies’ results of operations and financial position.

We believe that lease assets and liabilities arising from a lease accounted for under a right-of-use model should only include payments, for which a lessee is currently obligated or is reasonable certain of becoming obligated. Inclusion of projected payments based on contingencies related to operating results would introduce volatility in current period results for events that are subject solely to the results of future operations.
Current lease accounting models provide for a definition of lease payments that is consistent with our views noted above and would represent a much more practical approach to measuring lease assets and liabilities under the proposed right-of-use model. Although the proposed guidance includes a “measured reliably” threshold, the alternative presented above would eliminate the need for such provision. However, in the context of the proposed guidance, we are concerned that this provision could introduce even more complexity and further distort financial results across companies as financial statement preparers and auditors would likely struggle to consistently apply a “measured reliably” threshold. Accordingly, at a minimum, we would request that clarification and specific examples of application be provided to alleviate the further variability in judgment this provision would likely introduce.

Understanding the potentially significant impact of contingent rentals and expected payments under term option penalties and residual value guarantees, we believe that the disclosure provisions in the proposed guidance could be modified to provide financial statement users with the information necessary to determine their impact. This approach would alleviate a significant amount of the burden on financial statement preparers, reduce the potential for increased volatility and ensure more comparable financial statements.

**Question 10: Measurement - Reassessment**

*Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?*

Given the significant use of judgmental assumptions and estimates under the proposed guidance, we agree periodic assessment is necessary to ensure that the statement of financial position accurately reflects the rights and obligations under the lease contract. Revised amounts would provide financial statement users with a more accurate assessment of those rights and obligations. However, we believe the proposed provisions will create significant practical and operational issues for companies and we have concerns that the cost of performing the proposed reassessment may outweigh the benefits. In fact, we believe that using the proposed definition of lease term and lease payments, the reassessment provisions are unworkable.

Although the proposed guidance includes the provision “significant change...since the previous reporting period”, it is not clear as to what basis we would use to determine what changes are significant and how often we should evaluate our leases. Accordingly, in the context of the proposed guidance, we are concerned that this provision could introduce even more complexity and further distort financial results across companies as financial statement preparers and auditors would likely struggle to apply this provision
consistently. Therefore, at a minimum, we would request that clarification and specific examples of application be provided to alleviate the further variability in judgment this provision would likely introduce.

**Question 16: Transition**

(a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?

(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?

We believe using a simplified retrospective approach as provided for in the proposed guidance is reasonable as it is based on information companies should have available with respect to current lease arrangements and would provide for consistent reporting as of the date of initial application and forward.

Although full retrospective application could be more accurate, the cost and level of effort to implement would far outweigh the potential incremental accuracy. Additionally, to permit a full retrospective application could put some companies at a disadvantage. The simplified retrospective approach will likely result in disproportionately more expense in the periods immediately following adoption as this approach has the effect of recognizing all leases on the date of initial application as if they had just commenced. Accordingly, companies that utilize a full retrospective approach, if permitted, could gain an advantage in recognizing less expense in the periods immediately following the date of initial application, putting companies that do not have the means to implement such an approach at a disadvantage.

**Question 17: Benefits and Costs**

*Paragraphs BC200–BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?*

Per our responses above, we do not believe that the perceived benefits of the proposed guidance are justified based on the expected cost and level of effort necessary to implement the provisions of the exposure draft. The most troublesome of the provisions are the proposed inclusion of contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of lease assets and liabilities. We don’t believe the proposed guidance presents a practical approach and are concerned with the significant increase in complexity and volatility these provisions would introduce into companies’ financial statements.