

WALT DISNEY CO/  
Form 10-Q  
July 30, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended  
June 28, 2008

Commission File Number 1-11605

Incorporated in Delaware

I.R.S. Employer Identification  
No. 95-4545390

500 South Buena Vista Street, Burbank, California 91521

(818) 560-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer  Accelerated filer

Non-accelerated filer (do not check if smaller reporting company)  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

There were 1,876,424,814 shares of common stock outstanding as of July 25, 2008.

## PART I. FINANCIAL INFORMATION

## Item 1: Financial Statements

## THE WALT DISNEY COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited; in millions, except per share data)

|  | Quarter Ended    |                  | Nine Months Ended |                  |
|--|------------------|------------------|-------------------|------------------|
|  | June 28,<br>2008 | June 30,<br>2007 | June 28,<br>2008  | June 30,<br>2007 |
| Revenues   | \$ 9,236         | \$ 9,045         | \$ 28,398         | \$ 26,580        |
| Costs and expenses   | (7,215)          | (7,022)          | (22,446)          | (21,370)         |
| Other income   | 32               |                  | 32                | 1,052            |
| Net interest expense   | (141)            | (143)            | (411)             | (430)            |
| Equity in the income of investees  | 175              | 147              | 442               | 389              |
| Income from continuing operations before income taxes and minority interests | 2,087            | 2,027            | 6,015             | 6,221            |
| Income taxes   | (712)            | (762)            | (2,183)           | (2,353)          |
| Minority interests   | (91)             | (69)             | (165)             | (77)             |
| Income from continuing operations  | 1,284            | 1,196            | 3,667             | 3,791            |
| Income (loss) from discontinued operations, net of tax                       |                  | (18)             |                   | 19               |
| Net income   | \$ 1,284         | \$ 1,178         | \$ 3,667          | \$ 3,810         |
| Diluted earnings per share:  |                  |                  |                   |                  |
| Earnings per share, continuing operations                                    | 0.66             | 0.58             | 1.87              | 1.80             |
| Earnings per share, discontinued operations                                  |                  | (0.01)           |                   | 0.01             |
| Earnings per share   | \$ 0.66          | \$ 0.57          | \$ 1.87           | \$ 1.81          |
| Basic earnings per share:  |                  |                  |                   |                  |
| Earnings per share, continuing operations                                    | 0.68             | 0.60             | 1.93              | 1.87             |
| Earnings per share, discontinued operations                                  |                  | (0.01)           |                   | 0.01             |
| Earnings per share   | \$ 0.68          | \$ 0.59          | \$ 1.93           | \$ 1.88          |
| Weighted average number of common and common equivalent shares outstanding:  |                  |                  |                   |                  |
| Diluted  | 1,940            | 2,070            | 1,963             | 2,115            |
| Basic  | 1,900            | 1,982            | 1,896             | 2,027            |

See Notes to Condensed Consolidated Financial Statements



## THE WALT DISNEY COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited; in millions, except per share data)

|  | June 28,<br>2008 | September 29,<br>2007 |
|--|------------------|-----------------------|
| <b>ASSETS</b>  |                  |                       |
| Current assets   |                  |                       |
| Cash and cash equivalents                                | \$ 2,589         | \$ 3,670              |
| Receivables  | 5,669            | 5,032                 |
| Inventories  | 992              | 641                   |
| Television costs   | 508              | 559                   |
| Deferred income taxes                                    | 862              | 862                   |
| Other current assets                                     | 623              | 550                   |
| <b>Total current assets</b>                              | <b>11,243</b>    | <b>11,314</b>         |
| Film and television costs                                | 5,183            | 5,123                 |
| Investments  | 1,418            | 995                   |
| Parks, resorts and other property, at cost               |                  |                       |
| Attractions, buildings and equipment                     | 31,702           | 30,260                |
| Accumulated depreciation                                 | (16,321)         | (15,145)              |
|  | <b>15,381</b>    | <b>15,115</b>         |
| Projects in progress                                     | 980              | 1,147                 |
| Land   | 1,189            | 1,171                 |
|  | <b>17,550</b>    | <b>17,433</b>         |
| Intangible assets, net                                   | 2,474            | 2,494                 |
| Goodwill   | 22,121           | 22,085                |
| Other assets   | 1,593            | 1,484                 |
|  | <b>\$ 61,582</b> | <b>\$ 60,928</b>      |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>              |                  |                       |
| Current liabilities                                      |                  |                       |
| Accounts payable and other accrued liabilities           | \$ 5,246         | \$ 5,949              |
| Current portion of borrowings                            | 2,050            | 3,280                 |
| Unearned royalties and other advances                    | 2,743            | 2,162                 |
| <b>Total current liabilities</b>                         | <b>10,039</b>    | <b>11,391</b>         |
| Borrowings   | 11,522           | 11,892                |
| Deferred income taxes                                    | 2,258            | 2,573                 |
| Other long-term liabilities                              | 3,748            | 3,024                 |
| Minority interests                                       | 1,236            | 1,295                 |
| Commitments and contingencies                            |                  |                       |
| Shareholders' equity                                     |                  |                       |
| Preferred stock, \$.01 par value                         |                  |                       |
| Authorized 100 million shares, Issued none               |                  |                       |
| Common stock, \$.01 par value                            |                  |                       |
| Authorized 3.6 billion shares, Issued 2.6 billion shares | 26,274           | 24,207                |
| Retained earnings  | 27,660           | 24,805                |
| Accumulated other comprehensive loss                     | (59)             | (157)                 |

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|  |                  |                  |
|--|------------------|------------------|
|  | <b>53,875</b>    | 48,855           |
| Treasury stock, at cost, 730.3 million shares at June 28, 2008<br>and 637.8 million shares at September 29, 2007 | <b>(21,096)</b>  | (18,102)         |
|  | <b>32,779</b>    | 30,753           |
|  | <b>\$ 61,582</b> | <b>\$ 60,928</b> |

*See Notes to Condensed Consolidated Financial Statements*

## THE WALT DISNEY COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited; in millions)

|  | Nine Months Ended |                  |
|--|-------------------|------------------|
|  | June 28,<br>2008  | June 30,<br>2007 |
| <i>OPERATING ACTIVITIES OF CONTINUING OPERATIONS</i>                 |                   |                  |
| Net income   | \$ 3,667          | \$ 3,810         |
| Income from discontinued operations                                  |                   | (19)             |
| Depreciation and amortization  | 1,178             | 1,109            |
| Gains on sales of equity investments and business                    | (14)              | (1,052)          |
| Deferred income taxes  | (48)              | (77)             |
| Equity in the income of investees                                    | (442)             | (389)            |
| Cash distributions received from equity investees                    | 367               | 339              |
| Minority interests   | 165               | 77               |
| Net change in film and television costs                              | (67)              | 191              |
| Equity-based compensation  | 290               | 319              |
| Other  | (169)             | (133)            |
| Changes in operating assets and liabilities:                         |                   |                  |
| Receivables  | (700)             | (508)            |
| Inventories  | (224)             | 85               |
| Other assets   | (23)              | 96               |
| Accounts payable and other accrued liabilities                       | 230               | (331)            |
| Income taxes   | (9)               | 308              |
| Cash provided by continuing operations                               | 4,201             | 3,825            |
| <i>INVESTING ACTIVITIES OF CONTINUING OPERATIONS</i>                 |                   |                  |
| Investments in parks, resorts and other property                     | (949)             | (986)            |
| Proceeds from sales of equity investments and business               | 14                | 1,530            |
| Acquisitions (including equity investments)                          | (488)             | (231)            |
| Other  | 42                | 92               |
| Cash (used) provided by continuing investing activities              | (1,381)           | 405              |
| <i>FINANCING ACTIVITIES OF CONTINUING OPERATIONS</i>                 |                   |                  |
| Commercial paper (repayments) / borrowings, net                      | (1,447)           | 1,680            |
| Borrowings   | 1,000             | 1,632            |
| Reduction of borrowings  | (288)             | (1,916)          |
| Dividends  | (664)             | (637)            |
| Repurchases of common stock  | (2,994)           | (5,198)          |
| Exercise of stock options and other                                  | 492               | 1,158            |
| Cash used by continuing financing activities                         | (3,901)           | (3,281)          |
| <i>CASH FLOW OF DISCONTINUED OPERATIONS</i>                          |                   |                  |
| Net cash provided by operating activities of discontinued operations |                   | 29               |
| Net cash used in investing activities of discontinued operations     |                   | (3)              |
| Net cash provided by financing activities of discontinued operations |                   | 78               |

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|  |          |          |
|--|----------|----------|
| (Decrease)/increase in cash and cash equivalents | (1,081)  | 1,053    |
| Cash and cash equivalents, beginning of period   | 3,670    | 2,411    |
| Cash and cash equivalents, end of period         | \$ 2,589 | \$ 3,464 |

*See Notes to Condensed Consolidated Financial Statements*

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**THE WALT DISNEY COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited; tabular dollars in millions, except for per share data)

**1. Principles of Consolidation**

These Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, normal recurring adjustments considered necessary for a fair presentation have been reflected in these Condensed Consolidated Financial Statements. Operating results for the quarter and nine months ended June 28, 2008 are not necessarily indicative of the results that may be expected for the year ending September 27, 2008. Certain reclassifications have been made in the prior year financial statements to conform to the current year presentation.

These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended September 29, 2007.

In December 1999, DVD Financing, Inc. (DFI), a subsidiary of Disney Vacation Development, Inc. and an indirect subsidiary of the Company, completed a receivables sale transaction which established a facility that permits DFI to sell receivables arising from the sale of vacation club memberships on a periodic basis. In connection with this facility, DFI prepares separate financial statements, although its separate assets and liabilities are also consolidated in these financial statements.

The terms Company, we, us, and our are used in this report to refer collectively to the parent company and the subsidiaries through which our various businesses are actually conducted.

**2. Segment Information**

The operating segments reported below are the segments of the Company for which separate financial information is available and for which segment results are evaluated regularly by the Chief Executive Officer in deciding how to allocate resources and in assessing performance. The Company reports the performance of its operating segments including equity in the income of investees, which consists primarily of cable businesses included in the Media Networks segment.



## THE WALT DISNEY COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; tabular dollars in millions, except for per share data)

|   | Quarter Ended    |                  | Nine Months Ended |                  |
|---|------------------|------------------|-------------------|------------------|
|   | June 28,<br>2008 | June 30,<br>2007 | June 28,<br>2008  | June 30,<br>2007 |
| <b>Revenues</b> <sup>(1)(2)</sup> :                 |                  |                  |                   |                  |
| Media Networks                                      | \$ 4,123         | \$ 3,829         | \$ 11,904         | \$ 11,071        |
| Parks and Resorts                                   | 3,038            | 2,904            | 8,535             | 7,839            |
| Studio Entertainment                                | 1,433            | 1,775            | 5,896             | 5,958            |
| Consumer Products                                   | 642              | 537              | 2,063             | 1,712            |
|   | \$ 9,236         | \$ 9,045         | \$ 28,398         | \$ 26,580        |
| <b>Segment operating income</b> <sup>(1)(2)</sup> : |                  |                  |                   |                  |
| Media Networks                                      | \$ 1,472         | \$ 1,356         | \$ 3,697          | \$ 3,216         |
| Parks and Resorts                                   | 641              | 621              | 1,485             | 1,280            |
| Studio Entertainment                                | 97               | 190              | 988               | 1,027            |
| Consumer Products                                   | 113              | 118              | 542               | 476              |
|   | \$ 2,323         | \$ 2,285         | \$ 6,712          | \$ 5,999         |

(1) Studio Entertainment segment revenues and operating income include an allocation of Consumer Products revenues, which is meant to reflect royalties on Consumer Products sales of merchandise based on certain Studio film properties. Consumer Products results exclude amounts allocated to Studio Entertainment. This intersegment revenue and operating income was \$37 million and \$43 million for the quarters ended June 28, 2008 and June 30, 2007, respectively, and \$142 million and \$141 million for the nine months ended June 28, 2008 and June 30, 2007, respectively.

(2) Beginning with the first quarter of fiscal 2008, the Company began reporting Hyperion Publishing in the Media Networks segment. Previously, Hyperion Publishing had been reported in the Consumer Products segment. Prior-period amounts (which are not material) have been reclassified to conform to the current presentation.

A reconciliation of segment operating income to income from continuing operations before income taxes and minority interests is as follows:

|  | Quarter Ended    |                  | Nine Months Ended |                  |
|--|------------------|------------------|-------------------|------------------|
|  | June 28,<br>2008 | June 30,<br>2007 | June 28,<br>2008  | June 30,<br>2007 |
| Segment operating income   | \$ 2,323         | \$ 2,285         | \$ 6,712          | \$ 5,999         |
| Corporate and unallocated shared expenses                                    | (127)            | (115)            | (318)             | (352)            |
| Equity-based compensation plan modification charge                           |                  |                  |                   | (48)             |
| Other income   | 32               |                  | 32                | 1,052            |
| Net interest expense   | (141)            | (143)            | (411)             | (430)            |
| Income from continuing operations before income taxes and minority interests | \$ 2,087         | \$ 2,027         | \$ 6,015          | \$ 6,221         |

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; tabular dollars in millions, except for per share data)

**3. Acquisitions and Dispositions and Other Income**

*Acquisitions*

On May 9, 2008, the Company acquired an additional 18% fully diluted interest (bringing the total fully diluted interest to 32%) in UTV Software Communications Limited (UTV), a media company headquartered and publicly traded in India, for approximately \$197 million. As required by Indian securities regulations, the Company is required to make an open tender offer to purchase up to an additional 20% of the voting shares of UTV held by the public at the same price per share. The Company is waiting for regulatory approval in India to execute the open offer for additional shares, which will be completed approximately two months after approval is received. The additional shares acquired by the Company in the open offer, if any, are subject to certain voting restrictions and a call option held by the primary shareholders that provides for a price no less than the price paid by the Company to acquire the shares. In addition to the acquisition of UTV, the Company has committed to invest \$30 million in a UTV subsidiary, UTV Global Broadcasting Limited (UGBL), subject to regulatory approval in India.

On April 30, 2008, the Company acquired the Disney Stores in North America from subsidiaries of The Children's Place Retail Stores, Inc. (TCP) for cash consideration totaling approximately \$64 million and terminated TCP's long-term licensing arrangement relating to the Disney Stores. The Company acquired the inventory, leasehold improvements, and certain fixed assets of, and assumed the leases on, approximately 225 stores that it intends to operate. The Company conducted the wind-down and closure of an additional 89 stores but did not assume the leases on these stores.

In connection with the acquisition, the Company waived its rights to certain claims against TCP and, as required by the provisions of Emerging Issues Task Force Issue No. 04-1, *Accounting for Pre-Existing Relationships between the Parties to a Business Combination*, recorded an \$18 million non-cash gain for the estimated fair value of the claims. The gain is classified in *Other income* in the Consolidated Statement of Income.

On August 1, 2007, the Company acquired all of the outstanding shares of Club Penguin Entertainment, Inc. (Club Penguin), a Canadian company that operates clubpenguin.com, an online virtual world for children. The purchase price included upfront cash consideration of approximately \$350 million and additional consideration of up to \$350 million that may be paid if Club Penguin achieves predefined earnings targets for calendar years 2008 and 2009.

*Dispositions*

On June 12, 2007, the Company completed the spin-off of its wholly-owned subsidiary, ABC Radio Holdings, Inc., and its merger with a subsidiary of Citadel Broadcasting Corporation (Citadel). Prior to the spin-off, the Company consolidated its ABC Radio business, consisting of 22 large-market radio stations and the ABC Radio Network businesses, under ABC Radio Holdings, Inc. The transaction did not include the Company's ESPN Radio or Radio Disney network and station businesses. Results of the ABC Radio business have been reported as discontinued operations.

On November 21, 2006, in connection with the execution of new long-term agreements for the provision of programming to cable service provider Comcast Corporation (Comcast), the Company sold its 39.5% interest in E! Entertainment Television (E!) to Comcast (which owned the remainder of the interest in E!) for \$1.23 billion, which resulted in a pre-tax gain of \$780 million (\$487 million after-tax). On October 2, 2006, the Company sold its 50% stake in Us Weekly for \$300 million, which resulted in a pre-tax gain of \$272 million (\$170 million after-tax). These gains are reported in *Other income* in the Condensed Consolidated Statements of Income.

## THE WALT DISNEY COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; tabular dollars in millions, except for per share data)

*Other income*

During the nine months ended June 28, 2008 and June 30, 2007, other income was as follows:

|  | Nine Months Ended |                  |
|--|-------------------|------------------|
|  | June 28,<br>2008  | June 30,<br>2007 |
| Gain on sale of movies.com   | \$ 14             | \$               |
| Accounting gain related to the acquisition of the Disney Stores in North America | 18                |                  |
| Gain on sale of equity investment in E!  |                   | 780              |
| Gain on sale of equity investment in Us Weekly                                   |                   | 272              |
|  | \$ 32             | \$ 1,052         |

**4. Borrowings**

During the nine months ended June 28, 2008, the Company's borrowing activity was as follows:

|   | September 29,<br>2007 | Additions | Payments   | Other<br>Activity | June 28,<br>2008 |
|---|-----------------------|-----------|------------|-------------------|------------------|
| Commercial paper borrowings             | \$ 2,686              | \$        | \$ (1,447) | \$                | \$ 1,239         |
| U.S. medium-term notes                  | 6,340                 | 750       | (85)       | (1)               | 7,004            |
| Convertible senior notes <sup>(1)</sup> | 1,323                 |           | (3)        | (1,320)           |                  |
| European medium-term notes              | 163                   | 93        |            | (3)               | 253              |
| Capital Cities/ABC debt                 | 181                   |           |            | (2)               | 179              |
| Film financing                          | 355                   | 102       | (135)      |                   | 322              |
| Other <sup>(2)</sup>                    | 541                   | 17        | (40)       | 169               | 687              |
| Euro Disney borrowings <sup>(3)</sup>   | 2,476                 |           | (62)       | 296               | 2,710            |
| Hong Kong Disneyland borrowings         | 1,107                 | 38        |            | 33                | 1,178            |
| Total                                   | \$ 15,172             | \$ 1,000  | \$ (1,772) | \$ (828)          | \$ 13,572        |

(1) In April 2008, the Company redeemed the convertible senior notes (the Notes). Pursuant to the redemption, substantially all of the Notes were converted into 45 million shares of the Company's common stock.

(2) The other activity is primarily the purchase of land for a Disney Vacation Club resort in Hawaii and market value adjustments for debt with qualifying hedges.

(3) The other activity is primarily the impact of foreign currency translation as a result of the weakening of the U.S. dollar against the Euro.

***Euro Disney and Hong Kong Disneyland***

**5.**

The Company has a 51% effective ownership interest in the operations of Euro Disney and a 43% ownership interest in the operations of Hong Kong Disneyland which are both consolidated under the provisions of FIN 46R, *Consolidation of Variable Interest Entities*.

**THE WALT DISNEY COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited; tabular dollars in millions, except for per share data)

The following table presents a condensed consolidating balance sheet for the Company as of June 28, 2008, reflecting the impact of consolidating the balance sheets of Euro Disney and Hong Kong Disneyland.

|   | Before Euro<br>Disney and<br>Hong Kong<br>Disneyland<br>Consolidation | Euro Disney,<br>Hong Kong<br>Disneyland and<br>Adjustments | Total            |
|---|---|--|------------------|
| Cash and cash equivalents                             | \$ 2,035  | \$ 554   | \$ 2,589         |
| Other current assets                                  | 8,327   | 327  | 8,654            |
| <b>Total current assets</b>                           | <b>10,362</b>   | <b>881</b>   | <b>11,243</b>    |
| Investments   | 2,099   | (681)  | 1,418            |
| Fixed assets  | 12,516  | 5,034  | 17,550           |
| Other assets  | 31,309  | 62   | 31,371           |
| <b>Total assets</b>                                   | <b>\$ 56,286</b>  | <b>\$ 5,296</b>  | <b>\$ 61,582</b> |
| Current portion of borrowings                         | \$ 1,593  | \$ 457   | \$ 2,050         |
| Other current liabilities                             | 7,286   | 703  | 7,989            |
| <b>Total current liabilities</b>                      | <b>8,879</b>  | <b>1,160</b>   | <b>10,039</b>    |
| Borrowings  | 8,091   | 3,431  | 11,522           |
| Deferred income taxes and other long-term liabilities | 5,820   | 186  | 6,006            |
| Minority interest                                     | 717   | 519  | 1,236            |
| Shareholders' equity                                  | 32,779  |  | 32,779           |
| <b>Total liabilities and shareholders' equity</b>     | <b>\$ 56,286</b>  | <b>\$ 5,296</b>  | <b>\$ 61,582</b> |

The following table presents a condensed consolidating income statement of the Company for the nine months ended June 28, 2008, reflecting the impact of consolidating the income statements of Euro Disney and Hong Kong Disneyland.

|                                   | Before Euro<br>Disney and<br>Hong Kong<br>Disneyland<br>Consolidation | Euro Disney,<br>Hong Kong<br>Disneyland and<br>Adjustments | Total     |
|-----------------------------------|---|--|-----------|
| Revenues                          | \$ 26,764   | \$ 1,634   | \$ 28,398 |
| Cost and expenses                 | (20,841)  | (1,605)  | (22,446)  |
| Other income                      | 32  |  | 32        |
| Net interest expense              | (278)   | (133)  | (411)     |
| Equity in the income of investees | 406   | 36   | 442       |

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|  |          |      |          |
|--|----------|------|----------|
| Income from continuing operations before income taxes and minority interests | 6,083    | (68) | 6,015    |
| Income taxes   | (2,183)  |      | (2,183)  |
| Minority interests   | (233)    | 68   | (165)    |
| Net income   | \$ 3,667 | \$   | \$ 3,667 |

## THE WALT DISNEY COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; tabular dollars in millions, except for per share data)

The following table presents a condensed consolidating cash flow statement of the Company for the nine months ended June 28, 2008, reflecting the impact of consolidating the cash flow statements of Euro Disney and Hong Kong Disneyland.

|  | Before Euro<br>Disney and<br>Hong Kong<br>Disneyland<br>Consolidation | Euro Disney,<br>Hong Kong<br>Disneyland and<br>Adjustments | Total    |
|--|---|--|----------|
| Cash provided by operations                      | \$ 4,121  | \$ 80  | \$ 4,201 |
| Investments in parks, resorts and other property | (850)   | (99)   | (949)    |
| Other investing activities                       | (425)   | (7)  | (432)    |
| Cash used in financing activities                | (3,877)   | (24)   | (3,901)  |
| Decrease in cash and cash equivalents            | (1,031)   | (50)   | (1,081)  |
| Cash and cash equivalents, beginning of period   | 3,066   | 604  | 3,670    |
| Cash and cash equivalents, end of period         | \$ 2,035  | \$ 554   | \$ 2,589 |

## 6. Pension and Other Benefit Programs

The components of net periodic benefit cost are as follows:

|                                   | Pension Plans    |                  |                   |                  | Postretirement Medical Plans |                  |                     |                     |
|-----------------------------------|------------------|------------------|-------------------|------------------|------------------------------|------------------|---------------------|---------------------|
|                                   | Quarter Ended    |                  | Nine Months Ended |                  | Quarter Ended                |                  | Nine Months Ended   |                     |
|                                   | June 28,<br>2008 | June 30,<br>2007 | June 28,<br>2008  | June 30,<br>2007 | June 28,<br>2008             | June 30,<br>2007 | June<br>28,<br>2008 | June<br>30,<br>2007 |
| Service cost                      | \$ 44            | \$ 46            | \$ 134            | \$ 130           | \$ 5                         | \$ 5             | \$ 16               | \$ 17               |
| Interest cost                     | 81               | 74               | 242               | 222              | 15                           | 14               | 47                  | 44                  |
| Expected return on plan<br>assets | (89)             | (75)             | (267)             | (227)            | (6)                          | (5)              | (19)                | (15)                |
| Recognized net actuarial loss     | 10               | 12               | 28                | 38               |                              |                  | 1                   |                     |
| Net periodic benefit cost         | \$ 46            | \$ 57            | \$ 137            | \$ 163           | \$ 14                        | \$ 14            | \$ 45               | \$ 46               |

Based on current actuarial projections, the Company expects that it will not be required to make contributions to its pension plans during fiscal 2008 under the funding regulations associated with the Pension Protection Act of 2006 (PPA). During the nine months ended June 28, 2008, the Company contributed approximately \$20 million, primarily to post-retirement medical and pension plans not subject to the PPA, and does not anticipate contributing material amounts to its pension and post-retirement medical plans in the fourth quarter of fiscal 2008.





## THE WALT DISNEY COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; tabular dollars in millions, except for per share data)

**7. Earnings Per Share**

Diluted earnings per share amounts are based upon the weighted average number of common and common equivalent shares outstanding during the period and are calculated using the treasury stock method for equity-based compensation awards and assuming conversion of the Company's convertible senior notes which were redeemed during the quarter. Options excluded from the diluted earnings per share calculation as they were anti-dilutive were 74 million and 39 million shares for the quarters ended June 28, 2008 and June 30, 2007, respectively, and 67 million and 41 million for the nine months ended June 28, 2008 and June 30, 2007, respectively. A reconciliation of income from continuing operations and weighted average number of common and common equivalent shares outstanding for calculating diluted earnings per share is as follows:

|   | Quarter Ended    |                  | Nine Months Ended |                  |
|---|------------------|------------------|-------------------|------------------|
|   | June 28,<br>2008 | June 30,<br>2007 | June 28,<br>2008  | June 30,<br>2007 |
| Income from continuing operations                         | \$ 1,284         | \$ 1,196         | \$ 3,667          | \$ 3,791         |
| Interest expense on convertible senior notes (net of tax) | 1                | 5                | 12                | 16               |
|   | \$ 1,285         | \$ 1,201         | \$ 3,679          | \$ 3,807         |

Shares (in millions):

|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Weighted average number of common shares outstanding (basic)                         | 1,900 | 1,982 | 1,896 | 2,027 |
| Weighted average dilutive impact of equity-based compensation awards                 | 33    | 43    | 35    | 43    |
| Weighted average assumed conversion of convertible senior notes (see Note 4)         | 7     | 45    | 32    | 45    |
| Weighted average number of common and common equivalent shares outstanding (diluted) | 1,940 | 2,070 | 1,963 | 2,115 |

**8. Shareholders Equity**

The Company declared a \$664 million dividend (\$0.35 per share) on November 28, 2007, related to fiscal 2007, which was paid on January 11, 2008, to shareholders of record on December 7, 2007. The Company paid a \$637 million dividend (\$0.31 per share) during the second quarter of fiscal 2007 related to fiscal 2006.

During the first nine months of fiscal 2008, the Company repurchased 93 million shares for approximately \$3.0 billion, of which 32 million shares for \$1.0 billion were purchased in the third quarter. As of June 28, 2008, the Company had remaining authorization in place to repurchase approximately 230 million additional shares, of which the Company repurchased 21 million shares for \$645 million subsequent to quarter-end through July 25, 2008. The repurchase program does not have an expiration date.

The Company received proceeds of \$451 million from the exercise of 21 million stock options during the first nine months of fiscal 2008.

The Company also has 1.0 billion shares of Internet Group Stock at \$.01 par value authorized. No shares are issued or outstanding.



## THE WALT DISNEY COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; tabular dollars in millions, except for per share data)

**9. Comprehensive Income**

Comprehensive income (loss), net of tax, is as follows:

|   | Quarter Ended    |                  | Nine Months Ended |                  |
|---|------------------|------------------|-------------------|------------------|
|   | June 28,<br>2008 | June 30,<br>2007 | June 28,<br>2008  | June 30,<br>2007 |
| Net income  | \$ 1,284         | \$ 1,178         | \$ 3,667          | \$ 3,810         |
| Market value adjustments for investments and hedges | 61               | (2)              | 33                | (18)             |
| Pension and postretirement medical adjustments      | 6                |                  | 18                |                  |
| Foreign currency translation and other              | (4)              | 4                | 47                | 44               |
| Comprehensive income                                | \$ 1,347         | \$ 1,180         | \$ 3,765          | \$ 3,836         |

Accumulated other comprehensive income (loss), net of tax, is as follows:

|   | June 28,<br>2008 | September 29,<br>2007 |
|---|------------------|-----------------------|
| Market value adjustments for investments and hedges     | \$ (9)           | \$ (42)               |
| Unrecognized pension and postretirement medical expense | (261)            | (279)                 |
| Foreign currency translation and other                  | 211              | 164                   |
| Accumulated other comprehensive loss                    | \$ (59)          | \$ (157)              |

**10. Equity-Based Compensation**

The impact of stock options and restricted stock units (RSUs) on income from continuing operations is as follows:

|   | Quarter Ended    |                  | Nine Months Ended |                  |
|---|------------------|------------------|-------------------|------------------|
|   | June 28,<br>2008 | June 30,<br>2007 | June 28,<br>2008  | June 30,<br>2007 |
| Stock option compensation expense                                 | \$ 42            | \$ 44            | \$ 156            | \$ 157           |
| RSU compensation expense  | 47               | 42               | 134               | 114              |
|   | 89               | 86               | 290               | 271              |
| Equity-based compensation plan modification charge <sup>(1)</sup> |                  |                  |                   | 48               |
| Total equity-based compensation expense                           | \$ 89            | \$ 86            | \$ 290            | \$ 319           |

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<sup>(1)</sup> In anticipation of the ABC Radio transaction, the Company needed to determine whether employee equity-based compensation awards would be adjusted for the dilutive impact of the transaction on the employee awards. Certain of the Company's plans required such adjustments to be made on an equitable basis. All other plans permitted such adjustments to be made. In order to treat all employees consistently with respect to the ABC Radio transaction (and other similar future transactions), the Company amended the plans such that all plans require equitable adjustments for such transactions. In connection with these amendments, the Company was required to record a non-cash charge of \$48 million in the first quarter of fiscal 2007 representing the estimated fair value of this modification with respect to vested equity-based employee compensation awards.

Unrecognized compensation cost related to unvested stock options and RSUs totaled approximately \$468 million and \$521 million, respectively, as of June 28, 2008.

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For the nine months ended June 28, 2008, the Company made stock compensation grants, which included its regular annual grant, consisting of 29 million stock options and 10 million RSUs, of which two million RSUs included market and/or performance conditions.

The weighted average grant date fair values of options issued during the nine months ended June 28, 2008, and June 30, 2007, were \$8.19 and \$9.26, respectively.

## 11. Commitments and Contingencies

The Company has exposure to various legal and other contingencies arising from the conduct of its businesses.

### Legal Matters

*Milne and Disney Enterprises, Inc. v. Stephen Slesinger, Inc.* On November 5, 2002, Clare Milne, the granddaughter of A. A. Milne, author of the Winnie the Pooh books, and the Company's subsidiary Disney Enterprises, Inc. (DEI) filed a complaint against Stephen Slesinger, Inc. (SSI) in the United States District Court for the Central District of California. On November 4, 2002, Ms. Milne served notices to SSI and DEI terminating A. A. Milne's prior grant of rights to Winnie the Pooh, effective November 5, 2004, and granted all of those rights to DEI. In their lawsuit, Ms. Milne and DEI sought a declaratory judgment, under United States copyright law, that Ms. Milne's termination notices were valid; that SSI's rights to Winnie the Pooh in the United States terminated effective November 5, 2004; that upon termination of SSI's rights in the United States, the 1983 licensing agreement that is the subject of the *Stephen Slesinger, Inc. v. The Walt Disney Company* lawsuit (the state court action) terminated by operation of law; and that, as of November 5, 2004, SSI was entitled to no further royalties for uses of Winnie the Pooh. SSI filed (a) an answer denying the material allegations of the complaint and (b) counterclaims seeking a declaration that (i) Ms. Milne's grant of rights to DEI is void and unenforceable and (ii) DEI remains obligated to pay SSI royalties under the 1983 licensing agreement. The District Court ruled that Milne's termination notices were invalid. The Court of Appeals for the Ninth Circuit affirmed, and on June 26, 2006, the United States Supreme Court denied Milne's petition for a writ of certiorari. On August 1, 2003, SSI filed an amended answer and counterclaims and a third-party complaint against Harriet Hunt (heir to E. H. Shepard, illustrator of the original Winnie the Pooh stories), who had served a notice of termination and a grant of rights similar to Ms. Milne's, and asserted counterclaims against the Company allegedly arising from the Milne and Hunt terminations and the grant of rights to DEI for (a) unlawful and unfair business practices; and (b) breach of the 1983 licensing agreement.

On October 19, 2006, the parties stipulated to SSI's filing its Fourth Amended Answer and Counterclaims (Fourth Amended Answer) seeking (a) to invalidate the Hunt termination notice, (b) to terminate the Company's rights vis-à-vis SSI, and (c) damages in excess of two billion dollars, among other relief. That stipulation also provided that Hunt and the Company need not respond to the Fourth Amended Answer until the conclusion of two events: the state court appeal in *Stephen Slesinger, Inc. v. The Walt Disney Company*, and the trial in the District Court on the validity of the Hunt termination notice. SSI then sought to withdraw both the Fourth Amended Answer and its stipulation, but on November 3, 2006, the District Court denied that request. SSI's motion for summary judgment on the validity of Hunt's 2002 attempt to recapture E. H. Shepard's rights was granted on February 15, 2007, and thereafter, on March 27, 2007, the District Court dismissed as moot all claims against Hunt and three of SSI's counterclaims against the Company related to the Company's agreements with Milne and Hunt concerning the termination and disposition of their rights. On January 3, 2008, the California Supreme Court denied SSI's petition for review in the state court action, whereupon on April 21, 2008, the Company moved for summary judgment on all of SSI's claims in the District Court action. On June 3,

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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2008, the District Court ordered further briefing on the issue of whether SSI's misconduct in the state court action warrants dismissal of all of its claims in the District Court.

Relatedly, on January 23, 2007, August 22, 2007, February 8, 2008, and April 18, 2008, SSI initiated proceedings in the United States Patent and Trademark Office (PTO) seeking, among other things, cancellation of certain Winnie the Pooh trademark registrations. On February 22, 2007, the PTO suspended the first proceeding on the grounds that the relief sought is effectively duplicative of that sought in the Fourth Amended Answer, on March 5, 2008, it suspended the second proceeding, and on March 10, 2008, and May 18, 2008, respectively, DEI moved to suspend the third and fourth proceeding, which motions are pending. The PTO has granted SSI extensions until August 9, 2008, and August 27, 2008, to file additional proceedings seeking cancellation of certain other Winnie the Pooh trademark registrations. Also, on February 7, 2008, SSI initiated an action before the Canadian Intellectual Property Office seeking cancellation of certain Winnie the Pooh trademark registrations.

The Company, together with, in some instances, certain of its directors and officers, is a defendant or co-defendant in various other legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not expect the Company to suffer any material liability by reason of such actions.

*Contractual Guarantees*

The Company has guaranteed certain special assessment and water/sewer revenue bonds issued by the Celebration Community Development District and the Enterprise Community Development District (collectively, the Districts). The bond proceeds were used by the Districts to finance the construction of infrastructure improvements and the water and sewer system in the mixed-use, residential community of Celebration, Florida. As of September 29, 2007, the remaining debt service obligation guaranteed by the Company was \$66 million, of which \$43 million was principal. During the second quarter of fiscal 2008, the Company was released as a guarantor of certain bonds issued by the Enterprise Community Development District such that the remaining debt service obligations for which the Company has provided guarantees are not material to the Company.

The Company has also guaranteed certain bond issuances by the Anaheim Public Authority that were used by the City of Anaheim to finance construction of infrastructure and a public parking facility adjacent to the Disneyland Resort. Revenues from sales, occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds. In the event of a debt service shortfall, the Company is responsible for satisfying the shortfall. As of June 28, 2008, the remaining debt service obligation guaranteed by the Company was \$383 million, of which \$101 million was principal. To the extent that subsequent tax revenues exceed the debt service payments in subsequent periods, the Company would be reimbursed for any shortfalls it funded.

To date, tax revenues have exceeded the debt service payments for both the Celebration and Anaheim bonds.

ESPN STAR Sports, a joint-venture in which ESPN owns a 50% equity interest, has an agreement for global programming rights to International Cricket Council events from 2007 through 2015. Under the terms of the agreement, ESPN and the other joint-venture partner have jointly guaranteed the programming rights obligation of \$1.0 billion over the remaining term of the agreement.

**THE WALT DISNEY COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited; tabular dollars in millions, except for per share data)

**12. Income Taxes**

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) at the beginning of fiscal year 2008. See Note 13 for the impact of adopting FIN 48.

As of the beginning of fiscal 2008, the Company had unrecognized tax benefits that is, the aggregate tax effect of differences between tax return positions and the benefits recognized in our financial statements totaling \$630 million which does not include accrued interest on tax exposures and is not reduced for offsetting benefits in other tax jurisdictions. Of this amount, \$352 million, if recognized, would reduce our income tax expense and effective tax rate after giving effect to offsetting benefits from other tax jurisdictions. During the nine months ended June 28, 2008, the Company recorded additional unrecognized tax benefits, net of reductions for audit resolutions, totaling \$82 million.

As of the beginning of fiscal 2008, the Company had accrued \$137 million in interest related to unrecognized tax benefits, and additional interest of \$35 million was accrued during the nine months ended June 28, 2008. In the current quarter, the Company reached resolution with respect to the Internal Revenue Service's examination of the Company's federal income tax returns for fiscal years 2001 through 2004 (IRS 01-04 Exam). The Company recorded a \$37 million reduction in previously accrued interest primarily due to the resolution of the IRS 01-04 Exam. The Company's policy is to report interest and penalties as a component of income tax expense.

We also reduced our unrecognized tax benefits by \$121 million, of which \$39 million was recorded as a reduction in income tax expense due to the resolution of the IRS 01-04 Exam. The Company is also subject to state and local and foreign tax audits. In the current quarter, all remaining issues relating to the California examination of fiscal years 1997 through 1999 were resolved. In the prior quarter, the New York Court of Appeals rendered a decision regarding the remaining tax matters from fiscal years 1990 through 1995. In light of the resolution of these matters, the Company is no longer subject to examination in any of its major state or foreign tax jurisdictions for years prior to 2000.

In the next twelve months, it is reasonably possible that our unrecognized tax benefits could change due to the potential resolution of a California examination of fiscal years 2004 and 2005 and as a result of payments being made on tax matters previously resolved, including the matters discussed above. These resolutions and payments would reduce our unrecognized tax benefits by \$103 million. It is also reasonably possible that this reduction could be partially offset by new matters arising during the same period.

**13. New Accounting Pronouncements**

*SFAS 161*

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 amends and expands the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why the Company uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect the Company's financial position, financial performance and cash flows. SFAS 161 is effective for the Company in the second quarter of fiscal year 2009, although early adoption is permitted.

*EITF 07-1*

In December 2007, the FASB issued Emerging Issues Task Force Issue No. 07-1, *Accounting for Collaborative Arrangements* (EITF 07-1). EITF 07-1 defines collaborative arrangements and establishes

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THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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accounting and reporting requirements for transactions between participants in the arrangement and third parties. A collaborative arrangement is a contractual arrangement that involves a joint operating activity, for example an agreement to co-produce and distribute a motion picture with another studio. EITF 07-1 is effective for the Company's 2010 fiscal year. The Company is currently assessing the potential effect of EITF 07-1 on its financial statements.

*SFAS 141R*

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, *Business Combinations* (SFAS 141R), which replaces SFAS 141, *Business Combinations*. SFAS 141R establishes principles and requirements for determining how an enterprise recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including noncontrolling interests, contingent consideration, and certain acquired contingencies. SFAS 141R also requires acquisition-related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination. SFAS 141R will be applicable prospectively to business combinations beginning in the Company's 2010 fiscal year.

*SFAS 160*

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary. SFAS 160 also requires that a retained noncontrolling interest upon the deconsolidation of a subsidiary be initially measured at its fair value. SFAS 160 is effective for the Company's 2010 fiscal year. Upon adoption of SFAS 160, the Company will be required to report its noncontrolling interests as a separate component of shareholders' equity. The Company will also be required to present net income allocable to the noncontrolling interests and net income attributable to the shareholders of the Company separately in its consolidated statements of income. Currently, noncontrolling interests (minority interests) are reported as a liability in the Company's statement of financial position and the related income attributable to minority interests is reflected as an expense in arriving at net income. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 are to be applied prospectively.

*SFAS 159*

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 gives the Company the irrevocable option to carry most financial assets and liabilities at fair value, with changes in fair value recognized in earnings. SFAS 159 is effective for the Company's 2009 fiscal year. The Company currently expects that the adoption of SFAS 159 will not have a material impact on its financial statements.

*SFAS 158*

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). This statement requires recognition of the overfunded or underfunded status of defined benefit pension and other postretirement plans as an asset or liability in the statement of financial position and changes in that funded status to be recognized in comprehensive income in the year in which the changes occur. SFAS 158 also requires measurement of the funded status of a plan as of the end of the fiscal year. The Company adopted the recognition provision of SFAS 158 in fiscal year 2007. The Company has not yet adopted the measurement date provisions which are effective at the beginning of the first quarter of fiscal year 2009.



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**THE WALT DISNEY COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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*SFAS 157*

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS 157 is effective for the Company's 2009 fiscal year. In February 2008, the FASB issued FSP SFAS No. 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), which delays the effective date for SFAS 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until the Company's 2010 fiscal year. The Company is currently assessing the potential effect of SFAS 157 on its financial statements.

*FIN 48*

In July 2006, the FASB issued FIN 48. FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in FIN 48 as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company adopted FIN 48 at the beginning of fiscal year 2008. Applying FIN 48 to all existing tax positions upon adoption resulted in reductions of \$148 million and \$15 million to opening retained earnings and minority interests, respectively.

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

**Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations****ORGANIZATION OF INFORMATION**

Management's Discussion and Analysis provides a narrative of the Company's financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:

Overview

Seasonality

Business Segment Results

Quarter Results

Nine-Month Results

Other Financial Information

Financial Condition

Commitments and Contingencies

Other Matters

Market Risk

**OVERVIEW**

Our summary consolidated results are presented below:

| (in millions, except per share data)   | Quarter Ended    |                  |        | Nine Months Ended |                  |        |
|--|------------------|------------------|--------|-------------------|------------------|--------|
|  | June 28,<br>2008 | June 30,<br>2007 | Change | June 28,<br>2008  | June 30,<br>2007 | Change |
| Revenues   | \$ 9,236         | \$ 9,045         | 2 %    | \$ 28,398         | \$ 26,580        | 7 %    |
| Costs and expenses   | (7,215)          | (7,022)          | 3 %    | (22,446)          | (21,370)         | 5 %    |
| Other income   | 32               |                  | nm     | 32                | 1,052            | (97) % |
| Net interest expense   | (141)            | (143)            | (1) %  | (411)             | (430)            | (4) %  |
| Equity in the income of investees  | 175              | 147              | 19 %   | 442               | 389              | 14 %   |
| Income from continuing operations<br>before income taxes and minority<br>interests | 2,087            | 2,027            | 3 %    | 6,015             | 6,221            | (3) %  |
| Income taxes   | (712)            | (762)            | (7) %  | (2,183)           | (2,353)          | (7) %  |
| Minority interests   | (91)             | (69)             | 32 %   | (165)             | (77)             | nm     |
| Income from continuing operations  | 1,284            | 1,196            | 7 %    | 3,667             | 3,791            | (3) %  |
| Income (loss) from discontinued operations, net of tax                             |                  | (18)             | nm     |                   | 19               | nm     |
| Net income   | \$ 1,284         | \$ 1,178         | 9 %    | \$ 3,667          | \$ 3,810         | (4) %  |

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|  |    |             |    |      |    |   |    |             |    |      |   |   |
|--|----|-------------|----|------|----|---|----|-------------|----|------|---|---|
| Diluted earnings per share,<br>continuing operations | \$ | <b>0.66</b> | \$ | 0.58 | 14 | % | \$ | <b>1.87</b> | \$ | 1.80 | 4 | % |
| Diluted earnings per share                           | \$ | <b>0.66</b> | \$ | 0.57 | 16 | % | \$ | <b>1.87</b> | \$ | 1.81 | 3 | % |

*Quarter Results*

Diluted earnings per share increased 16% for the quarter due to a decrease in weighted average shares outstanding and growth in operating income at the Media Networks and Parks and Resorts segments, partially offset by a decline at the Studio Entertainment segment. Diluted earnings per share for the quarter included gains related to the acquisition of the Disney Stores in North America and the sale of movies.com and the favorable resolution of certain prior-year income tax matters. Collectively, these items had a net favorable impact of \$0.04 per share. Earnings growth at Media Networks was primarily due to higher affiliate and advertising revenues at our cable businesses. At Parks and Resorts, the adverse impact on attendance from the absence of the Easter holidays in the current-year quarter was more than offset by favorable guest spending and higher

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

corporate alliance income. The decline at Studio Entertainment reflected the strong theatrical performance of *Pirates of the Caribbean: At World's End* in the prior-year quarter.

*Nine-Month Results*

Results for the current-year nine months included the net favorable impact of the items discussed above, which totaled \$0.04 per share. Results for the prior-year nine months included the net favorable impact of the items summarized below (amounts in millions, except per share data):

| Favorable/(unfavorable) impact                                    | <b>Nine Months Ended June 30, 2007</b> |               |                |
|---|--|---------------|----------------|
|   | Pre-Tax                                | Net<br>Income | Diluted<br>EPS |
| Gain on sale of equity investment in E!                           | \$ 780                                 | \$ 487        | \$ 0.23        |
| Gain on sale of equity investment in Us Weekly                    | 272                                    | 170           | 0.08           |
| Income from the discontinued operations of the ABC Radio business | 51                                     | 19            | 0.01           |
| Equity-based compensation plan modification charge                | (48)                                   | (30)          | (0.01)         |
| <b>Total</b>  | <b>\$ 1,055</b>                        | <b>\$ 646</b> | <b>\$ 0.31</b> |

Growth for the nine months was driven by higher operating income at the Media Networks, Parks and Resorts and Consumer Products segments and a decrease in weighted average shares outstanding. Earnings growth at the operating segments was primarily due to increases in affiliate and advertising revenues at our cable businesses, higher attendance and guest spending at Walt Disney World Resort and Disneyland Resort Paris, and strong sales of licensed products at Consumer Products.

**SEASONALITY**

The Company's businesses are subject to the effects of seasonality. Consequently, the operating results for the quarter and nine months ended June 28, 2008 for each business segment, and for the Company as a whole, are not necessarily indicative of results to be expected for the full year.

Media Networks revenues are subject to seasonal advertising patterns and changes in viewership levels. In general, advertising revenues are somewhat higher during the fall and somewhat lower during the summer months. Affiliate revenues are typically collected ratably throughout the year. Certain affiliate revenues at ESPN are deferred until annual programming commitments are met, and these commitments are typically satisfied during the second half of the Company's fiscal year which generally results in higher revenue recognition during that period.

Parks and Resorts revenues fluctuate with changes in theme park attendance and resort occupancy resulting from the seasonal nature of vacation travel and leisure activities. Peak attendance and resort occupancy generally occur during the summer months when school vacations occur and during early-winter and spring-holiday periods.

Studio Entertainment revenues fluctuate due to the timing and performance of releases in the theatrical, home entertainment, and television markets. Release dates are determined by several factors, including competition and the timing of vacation and holiday periods.

Consumer Products revenues are influenced by seasonal consumer purchasing behavior and by the timing and performance of animated theatrical releases and cable programming broadcasts.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**BUSINESS SEGMENT RESULTS**

The Company evaluates the performance of its operating segments based on segment operating income, which is shown below along with segment revenues:

| (in millions)                    | Quarter Ended    |                  |        |   | Nine Months Ended |                  |        |   |
|----------------------------------|------------------|------------------|--------|---|-------------------|------------------|--------|---|
|                                  | June 28,<br>2008 | June 30,<br>2007 | Change |   | June 28,<br>2008  | June 30,<br>2007 | Change |   |
| <i>Revenues:</i>                 |                  |                  |        |   |                   |                  |        |   |
| Media Networks                   | \$ 4,123         | \$ 3,829         | 8      | % | \$ 11,904         | \$ 11,071        | 8      | % |
| Parks and Resorts                | 3,038            | 2,904            | 5      | % | 8,535             | 7,839            | 9      | % |
| Studio Entertainment             | 1,433            | 1,775            | (19)   | % | 5,896             | 5,958            | (1)    | % |
| Consumer Products                | 642              | 537              | 20     | % | 2,063             | 1,712            | 21     | % |
|                                  | \$ 9,236         | \$ 9,045         | 2      | % | \$ 28,398         | \$ 26,580        | 7      | % |
| <i>Segment operating income:</i> |                  |                  |        |   |                   |                  |        |   |
| Media Networks                   | \$ 1,472         | \$ 1,356         | 9      | % | \$ 3,697          | \$ 3,216         | 15     | % |
| Parks and Resorts                | 641              | 621              | 3      | % | 1,485             | 1,280            | 16     | % |
| Studio Entertainment             | 97               | 190              | (49)   | % | 988               | 1,027            | (4)    | % |
| Consumer Products                | 113              | 118              | (4)    | % | 542               | 476              | 14     | % |
|                                  | \$ 2,323         | \$ 2,285         | 2      | % | \$ 6,712          | \$ 5,999         | 12     | % |

The following table reconciles segment operating income to income from continuing operations before income taxes and minority interests:

| (in millions)  | Quarter Ended    |                  |        |    | Nine Months Ended |                  |        |    |
|--|------------------|------------------|--------|----|-------------------|------------------|--------|----|
|  | June 28,<br>2008 | June 30,<br>2007 | Change |    | June 28,<br>2008  | June 30,<br>2007 | Change |    |
| Segment operating income   | \$ 2,323         | \$ 2,285         | 2      | %  | \$ 6,712          | \$ 5,999         | 12     | %  |
| Corporate and unallocated shared expenses                                    | (127)            | (115)            | 10     | %  | (318)             | (352)            | (10)   | %  |
| Equity-based compensation plan modification charge                           |                  |                  |        |    |                   | (48)             |        | nm |
| Other income   | 32               |                  |        | nm | 32                | 1,052            | (97)   | %  |
| Net interest expense   | (141)            | (143)            | (1)    | %  | (411)             | (430)            | (4)    | %  |
| Income from continuing operations before income taxes and minority interests | \$ 2,087         | \$ 2,027         | 3      | %  | \$ 6,015          | \$ 6,221         | (3)    | %  |

Depreciation expense from continuing operations is as follows:

| (in millions) | Quarter Ended    |                  |        |  | Nine Months Ended |                  |        |  |
|---------------|------------------|------------------|--------|--|-------------------|------------------|--------|--|
|               | June 28,<br>2008 | June 30,<br>2007 | Change |  | June 28,<br>2008  | June 30,<br>2007 | Change |  |
|               |                  |                  |        |  |                   |                  |        |  |

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|                            |    |     |    |     |     |    |     |       |     |       |   |   |
|----------------------------|----|-----|----|-----|-----|----|-----|-------|-----|-------|---|---|
| Media Networks             |    |     |    |     |     |    |     |       |     |       |   |   |
| Cable Networks             | \$ | 22  | \$ | 22  | %   | \$ | 66  | \$    | 66  | %     |   |   |
| Broadcasting               |    | 27  |    | 26  | 4   | %  | 77  |       | 70  | 10    | % |   |
| Total Media Networks       |    | 49  |    | 48  | 2   | %  | 143 |       | 136 | 5     | % |   |
| Parks and Resorts          |    |     |    |     |     |    |     |       |     |       |   |   |
| Domestic                   |    | 203 |    | 198 | 3   | %  | 603 |       | 594 | 2     | % |   |
| International              |    | 89  |    | 79  | 13  | %  | 256 |       | 226 | 13    | % |   |
| Total Parks and Resorts    |    | 292 |    | 277 | 5   | %  | 859 |       | 820 | 5     | % |   |
| Studio Entertainment       |    |     |    |     |     |    |     |       |     |       |   |   |
| Consumer Products          |    | 10  |    | 4   | nm  |    | 28  |       | 20  | 40    | % |   |
| Corporate                  |    | 5   |    | 4   | 25  | %  | 15  |       | 13  | 15    | % |   |
|                            |    | 31  |    | 34  | (9) | %  | 91  |       | 100 | (9)   | % |   |
| Total depreciation expense | \$ | 387 | \$ | 367 | 5   | %  | \$  | 1,136 | \$  | 1,089 | 4 | % |

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Media Networks**

The following table provides supplemental revenue and segment operating income detail for the Media Networks segment:

| (in millions)                    | Quarter Ended    |                  |        | Nine Months Ended |                  |        |
|----------------------------------|------------------|------------------|--------|-------------------|------------------|--------|
|                                  | June 28,<br>2008 | June 30,<br>2007 | Change | June 28,<br>2008  | June 30,<br>2007 | Change |
| <i>Revenues:</i>                 |                  |                  |        |                   |                  |        |
| Cable Networks                   | \$ 2,592         | \$ 2,305         | 12 %   | \$ 7,114          | \$ 6,372         | 12 %   |
| Broadcasting                     | 1,531            | 1,524            | %      | 4,790             | 4,699            | 2 %    |
|                                  | \$ 4,123         | \$ 3,829         | 8 %    | \$ 11,904         | \$ 11,071        | 8 %    |
| <i>Segment operating income:</i> |                  |                  |        |                   |                  |        |
| Cable Networks                   | \$ 1,212         | \$ 1,063         | 14 %   | \$ 2,892          | \$ 2,485         | 16 %   |
| Broadcasting                     | 260              | 293              | (11) % | 805               | 731              | 10 %   |
|                                  | \$ 1,472         | \$ 1,356         | 9 %    | \$ 3,697          | \$ 3,216         | 15 %   |

*Revenues*

Media Networks revenues increased 8%, or \$294 million, to \$4.1 billion, driven by a 12% increase, or \$287 million, at the Cable Networks.

Increased Cable Networks revenues were due to growth of \$202 million from cable and satellite operators, \$75 million in advertising revenues, and \$10 million in other revenues. Revenues from cable and satellite operators are generally derived from fees charged on a per subscriber basis, and the increase in the current quarter was due to contractual rate increases, subscriber growth and higher recognition of previously deferred revenues (discussed below) at ESPN and, to a lesser extent, subscriber growth at the international Disney Channels. Higher advertising revenue reflected increases at ESPN driven by higher ratings and rates.

Certain of the Company's existing contracts with cable and satellite operators include annual programming commitments. In these cases, revenue subject to the commitment is deferred until the annual commitments are satisfied, which generally results in revenue shifting from the first half of the year to the second half. During the quarter, the Company recognized previously deferred revenues of \$78 million related to these commitments compared to \$49 million in the prior-year quarter.

Broadcasting revenues increased \$7 million reflecting higher internet revenues, partially offset by lower advertising revenues at the owned television stations. The increase in internet revenues included Club Penguin which was acquired in the fourth quarter of the prior year. Revenues at the ABC Television Network were comparable to the prior year as the impact of lower ratings was offset by higher advertising rates and digital media revenues.

*Costs and Expenses*

Costs and expenses, which consist primarily of programming rights costs, production costs, participation costs, distribution and marketing expenses, labor costs, and general and administrative costs, increased 8%, or \$211 million, reflecting a 12% increase, or \$171 million, at the Cable Networks, and a 3% increase, or \$40 million, at Broadcasting. The increase at Cable Networks was primarily due to increased programming and production, administrative and marketing costs. Higher programming and production costs reflected increased sports rights costs for various sporting events and higher production costs including costs for additional NBA games. The increase at Broadcasting was primarily due to higher production cost amortization related to programs in syndication and higher internet costs, partially offset by lower costs for pilot productions. Pilot costs decreased due to a delay in pick-up decisions in the current year primarily due to the Writers Guild of America work stoppage.





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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

*Sports Programming Costs*

The Company has various contractual commitments for the purchase of television rights for sports and other programming, including the National Football League, NASCAR, Major League Baseball, various college football and basketball conferences and football bowl games and the National Basketball Association. The costs of these contracts have increased significantly in recent years. We enter into these contractual commitments with the expectation that, over the life of the contracts, revenue from advertising during the programming and affiliate fees will exceed the costs of the programming. While contract costs may initially exceed incremental revenues and negatively impact operating income, it is our expectation that the combined value to our networks from all of these contracts will result in long-term benefits. The actual impact of these contracts on the Company's results over the term of the contracts is dependent upon a number of factors, including the strength of advertising markets, effectiveness of marketing efforts, and the size of viewer audiences.

*Segment Operating Income*

Segment operating income increased 9%, or \$116 million, to \$1.5 billion for the quarter due to an increase of 14%, or \$149 million, at the Cable Networks and a decrease of 11%, or \$33 million, at Broadcasting. The increase at the Cable Networks was primarily due to growth at ESPN, higher equity income and, to a lesser extent, increases at the international Disney Channels. The decrease at Broadcasting was primarily due to higher production cost amortization related to programs in syndication and lower advertising sales at the owned television stations, partially offset by lower costs for pilot productions. The increase in equity income was primarily driven by the recognition of previously deferred revenues in connection with finalizing certain affiliate contracts at ESPN's STAR Sports joint venture in Asia and higher advertising revenues at Lifetime.

**Parks and Resorts**

*Revenues*

Parks and Resorts revenues increased 5%, or \$134 million, to \$3.0 billion due to increases of \$45 million at our domestic resorts and \$89 million at our international resorts.

*Domestic Parks and Resorts*

Revenues at our domestic parks and resorts reflected decreased attendance due to the timing of the Easter holiday season, which fell in the third quarter of fiscal 2007 and in the second quarter of fiscal 2008. The Easter impact was more than offset by higher corporate alliance income and increased guest spending at Walt Disney World Resort driven by higher average ticket prices.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

The following table presents attendance, per capita theme park guest spending and hotel statistics for our domestic properties:

|  | East Coast<br>Quarter Ended |                  | West Coast<br>Quarter Ended |                  | Total Domestic<br>Quarter Ended |                  |
|--|-----------------------------|------------------|-----------------------------|------------------|---------------------------------|------------------|
|  | June 28,<br>2008            | June 30,<br>2007 | June 28,<br>2008            | June 30,<br>2007 | June 28,<br>2008                | June 30,<br>2007 |
| <b>Parks</b>                               |                             |                  |                             |                  |                                 |                  |
| (Increase/decrease)                        |                             |                  |                             |                  |                                 |                  |
| Attendance                                 | (2)%                        | 4%               | %                           | 1%               | (1)%                            | 3%               |
| Per Capita Guest<br>Spending               | 3%                          | 2%               | (2)%                        | 3%               | 1%                              | 2%               |
| <b>Hotels <sup>(1)</sup></b>               |                             |                  |                             |                  |                                 |                  |
| Occupancy                                  | 92%                         | 93%              | 91%                         | 96%              | 92%                             | 93%              |
| Available Room<br>Nights<br>(in thousands) | 2,136                       | 2,154            | 200                         | 202              | 2,336                           | 2,356            |
| Per Room Guest<br>Spending                 | \$ 235                      | \$ 235           | \$ 339                      | \$ 322           | \$ 244                          | \$ 243           |

<sup>(1)</sup> Per room guest spending consists of the average daily hotel room rate as well as guest spending on food, beverage and merchandise at the hotels. Hotel statistics include rentals of Disney Vacation Club units.

#### International Parks and Resorts

At our international parks and resorts, revenue growth was primarily due to the favorable impact of foreign currency translation as a result of the weakening of the U.S. dollar against the Euro at Disneyland Resort Paris. In addition, Disneyland Resort Paris benefited from higher guest spending and theme park attendance. Increased guest spending was primarily due to higher average ticket prices.

#### Costs and Expenses

Costs and expenses, which consist principally of labor, depreciation, costs of merchandise, food and beverage sold, marketing and sales expense, repairs and maintenance and entertainment, increased 5%, or \$114 million. The increase in costs and expenses was primarily due to the unfavorable impact of foreign currency translation as a result of the weakening of the U.S. dollar against the Euro at Disneyland Resort Paris. Additionally, increased costs were driven by labor and other cost inflation at our domestic parks and resorts and at Disneyland Resort Paris, new guest offerings at Walt Disney World Resort and higher marketing at Walt Disney World Resort and Disneyland Resort Paris, partially offset by a favorable claim settlement at Disneyland Resort Paris.

#### Segment Operating Income

Segment operating income increased 3%, or \$20 million, to \$641 million reflecting increases at the Walt Disney World Resort and Disneyland Resort Paris, partially offset by a decrease at Disneyland Resort.

#### Studio Entertainment

##### Revenues

Revenues decreased 19%, or \$342 million, to \$1.4 billion primarily due to a decrease of \$373 million in worldwide theatrical distribution reflecting the strong performance of *Pirates of the Caribbean: At World's End* in the prior-year quarter compared to *The Chronicles of Narnia: Prince Caspian* in the current quarter.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

*Costs and Expenses*

Costs and expenses, which consist primarily of production cost amortization, distribution and marketing expenses, product costs and participation costs, decreased 16%, or \$249 million, primarily due to lower production cost amortization reflecting the theatrical performance of *The Chronicles of Narnia: Prince Caspian* in the current quarter compared to *Pirates of the Caribbean: At World's End* in the prior-year quarter, and lower theatrical distribution expenses reflecting fewer titles in release.

*Segment Operating Income*

Segment operating income decreased 49%, or \$93 million, to \$97 million primarily due to a decrease in worldwide theatrical distribution.

**Consumer Products**

*Revenues*

Revenues for the quarter increased 20%, or \$105 million, to \$642 million, primarily due to increases of \$87 million at the Disney Stores and \$43 million at Merchandise Licensing, partially offset by a decrease of \$32 million at Disney Interactive Studios.

The increase at the Disney Stores was due to the acquisition of the Disney Stores in North America (see discussion of the Disney Store acquisition below). The revenue growth at Merchandise Licensing was primarily due to higher earned royalties reflecting the strong performance of *Hannah Montana* and *High School Musical* merchandise.

The decrease at Disney Interactive Studios was primarily due to lower sales of self-published video games reflecting the strong performance of games based on *Pirates of the Caribbean: At World's End* in the prior-year quarter compared to *The Chronicles of Narnia: Prince Caspian* and *High School Musical* in the current quarter.

*Costs and Expenses*

Costs and expenses, which consist primarily of cost of sales, occupancy, salaries and benefits, marketing, and video game development, increased 26%, or \$110 million, to \$529 million, primarily due to the acquisition of the Disney Stores in North America and higher salaries and benefits at Merchandise Licensing. At Disney Interactive Studios, lower cost of sales due to lower sales of self-published video games and decreased marketing expense were largely offset by higher video game development costs.

*Operating Income*

Segment operating income decreased 4%, or \$5 million, to \$113 million primarily due to a decrease at Disney Interactive Studios due to lower sales of self-published video games and higher video game development costs largely offset by growth at Merchandise Licensing.

*Disney Store Acquisition*

On April 30, 2008, the Company acquired the Disney Stores in North America from subsidiaries of The Children's Place Retail Stores, Inc. (TCP) for cash consideration totaling approximately \$64 million and terminated TCP's long-term licensing arrangement relating to the Disney Stores. The Company acquired the inventory, leasehold improvements, and certain fixed assets of, and assumed the leases on, approximately 225 stores that it intends to operate. The Company conducted the wind-down and closure of an additional 89 stores but did not assume the leases on these stores.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

***Business Segment Results Nine Month Results***

**Media Networks**

*Revenues*

Media Networks revenues increased 8%, or \$833 million, to \$11.9 billion, consisting of a 12% increase, or \$742 million, at the Cable Networks and a 2% increase, or \$91 million, at Broadcasting.

Increased Cable Networks revenues were due to growth of \$485 million from cable and satellite operators, \$235 million in advertising revenues, and \$22 million in other revenues. Increased revenues from cable and satellite operators were due to contractual rate increases and subscriber growth at ESPN and, to a lesser extent, subscriber growth at the worldwide Disney Channel and contractual rate increases at ABC Family. These increases were partially offset by higher deferrals of revenue at ESPN due to annual programming commitments. For the nine months ended June 28, 2008, the Company deferred revenues of \$396 million related to these commitments compared to \$359 million in the prior-year period. The deferred revenues are expected to be recognized in the fourth quarter. Higher advertising revenue reflected improved rates and ratings and the addition of NASCAR programming at ESPN.

Broadcasting revenues increased \$91 million reflecting higher international sales of our productions, and higher internet and other revenues, partially offset by lower advertising revenues at the owned television stations. The increase in internet and other revenues was driven by Club Penguin, which was acquired in the fourth quarter of the prior year. The decrease at the owned television stations was primarily due to lower political advertising revenues.

*Costs and Expenses*

Costs and expenses at Media Networks increased 5%, or \$416 million, reflecting a 9% increase, or \$399 million, at the Cable Networks primarily due to increased programming and production, administrative and marketing costs. Higher programming and production costs reflected increased sports rights costs and higher production costs driven by the addition of NASCAR at ESPN, partially offset by the absence of Major League Baseball programming rights at ABC Family Channel. At Broadcasting, costs and expenses were flat as higher production cost amortization related to programs in syndication was largely offset by lower costs due to fewer hours of original scripted programming as well as decreased pilot costs. Pilot costs decreased due to a delay in pick-up decisions in the current year primarily as a result of the Writers Guild of America work stoppage.

*Segment Operating Income*

Segment operating income increased 15%, or \$481 million, to \$3.7 billion due to increases of \$407 million at the Cable Networks and \$74 million at Broadcasting. The increase at the Cable Networks was primarily due to growth at ESPN, and to a lesser extent, increases at the worldwide Disney Channel and ABC Family and higher equity income. The increase at Broadcasting was primarily due to higher international sales of our productions, partially offset by lower advertising revenue at the owned television stations. The increase in equity income was primarily driven by higher advertising revenue at Lifetime, higher affiliate revenue at ESPN's STAR Sports joint venture in Asia and higher advertising revenues at A&E.

**Parks and Resorts**

*Revenues*

Parks and Resorts revenues increased 9%, or \$696 million, to \$8.5 billion due to increases of \$359 million at our domestic resorts and \$337 million at our international resorts.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Domestic Parks and Resorts**

At our domestic parks and resorts, revenue growth was primarily due to increases at the Walt Disney World Resort and Disney Vacation Club. Revenue growth at the Walt Disney World Resort was driven by increased guest spending and theme park attendance. Increased guest spending was due to higher average ticket prices, increased food and beverage sales and higher average daily hotel room rates. At Disney Vacation Club, revenue growth was driven by vacation club ownership sales, including extensions of the term of ownership on certain existing vacation home properties and higher rentals of vacation club units.

The following table presents attendance, per capita theme park guest spending and hotel statistics for our domestic properties:

|                                      | East Coast<br>Nine Months Ended |                  | West Coast<br>Nine Months Ended |                  | Total Domestic<br>Nine Months Ended |                  |
|--------------------------------------|---------------------------------|------------------|---------------------------------|------------------|-------------------------------------|------------------|
|                                      | June 28,<br>2008                | June 30,<br>2007 | June 28,<br>2008                | June 30,<br>2007 | June 28,<br>2008                    | June 30,<br>2007 |
| <b>Parks</b>                         |                                 |                  |                                 |                  |                                     |                  |
| (Increase/decrease) Attendance       | 3%                              | 5%               | 1%                              | (1)%             | 2%                                  | 3%               |
| Per Capita Guest Spending            | 3%                              | 4%               | 2%                              | 2%               | 3%                                  | 3%               |
| <b>Hotels <sup>(1)</sup></b>         |                                 |                  |                                 |                  |                                     |                  |
| Occupancy                            | 90%                             | 89%              | 88%                             | 92%              | 90%                                 | 89%              |
| Available Room Nights (in thousands) | 6,422                           | 6,454            | 601                             | 607              | 7,023                               | 7,061            |
| Per Room Guest Spending              | \$ 231                          | \$ 226           | \$ 333                          | \$ 301           | \$ 239                              | \$ 232           |

<sup>(1)</sup> Per room guest spending consists of the average daily hotel room rate as well as guest spending on food, beverages and merchandise at the hotels. Hotel statistics include rentals of Disney Vacation Club units.

**International Parks and Resorts**

At our international parks and resorts, revenue growth was driven by an increase at Disneyland Resort Paris due to the favorable impact of foreign currency translation as a result of the weakening of the U.S. dollar against the Euro, and increased theme park attendance and guest spending. Increased guest spending was primarily due to higher average daily hotel room rates.

*Costs and Expenses*

Costs and expenses increased 8%, or \$491 million. The increase in costs and expenses was primarily due to increases at Disneyland Resort Paris and the Walt Disney World Resort. The increase at Disneyland Resort Paris was primarily due to the unfavorable impact of foreign currency translation as a result of the weakening of the U.S. dollar against the Euro and higher volume-related costs. The increase at the Walt Disney World Resort was due to labor and other cost inflation, volume-related costs and new guest offerings.

*Segment Operating Income*

Segment operating income increased 16%, or \$205 million, to \$1,485 million, primarily due to increases at the Walt Disney World Resort, Disneyland Resort Paris and Disney Vacation Club.

**Studio Entertainment**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

*Revenues*

Revenues were essentially flat at \$5.9 billion primarily due to decreases of \$84 million in domestic theatrical distribution and \$63 million in domestic home entertainment, largely offset by an increase of \$133 million in international home entertainment.

The decrease in domestic theatrical distribution revenues was primarily due to the performance of current-year period titles which included *National Treasure 2: Book of Secrets*, *The Chronicles of Narnia: Prince Caspian* and *Enchanted* compared to the prior year, which included *Pirates of the Caribbean: At World's End* and *Wild Hogs*. Lower revenues in domestic home entertainment were primarily due to a decline in unit sales reflecting the performance of *Pirates of the Caribbean: At World's End* and *Ratatouille* in the current-year period compared to *Pirates of the Caribbean: Dead Man's Chest* and *Cars* in the prior-year period.

Revenue growth in international home entertainment was primarily due to higher unit sales in the current year of new releases and television DVD box-sets which have higher average unit sales prices compared to the prior year that had more sales of catalogue titles.

*Costs and Expenses*

Costs and expenses were flat compared to the prior-year period primarily due to an increase in international home entertainment offset by a decrease in domestic theatrical distribution.

The increase in international home entertainment was primarily due to higher distribution expenses driven by extensive marketing campaigns to launch current period titles. The decrease in domestic theatrical distribution was primarily due to lower amortization driven by lower production costs for current period releases, lower distribution expenses driven by fewer releases that had extensive marketing campaigns in the current period, and lower film cost write-downs.

*Segment Operating Income*

Segment operating income decreased 4%, or \$39 million, to \$988 million primarily due to a decrease in domestic home entertainment, partially offset by an increase in domestic theatrical distribution.

**Consumer Products**

*Revenues*

Revenues increased 21%, or \$351 million, to \$2.1 billion, due to increases of \$123 million at the Disney Stores, \$118 million at Disney Interactive Studios and \$111 million at Merchandise Licensing.

The increase at the Disney Stores was driven by the acquisition of the Disney Stores in North America. The revenue growth at Disney Interactive Studios was primarily due to the strong performance of new self-published titles including *High School Musical*, *Turok*, and *Hannah Montana* in the current period compared to *Pirates of the Caribbean: At World's End*, *Spectrobes* and *Meet the Robinsons* in the prior-year period. The increase in Merchandise Licensing revenues was driven by higher earned royalties across multiple product categories, led by *Hannah Montana* and *High School Musical* merchandise, partially offset by lower recognition of minimum guarantee revenues.

*Costs and Expenses*

Costs and expenses increased 23%, or \$286 million, to \$1.5 billion primarily due to higher cost of sales, video game development costs and marketing costs at Disney Interactive Studios, higher operating costs at the Disney Stores due to the acquisition of the Disney Stores in North America and higher salaries and benefits and participation costs with respect to certain licensed properties at Merchandise Licensing.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

*Segment Operating Income*

Segment operating income increased 14%, or \$66 million, to \$542 million due to growth at Merchandise Licensing.

**OTHER FINANCIAL INFORMATION**

**Corporate and Unallocated Shared Expenses**

Corporate and unallocated shared expenses are as follows:

| (in millions)                             | Quarter Ended    |                  |        | Nine Months Ended |                  |        |
|---|------------------|------------------|--------|-------------------|------------------|--------|
|   | June 28,<br>2008 | June 30,<br>2007 | Change | June 28,<br>2008  | June 30,<br>2007 | Change |
| Corporate and unallocated shared expenses | \$ (127)         | \$ (115)         | 10 %   | \$ (318)          | \$ (352)         | (10) % |

Corporate and unallocated shared expenses increased for the quarter primarily due to timing of expenses in various corporate departments and higher investments in new business initiatives, partially offset by an increase in allocation of costs to the business segments.

For the nine months, corporate and unallocated shared expenses decreased driven by an increase in allocation of costs to the business segments.

**Net Interest Expense**

Net interest expense is as follows:

| (in millions)                  | Quarter Ended    |                  |        | Nine Months Ended |                  |        |
|--------------------------------|------------------|------------------|--------|-------------------|------------------|--------|
|                                | June 28,<br>2008 | June 30,<br>2007 | Change | June 28,<br>2008  | June 30,<br>2007 | Change |
| Interest expense               | \$ (161)         | \$ (183)         | (12) % | \$ (563)          | \$ (538)         | 5 %    |
| Interest and investment income | 20               | 40               | (50) % | 152               | 108              | 41 %   |
| Net interest expense           | \$ (141)         | \$ (143)         | (1) %  | \$ (411)          | \$ (430)         | (4) %  |

The decrease in interest expense for the quarter was primarily due to lower effective interest rates while the increase in interest expense for the nine months was primarily due to higher average debt balances.

The decrease in interest and investment income for the quarter reflected a \$13 million investment impairment. The increase in interest and investment income for the nine months was primarily due to a gain on the sale of an investment.



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Income Taxes**

The effective income tax rate is as follows:

|                           | Quarter Ended    |                  |           | Nine Months Ended |                  |           |
|---------------------------|------------------|------------------|-----------|-------------------|------------------|-----------|
|                           | June 28,<br>2008 | June 30,<br>2007 | Change    | June 28,<br>2008  | June 30,<br>2007 | Change    |
| Effective Income Tax Rate | 34.1%            | 37.6%            | (3.5) ppt | 36.3%             | 37.8%            | (1.5) ppt |

The decrease in the effective income tax rate for the quarter and nine months was primarily attributable to the favorable resolution of certain prior-year income tax matters, which reduced the effective income tax rate in the current-year quarter by approximately 3.0 percentage points, and to increased benefits from Internal Revenue Code (IRC) Section 199 related to qualified domestic production activities.

**Minority Interests**

Minority interest expense is as follows:

| (in millions)             | Quarter Ended    |                  |        | Nine Months Ended |                  |        |
|---------------------------|------------------|------------------|--------|-------------------|------------------|--------|
|                           | June 28,<br>2008 | June 30,<br>2007 | Change | June 28,<br>2008  | June 30,<br>2007 | Change |
| Minority interest expense | \$ (91)          | \$ (69)          | (22)   | \$ (165)          | \$ (77)          | (88)   |

Minority interest expense increased for the quarter due to the impacts of improved performance at Disneyland Resort Paris and at ESPN. For the nine months, minority interest expense increased due to the impacts of decreased losses at Disneyland Resort Paris and Hong Kong Disneyland and increased profits at ESPN. The minority interest is determined on income after royalties, financing costs and income taxes.

**FINANCIAL CONDITION**

The change in cash and cash equivalents is as follows:

| (in millions)   | Nine Months Ended |                  |            |
|---|-------------------|------------------|------------|
|   | June 28,<br>2008  | June 30,<br>2007 | Change     |
| Cash provided by continuing operations                  | \$ 4,201          | \$ 3,825         | \$ 376     |
| Cash (used) provided by continuing investing activities | (1,381)           | 405              | (1,786)    |
| Cash used by continuing financing activities            | (3,901)           | (3,281)          | (620)      |
| Cash flows from discontinued operations                 |                   | 104              | (104)      |
| (Decrease) / increase in cash and cash equivalents      | \$ (1,081)        | \$ 1,053         | \$ (2,134) |

**Operating Activities**

Cash provided by operations increased by \$376 million to \$4.2 billion primarily due to higher segment operating income, lower pension contributions and the timing of payments for other accounts payable and accrued expenses, partially offset by the timing of accounts receivable collections and higher investments in Disney Vacation Club properties.



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

*Film and Television Costs*

The Company's Studio Entertainment and Media Networks segments incur costs to acquire and produce television and feature film programming. Film and television production costs include all internally produced content such as live action and animated feature films, animated direct-to-video programming, television series, television specials, theatrical stage plays or other similar product. Programming costs include film or television product licensed for a specific period from third parties for airing on the Company's broadcast, cable networks and television stations. Programming assets are generally recorded when the programming becomes available to us with a corresponding increase in programming liabilities. Accordingly, we analyze our programming assets net of the related liability.

The Company's film and television production and programming activity for the nine months ended June 28, 2008 and June 30, 2007 are as follows:

| (in millions)   | <b>Nine Months Ended</b> |                  |
|---|--------------------------|------------------|
|   | <b>June 28,<br/>2008</b> | June 30,<br>2007 |
| <b>Beginning balances:</b>  |                          |                  |
| Production and programming assets                                     | \$ 5,682                 | \$ 5,650         |
| Programming liabilities   | (1,210)                  | (1,118)          |
|   | 4,472                    | 4,532            |
| <b>Spending:</b>  |                          |                  |
| Film and television production  | 2,318                    | 2,134            |
| Broadcast programming   | 2,845                    | 2,967            |
|   | 5,163                    | 5,101            |
| <b>Amortization:</b>  |                          |                  |
| Film and television production  | (2,305)                  | (2,522)          |
| Broadcast programming   | (2,791)                  | (2,770)          |
|   | (5,096)                  | (5,292)          |
| <b>Change in film and television production and programming costs</b> | <b>67</b>                | <b>(191)</b>     |
| Other non-cash activity   | 45                       | 62               |
| <b>Ending balances:</b>   |                          |                  |
| Production and programming assets                                     | 5,691                    | 5,479            |
| Programming liabilities   | (1,107)                  | (1,076)          |
|   | \$ 4,584                 | \$ 4,403         |

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**Investing Activities**

Cash used by continuing investing activities during the nine months ended June 28, 2008 of \$1.4 billion included \$949 million of investments in parks, resorts and other property and \$488 million of acquisitions. During the nine months ended June 28, 2008 and June 30, 2007, investments in parks, resorts and other properties were as follows:

| (in millions)                  | <b>Nine Months Ended</b> |                  |
|--------------------------------|--------------------------|------------------|
|                                | <b>June 28,<br/>2008</b> | June 30,<br>2007 |
| Media Networks                 | <b>\$ 168</b>            | \$ 123           |
| Parks and Resorts              |                          |                  |
| Domestic                       | <b>509</b>               | 536              |
| International                  | <b>99</b>                | 193              |
| <b>Total Parks and Resorts</b> | <b>608</b>               | 729              |
| Studio Entertainment           | <b>88</b>                | 49               |
| Consumer Products              | <b>28</b>                | 17               |
| Corporate                      | <b>57</b>                | 68               |
|                                | <b>\$ 949</b>            | \$ 986           |

Capital expenditures for the Parks and Resorts segment are principally for new rides and attractions and recurring capital improvements. Capital expenditures at Media Networks primarily reflect investments in facilities and equipment for expanding and upgrading broadcast centers, production facilities, and television station facilities.

**Financing Activities**

Cash used by continuing financing activities during the nine months ended June 28, 2008 of \$3.9 billion reflected share repurchases, a net reduction of borrowings and dividends, partially offset by proceeds from the exercise of stock options.

During the nine months ended June 28, 2008, the Company's borrowing activity was as follows:

| (in millions)                           | September 29,<br>2007       | Additions       | Payments          | Other<br>Activity | <b>June 28,<br/>2008</b> |
|---|-----------------------------|-----------------|-------------------|-------------------|--------------------------|
|   | Commercial paper borrowings |                 |                   |                   |                          |
| U.S. medium-term notes                  | 6,340                       | 750             | (85)              | (1)               | <b>7,004</b>             |
| Convertible senior notes <sup>(1)</sup> | 1,323                       |                 | (3)               | (1,320)           |                          |
| European medium-term notes              | 163                         | 93              |                   | (3)               | <b>253</b>               |
| Capital Cities/ABC debt                 | 181                         |                 |                   | (2)               | <b>179</b>               |
| Film financing                          | 355                         | 102             | (135)             |                   | <b>322</b>               |
| Other <sup>(2)</sup>                    | 541                         | 17              | (40)              | 169               | <b>687</b>               |
| Euro Disney borrowings <sup>(3)</sup>   | 2,476                       |                 | (62)              | 296               | <b>2,710</b>             |
| Hong Kong Disneyland borrowings         | 1,107                       | 38              |                   | 33                | <b>1,178</b>             |
| <b>Total</b>                            | <b>\$ 15,172</b>            | <b>\$ 1,000</b> | <b>\$ (1,772)</b> | <b>\$ (828)</b>   | <b>\$ 13,572</b>         |

- (1) In April 2008, the Company redeemed its convertible senior notes (the Notes). Pursuant to the redemption, substantially all of the Notes were converted into 45 million shares of the Company's common stock.
- (2) The other activity is primarily the purchase of land for a Disney Vacation Club resort in Hawaii and market value adjustments for debt with qualifying hedges.
- (3) The other activity is primarily the impact of foreign currency translation as a result of the weakening of the U.S. dollar against the Euro.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

The Company's bank facilities as of June 28, 2008 were as follows:

| (in millions)                 | Committed<br>Capacity | Capacity<br>Used | Unused<br>Capacity |
|-------------------------------|-----------------------|------------------|--------------------|
| Bank facilities expiring 2010 | \$ 2,250              | \$               | \$ 2,250           |
| Bank facilities expiring 2011 | 2,250                 | 221              | 2,029              |
| <b>Total</b>                  | <b>\$ 4,500</b>       | <b>\$ 221</b>    | <b>\$ 4,279</b>    |

These bank facilities allow for borrowings at LIBOR-based rates plus a spread, which depends on the Company's public debt rating and can range from 0.175% to 0.75%. As of June 28, 2008, the Company had not borrowed under these bank facilities. The Company also has the ability to issue up to \$800 million of letters of credit under the facility expiring in 2011, which if utilized, reduces available borrowings under this facility. As of June 28, 2008, \$221 million of letters of credit had been issued under this facility.

The Company may use commercial paper borrowings up to the amount of its unused bank facilities, in conjunction with term debt issuance and operating cash flow, to retire or refinance other borrowings before or as they come due.

The Company declared a \$664 million dividend (\$0.35 per share) on November 28, 2007 related to fiscal 2007, which was paid on January 11, 2008 to shareholders of record on December 7, 2007. The Company paid a \$637 million dividend (\$0.31 per share) during the second quarter of fiscal 2007 related to fiscal 2006.

During the nine months ended June 28, 2008, the Company repurchased 93 million shares of Disney common stock for \$3.0 billion. As of June 28, 2008, the Company had remaining authorization in place to repurchase approximately 230 million additional shares, of which the Company repurchased 21 million shares for \$645 million subsequent to quarter-end through July 25, 2008. The repurchase program does not have an expiration date.

We believe that the Company's financial condition is strong and that its cash balances, other liquid assets, operating cash flows, access to debt and equity capital markets and borrowing capacity, taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects. However, the Company's operating cash flow and access to the capital markets can be impacted by macroeconomic factors outside of its control. In addition to macroeconomic factors, the Company's borrowing costs can be impacted by short and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on the Company's performance as measured by certain credit metrics such as interest coverage and leverage ratios. As of June 28, 2008, Moody's Investors Service's long and short-term debt ratings for the Company were A2 and P-1, respectively, with stable outlook; and Standard & Poor's long and short-term debt ratings for the Company were A and A-1, respectively, with stable outlook. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on June 28, 2008, by a significant margin. The Company's bank facilities also specifically exclude certain entities, such as Euro Disney and Hong Kong Disneyland, from any representations, covenants or events of default.

Prior to November 14, 2007, Hong Kong Disneyland's commercial term loan and revolving credit facility agreement contained semi-annual financial performance covenants and had a final maturity of October 26, 2015. In anticipation of the prospect that the covenants would not be met as of the September 29, 2007 measurement date, effective November 14, 2007, the agreement was amended to remove the financial performance covenants, shorten the maturity of the loan to September 30, 2008 and decrease the amount of the revolving credit facility from HK\$1 billion (approximately \$129 million) to

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

HK\$800 million (approximately \$103 million). The commercial term loan had a balance of approximately HK\$2.3 billion (\$291 million) including accrued interest, and the revolving credit facility had a balance of approximately HK\$300 million (\$38 million), as of June 28, 2008.

To support the project's near-term operating needs, the Company has agreed to waive management fees for fiscal 2008 and fiscal 2009 and defer royalties for those years, with payment of the deferred royalties dependent upon the future operating performance of Hong Kong Disneyland. In addition, the Company is currently engaged in discussions with Hong Kong Disneyland and its majority shareholder (the Government of the Hong Kong Special Administrative Region) regarding financing arrangements to enable Hong Kong Disneyland to repay its obligations when the existing commercial loan agreement matures on September 30, 2008. As part of these negotiations, the Company has expressed its willingness to replace the facilities with loans from the Company. The Company has also expressed willingness to provide additional investment to meet Hong Kong Disneyland's longer-term financial and development needs.

Euro Disney has covenants under its debt agreements that limit its investment and financing activities and require it to meet certain financial performance covenants. Although no assurances can be given, Euro Disney currently believes that it will meet its financial performance covenants in fiscal year 2008.

**COMMITMENTS AND CONTINGENCIES**

*Legal and Tax Matters*

As disclosed in Notes 11 and 12 to the Condensed Consolidated Financial Statements the Company has exposure for certain legal and tax matters.

*Contractual Commitments and Guarantees*

See Note 11 to the Condensed Consolidated Financial Statements for information regarding the Company's contractual commitments and guarantees.

**OTHER MATTERS**

**Accounting Policies and Estimates**

We believe that the application of the following accounting policies, which are important to our financial position and results of operations, require significant judgments and estimates on the part of management. For a summary of our significant accounting policies, including the accounting policies discussed below, see Note 2 to the Consolidated Financial Statements in the 2007 Annual Report on Form 10-K.

*Film and Television Revenues and Costs*

We expense the cost of film and television productions over the applicable product life cycle based upon the ratio of the current period's gross revenues to the estimated remaining total gross revenues (Ultimate Revenues) for each production. If our estimate of Ultimate Revenues decreases, amortization of film and television costs may be accelerated. Conversely, if estimates of Ultimate Revenues increase, film and television cost amortization may be slowed. For film productions, Ultimate Revenues include revenues from all sources that will be earned within ten years of the date of the initial theatrical release. For television series, we include revenues that will be earned within ten years of the delivery of the first episode, or if still in production, five years from the date of delivery of the most recent episode, if later.

With respect to films intended for theatrical release, the most sensitive factor affecting our estimate of Ultimate Revenues (and therefore affecting future film cost amortization and/or impairment) is domestic theatrical performance. Revenues derived from other markets subsequent to the domestic

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

theatrical release (e.g. the home video or international theatrical markets) have historically been highly correlated with domestic theatrical performance. Domestic theatrical performance varies primarily based upon the public interest and demand for a particular film, the quality of competing films at the time of release, as well as the level of marketing effort. Upon a film's release and determination of domestic theatrical performance, the Company's estimates of revenues from succeeding windows and markets are revised based on historical relationships and an analysis of current market trends. The most sensitive factor affecting our estimate of Ultimate Revenues for released films is the extent of home entertainment sales achieved. Home entertainment sales vary based on the volume and quality of competing home video products as well as the manner in which retailers market and price our products.

With respect to television series or other television productions intended for broadcast, the most sensitive factor affecting estimates of Ultimate Revenues is the program's rating. Program ratings, which are an indication of market acceptance, directly affect the Company's ability to generate advertising revenues during the airing of the program. In addition, television series with greater market acceptance are more likely to generate incremental revenues through the eventual sale of the program rights in the syndication, international and home entertainment markets. Alternatively, poor ratings may result in a television series cancellation, which would require the immediate write-off of any unamortized production costs.

We expense the cost of television broadcast rights for acquired movies, series and other programs based on the number of times the program is expected to be aired or on a straight-line basis over the useful life, as appropriate. Amortization of those television programming assets being amortized on a number of airings basis may be accelerated if we reduce the estimated future airings and slowed if we increase the estimated future airings. The number of future airings of a particular program is impacted primarily by the program's ratings in previous airings, expected advertising rates and availability and quality of alternative programming. Accordingly, planned usage is reviewed periodically and revised if necessary. Rights costs for multi-year sports programming arrangements are amortized based upon the ratio of the current period's gross revenues to Ultimate Revenues (the Projected Revenue Method) or on a straight-line basis, as appropriate. Gross revenues include both advertising revenues and an allocation of affiliate fees. If the annual contractual payments related to each season over the term of a multi-year sports programming arrangement approximate each season's rights cost based on the Projected Revenue Method, we expense the related annual payments during the applicable season. If Ultimate Revenues change significantly from projections, rights costs amortization may be accelerated or slowed.

Costs of film and television productions and programming rights for our broadcast businesses and cable networks are subject to regular recoverability assessments in accordance with applicable accounting rules. The net realizable value of the television broadcast program licenses and rights are reviewed using a daypart methodology. A daypart is defined as an aggregation of programs broadcast during a particular time of day or programs of a similar type. The Company's dayparts are: early morning, daytime, late night, primetime, news, children, and sports (includes network and cable). The net realizable values of other cable programming assets are reviewed on an aggregated basis for each cable channel. Individual programs are written-off when there are no plans to air or sublicense the program. Estimated values are based upon assumptions about future demand and market conditions. If actual demand or market conditions are less favorable than our projections, film, television and programming cost write-downs may be required.

*Revenue Recognition*

The Company has revenue recognition policies for its various operating segments that are appropriate to the circumstances of each business. See Note 2 to the Consolidated Financial Statements in the 2007 Annual Report on Form 10-K for a summary of these revenue recognition policies.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

We record reductions to home entertainment and software product revenues for estimated future returns of merchandise and for customer programs and sales incentives. These estimates are based upon historical return experience, current economic trends and projections of customer demand for and acceptance of our products. If we underestimate the level of returns and concessions in a particular period, we may record less revenue in later periods when returns exceed the estimated amount. Conversely, if we overestimate the level of returns and concessions for a period, we may have additional revenue in later periods when returns and concessions are less than estimated.

Revenues from advance theme park ticket sales are recognized when the tickets are used. For non-expiring, multi-day tickets, we recognize revenue over a three-year time period based on estimated usage patterns, which are derived from historical usage patterns. A change in these estimated usage patterns could have an impact on the timing of revenue recognition.

*Pension and Postretirement Medical Plan Actuarial Assumptions*

The Company's pension and postretirement medical benefit obligations and related costs are calculated using a number of actuarial assumptions. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement. We evaluate these critical assumptions annually. Refer to the 2007 Annual Report on Form 10-K for estimated impacts of changes in these assumptions. Other assumptions include the healthcare cost trend rate and employee demographic factors such as retirement patterns, mortality, turnover and rate of compensation increase.

The discount rate enables us to state expected future cash payments for benefits as a present value on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. A lower discount rate increases the present value of benefit obligations and increases pension expense. The assumed discount rate for pension plans reflects the market rates for high-quality corporate bonds currently available. The Company's discount rate was determined by considering the average of pension yield curves constructed of a large population of high quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves.

To determine the expected long-term rate of return on the plan assets, we consider the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on pension plan assets will increase pension expense.

*Goodwill, Intangible Assets and Investments*

SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142) requires that goodwill and other indefinite-lived intangible assets be tested for impairment on an annual basis. In assessing the recoverability of goodwill and other indefinite-lived intangible assets, market values and projections regarding estimated future cash flows and other factors are used to determine the fair value of the respective assets. If these estimates or related projections change in the future, we may be required to record impairment charges for these assets.

As required by SFAS 142, goodwill is allocated to various reporting units, which are generally one reporting level below the operating segment. SFAS 142 requires the Company to compare the fair value of each reporting unit to its carrying amount on an annual basis to determine if there is potential goodwill impairment. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than the carrying value of its goodwill.

To determine the fair value of our reporting units, we generally use a present value technique (discounted cash flow) corroborated by market multiples when available and as appropriate. The factor most sensitive to change with respect to our discounted cash flow analyses is the estimated future cash

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

flows of each reporting unit which is, in turn, sensitive to our estimates of future revenue growth and margins for these businesses. If actual revenue growth and/or margins are lower than our expectations, the impairment test results could differ. A present value technique was not used to determine the fair value of the ABC Television Network, a business within the Television Broadcasting reporting unit within the Media Networks operating segment. To determine the fair value of the ABC Television Network, we used a revenue multiple, as a present value technique may not consistently capture the full fair value of the ABC Television Network and there is little comparable market data available due to the scarcity of television networks. If there were a publicly disclosed sale of a comparable network, this may provide better market information with which to estimate the value of the ABC Television Network and could impact our impairment assessment. We applied what we believe to be the most appropriate valuation methodology for each of the reporting units. If we had established different reporting units or utilized different valuation methodologies, the impairment test results could differ.

SFAS 142 requires the Company to compare the fair values of other indefinite-lived intangible assets to their carrying amounts. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized. Fair values of other indefinite-lived intangible assets are determined based on discounted cash flows or appraised values, as appropriate.

The Company has cost and equity investments. The fair value of these investments is dependent on the performance of the investee companies, as well as volatility inherent in the external markets for these investments. In assessing potential impairment for these investments, we consider these factors as well as forecasted financial performance of our investees. If these forecasts are not met, impairment charges may be required.

*Contingencies and Litigation*

We are currently involved in certain legal proceedings and, as required, have accrued estimates of the probable and estimable losses for the resolution of these claims. These estimates have been developed in consultation with outside counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to these proceedings. See Note 11 to the Condensed Consolidated Financial Statements for more detailed information on litigation exposure.

*Income Tax Audits*

As a matter of course, the Company is regularly audited by federal, state and foreign tax authorities. From time to time, these audits result in proposed assessments. Our determinations regarding the recognition of income tax benefits are made in consultation with outside tax and legal counsel where appropriate and are based upon the technical merits of our tax positions in consideration of applicable tax statutes and related interpretations and precedents and upon the expected outcome of proceedings (or negotiations) with taxing and legal authorities. The tax benefits ultimately realized by the Company may differ from those recognized in our financial statements based on a number of factors, including the Company's decision to settle rather than litigate a matter, relevant legal precedent related to similar matters and the Company's success in supporting its filing positions with taxing authorities. During fiscal 2008, the Company adopted FIN 48. See Note 12 to the Condensed Consolidated Financial Statements for more detailed information.

*Stock Option Compensation Expense*

Compensation expense for stock options is estimated on the date of grant using a binomial valuation model. The weighted average assumptions used in the binomial valuation model during the nine months ended June 28, 2008 were 29% for the expected volatility, 1.4 for the expected exercise multiple (the multiple of exercise price to grant price at which exercises are expected to occur on average) and 8% for the expected termination rate. Although the initial fair value of stock options is not adjusted

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

after the grant date, changes in the Company's assumptions may change the estimated fair value of and therefore, the expense related to future stock option grants. The assumptions that cause the greatest variation in fair value in the binomial valuation model are the assumed volatility and expected exercise multiple. Increases or decreases in either the assumed volatility or expected exercise multiple will cause the binomial option value to increase or decrease, respectively.

The volatility assumption considers both historical and implied volatility and may be impacted by the Company's performance as well as changes in economic and market conditions. The expected exercise multiple may be influenced by the Company's future stock performance, stock price volatility and employee turnover rate. Refer to the 2007 Annual Report on Form 10-K for estimated impacts of changes in these assumptions.

*New Accounting Pronouncements*

See Note 13 to the Condensed Consolidated Financial Statements for information regarding new accounting pronouncements.

**MARKET RISK**

The Company is exposed to the impact of interest rate changes, foreign currency fluctuations and changes in the market values of its investments.

**Policies and Procedures**

In the normal course of business, we employ established policies and procedures to manage the Company's exposure to changes in interest rates, foreign currencies and the fair market value of certain investments in debt and equity securities using a variety of financial instruments.

Our objectives in managing exposure to interest rate changes are to limit the impact of interest rate volatility on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest rate swaps to manage net exposure to interest rate changes related to the Company's portfolio of borrowings. By policy, the Company maintains fixed-rate debt as a percentage of its net debt between minimum and maximum percentages.

Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flow in order to allow management to focus on core business issues and challenges. Accordingly, the Company enters into various contracts that change in value as foreign exchange rates change to protect the U.S. dollar equivalent value of its existing foreign currency assets, liabilities, commitments and forecasted foreign currency revenues. The Company utilizes option strategies and forward contracts that provide for the sale of foreign currencies to hedge probable, but not firmly committed, transactions. The Company also uses forward contracts to hedge foreign currency assets and liabilities. The principal foreign currencies hedged are the Euro, British pound, Japanese yen and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings to U.S. dollar denominated borrowings. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its forecasted foreign exchange exposures generally for periods not to exceed five years. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related exposures.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

It is the Company's policy to enter into foreign currency and interest rate derivative transactions and other financial instruments only to the extent considered necessary to meet its objectives as stated above. The Company does not enter into these transactions or any other hedging transactions for speculative purposes.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.** See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures** We have established disclosure controls and procedures to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors as appropriate to allow timely decisions regarding required disclosure.

Based on their evaluation as of June 28, 2008, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

There have been no changes in our internal controls over financial reporting during the third quarter of fiscal 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

Since our Form 10-Q filing for the quarter ended March 29, 2008, developments identified below occurred in the following legal proceedings. For information on certain other legal proceedings, see Note 11 to the Condensed Consolidated Financial Statements included in this report.

*Milne and Disney Enterprises, Inc. v. Stephen Slesinger, Inc.* On November 5, 2002, Clare Milne, the granddaughter of A. A. Milne, author of the Winnie the Pooh books, and the Company's subsidiary Disney Enterprises, Inc. (DEI) filed a complaint against Stephen Slesinger, Inc. (SSI) in the United States District Court for the Central District of California. On November 4, 2002, Ms. Milne served notices to SSI and DEI terminating A. A. Milne's prior grant of rights to Winnie the Pooh, effective November 5, 2004, and granted all of those rights to DEI. In their lawsuit, Ms. Milne and DEI sought a declaratory judgment, under United States copyright law, that Ms. Milne's termination notices were valid; that SSI's rights to Winnie the Pooh in the United States terminated effective November 5, 2004; that upon termination of SSI's rights in the United States, the 1983 licensing agreement that is the subject of the *Stephen Slesinger, Inc. v. The Walt Disney Company* lawsuit (the state court action) terminated by operation of law; and that, as of November 5, 2004, SSI was entitled to no further royalties for uses of Winnie the Pooh. SSI filed (a) an answer denying the material allegations of the complaint and (b) counterclaims seeking a declaration that (i) Ms. Milne's grant of rights to DEI is void and unenforceable and (ii) DEI remains obligated to pay SSI royalties under the 1983 licensing agreement. The District Court ruled that Milne's termination notices were invalid. The Court of Appeals for the Ninth Circuit affirmed, and on June 26, 2006, the United States Supreme Court denied Milne's petition for a writ of certiorari. On August 1, 2003, SSI filed an amended answer and counterclaims and a third-party complaint against Harriet Hunt (heir to E. H. Shepard, illustrator of the original Winnie the Pooh stories), who had served a notice of termination and a grant of rights similar to Ms. Milne's, and asserted counterclaims against the Company allegedly arising from the Milne and Hunt terminations and the grant of rights to DEI for (a) unlawful and unfair business practices; and (b) breach of the 1983 licensing agreement.

On October 19, 2006, the parties stipulated to SSI's filing its Fourth Amended Answer and Counterclaims (Fourth Amended Answer) seeking (a) to invalidate the Hunt termination notice, (b) to terminate the Company's rights vis-à-vis SSI, and (c) damages in excess of two billion dollars, among other relief. That stipulation also provided that Hunt and the Company need not respond to the Fourth Amended Answer until the conclusion of two events: the state court appeal in *Stephen Slesinger, Inc. v. The Walt Disney Company*, and the trial in the District Court on the validity of the Hunt termination notice. SSI then sought to withdraw both the Fourth Amended Answer and its stipulation, but on November 3, 2006, the District Court denied that request. SSI's motion for summary judgment on the validity of Hunt's 2002 attempt to recapture E. H. Shepard's rights was granted on February 15, 2007, and thereafter, on March 27, 2007, the District Court dismissed as moot all claims against Hunt and three of SSI's counterclaims against the Company related to the Company's agreements with Milne and Hunt concerning the termination and disposition of their rights. On January 3, 2008, the California Supreme Court denied SSI's petition for review in the state court action, whereupon on April 21, 2008, the Company moved for summary judgment on all of SSI's claims in the District Court action. On June 3, 2008, the District Court ordered further briefing on the issue of whether SSI's misconduct in the state court action warrants dismissal of all of its claims in the District Court.

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**PART II. OTHER INFORMATION (continued)**

Relatedly, on January 23, 2007, August 22, 2007, February 8, 2008, and April 18, 2008, SSI initiated proceedings in the United States Patent and Trademark Office (PTO) seeking, among other things, cancellation of certain Winnie the Pooh trademark registrations. On February 22, 2007, the PTO suspended the first proceeding on the grounds that the relief sought is effectively duplicative of that sought in the Fourth Amended Answer, on March 5, 2008, it suspended the second proceeding, and on March 10, 2008, and May 18, 2008, respectively, DEI moved to suspend the third and fourth proceeding, which motions are pending. The PTO has granted SSI extensions until August 9, 2008, and August 27, 2008, to file additional proceedings seeking cancellation of certain other Winnie the Pooh trademark registrations. Also, on February 7, 2008, SSI initiated an action before the Canadian Intellectual Property Office seeking cancellation of certain Winnie the Pooh trademark registrations.

The Company, together with, in some instances, certain of its directors and officers, is a defendant or co-defendant in various other legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not expect the Company to suffer any material liability by reason of such actions.

**ITEM 1A. Risk Factors**

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements made by or on behalf of the Company. We may from time to time make written or oral statements that are forward-looking, including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to our shareholders. All forward-looking statements are made on the basis of management's views and assumptions regarding future events and business performance as of the time the statements are made and the Company does not undertake any obligation to update its disclosure relating to forward looking matters. Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments or asset acquisitions or dispositions), as well as from developments beyond the Company's control, including: adverse weather conditions or natural disasters; health concerns; international, political or military developments; technological developments; and changes in domestic and global economic conditions, competitive conditions and consumer preferences. Such developments may affect travel and leisure businesses generally and may, among other things, affect the performance of the Company's theatrical and home entertainment releases, the advertising market for broadcast and cable television programming, expenses of providing medical and pension benefits, demand for our products and performance of some or all company businesses either directly or through their impact on those who distribute our products. Additional factors are in the 2007 Annual Report on Form 10-K under the Item 1A, Risk Factors.

On November 5, 2007, members of the Writers Guild of America commenced a work stoppage, which ended February 12, 2008. The work stoppage limited production of original scripted programming, which has limited the airing of original scripted programming on the Company's television network and resulted in reduced revenue and profitability. The magnitude of any further reduction in revenue and the future impact, if any, on profitability will depend on a variety of factors including consumer acceptance of programming. Moreover, the contract between the Company and other producers and the Screen Actors Guild expired June 30, 2008 without agreement on terms for a new contract. There can be no assurance that a new agreement will be reached without a work stoppage, and any work stoppage could limit production and distribution of films or result in further limitations on production and airing of television programming, either of which could have a negative impact on revenues and profitability.

**PART II. OTHER INFORMATION (continued)****ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information about Company purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended June 28, 2008:

| Period         |                | Total<br>Number of<br>Shares<br>Purchased <sup>(1)</sup> | Weighted<br>Average<br>Price Paid<br>per Share | Total Number of<br>Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs <sup>(2)</sup> |
|----------------|----------------|--|--|--|--|
| March 30, 2008 | April 30, 2008 | 11,936,513   | 31.12  | 11,805,000   | 250 million  |
| May 1, 2008    | May 31, 2008   | 7,001,404  | 33.76  | 6,898,200  | 243 million  |
| June 1, 2008   | June 28, 2008  | 12,848,237   | 33.18  | 12,744,400   | 230 million  |
| Total          |                | 31,786,154   | 32.53  | 31,447,600   | 230 million  |

<sup>(1)</sup> 338,554 shares were purchased on the open market to provide shares to participants in the Walt Disney Investment Plan (WDIP) and Employee Stock Purchase Plan (ESPP). These purchases were not made pursuant to a publicly announced repurchase plan or program.

<sup>(2)</sup> Under a share repurchase program implemented effective June 10, 1998, the Company is authorized to repurchase shares of its common stock. On May 1, 2007, following share repurchases made through May 1, 2007, the Company's Board of Directors increased the repurchase authorization to a total of 400 million shares as of that date. The repurchase program does not have an expiration date.



**PART II. OTHER INFORMATION (continued)**

**ITEM 6. Exhibits**

See Index of Exhibits.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE WALT DISNEY COMPANY

(Registrant)

By: /s/ THOMAS O. STAGGS  
Thomas O. Staggs, Senior Executive Vice

President and Chief Financial Officer

July 30, 2008

Burbank, California

INDEX OF EXHIBITS

| Number and Description of Exhibit   | Document Incorporated by Reference<br>from a Previous Filing or Filed |
|---|---|
| (Numbers Coincide with Item 601 of Regulation S-K)  | Herewith, as Indicated below  |
| 10.1 Description of Directors Compensation  | Filed herewith  |
| 31(a) Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith  |
| 31(b) Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith  |
| 32(a) Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*  | Furnished   |
| 32(b) Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*  | Furnished   |

\* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.