WALT DISNEY CO/
Form 10-Q
February 03, 2009

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 December 27, 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 X 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	X	Accelerated filer	_
Non-accelerated filer (Do not check if a 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 X

There were 1,856,334,612 shares of common stock outstanding as of January 30, 2009.

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	
	December 27, 2008	December 29, 2007
Revenues	**$ 9,599**	$ 10,452
Costs and expenses	**(8,382)**	(8,419)
Other income	**114**	
Net interest expense	**(139)**	(123)
Equity in the income of investees	**147**	123
Income before income taxes and minority interests	**1,339**	2,033
Income taxes	**(488)**	(759)
Minority interests	**(6)**	(24)
Net income	**$ 845**	$ 1,250
Earnings per share:		
Diluted	**$ 0.45**	$ 0.63
Basic	**$ 0.46**	$ 0.66
Weighted average number of common and common equivalent shares outstanding:		
Diluted	**1,872**	1,989
Basic	**1,852**	1,904

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited; in millions, except per share data)

	December 27, 2008	September 27, 2008
ASSETS		
Current assets		
Cash and cash equivalents	**$ 3,795**	$ 3,001
Receivables	**6,106**	5,373
Inventories	**1,174**	1,124
Television costs	**708**	541
Deferred income taxes	**1,024**	1,024
Other current assets	**665**	603
Total current assets	**13,472**	11,666
Film and television costs	**5,582**	5,394
Investments	**1,674**	1,563
Parks, resorts and other property, at cost		
Attractions, buildings and equipment	**31,407**	31,493
Accumulated depreciation	**(16,434)**	(16,310)
	14,973	15,183
Projects in progress	**1,167**	1,169
Land	**1,165**	1,180
	17,305	17,532
Intangible assets, net	**2,404**	2,428
Goodwill	**22,392**	22,151
Other assets	**2,072**	1,763
	$ 64,901	$ 62,497
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	**$ 6,638**	$ 5,980
Current portion of borrowings	**3,771**	3,529
Unearned royalties and other advances	**2,195**	2,082
Total current liabilities	**12,604**	11,591
Borrowings	**12,232**	11,110
Deferred income taxes	**2,380**	2,350
Other long-term liabilities	**3,770**	3,779
Minority interests	**1,260**	1,344
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	**26,662**	26,546
Retained earnings	**28,575**	28,413
Accumulated other comprehensive income (loss)	**77**	(81)
	55,314	54,878

Treasury stock, at cost, 780.3 million shares at December 27, 2008 and 777.1 million shares at September 27, 2008		**(22,659)**		(22,555)
		32,655		32,323
	$	**64,901**	$	62,497

See Notes to Condensed Consolidated Financial Statements

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THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited; in millions)

	Quarter Ended	
	December 27, 2008	December 29, 2007
OPERATING ACTIVITIES		
Net income	**$ 845**	$ 1,250
Depreciation and amortization	**396**	385
Gain on sale of equity investment	**(114)**	
Deferred income taxes	**(24)**	(31)
Equity in the income of investees	**(147)**	(123)
Cash distributions received from equity investees	**87**	119
Minority interests	**6**	24
Net change in film and television costs	**(245)**	216
Equity-based compensation	**114**	103
Other	**31**	(4)
Changes in operating assets and liabilities:		
Receivables	**(779)**	(1,990)
Inventories	**(18)**	(34)
Other assets	**16**	(17)
Accounts payable and other accrued liabilities	**(325)**	188
Income taxes	**419**	576
Cash provided by operations	**262**	662
INVESTING ACTIVITIES		
Investments in parks, resorts and other property	**(291)**	(249)
Proceeds from sale of equity investments	**185**	
Acquisitions	**(475)**	(17)
Other	**3**	(58)
Cash used in investing activities	**(578)**	(324)
FINANCING ACTIVITIES		
Commercial paper borrowings, net	**687**	(402)
Borrowings	**1,096**	854
Reduction of borrowings	**(579)**	(117)
Repurchases of common stock	**(104)**	(1,045)
Exercise of stock options and other	**10**	116
Cash provided/(used) by financing activities	**1,110**	(594)
Increase/(decrease) in cash and cash equivalents	**794**	(256)
Cash and cash equivalents, beginning of period	**3,001**	3,670
Cash and cash equivalents, end of period	**$ 3,795**	$ 3,414

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 ended December 27, 2008 are not necessarily indicative of the results that may be expected for the year ending October 3, 2009. 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 27, 2008.

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 that established a facility that permitted 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. DFI s ability to sell new receivables under this facility ended on December 4, 2008. (See Note 12 for further discussion of this facility in the Company s disclosures related to FSP FAS 140-4 and FIN 46(R)-8)

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 Company has combined the operations and management of Disney Interactive Studios and the Walt Disney Internet Group into a new business unit, the Disney Interactive Media Group which creates and delivers Disney-branded entertainment and lifestyle content across interactive media platforms. The primary operating businesses of the Disney Interactive Media Group are Disney Interactive Studios, which produces video games for global distribution, and Disney Online, which produces web sites and online virtual worlds in the United States and internationally. The Disney Interactive Media Group also manages the Company s Disney-branded mobile phone initiatives and provides technical infrastructure services to the Company s non Disney-branded websites, such as ABC.com and ESPN.com, and to its Disney-branded e-commerce websites, principally Disneyshopping.com and Walt Disney Parks and Resorts Online. The Disney Interactive Media Group is reimbursed for the cost of providing these technical infrastructure services, and since these other websites that the Disney Interactive Media Group supports are managed within the Company s other segments, the financial results of these websites are reported within the Company s other segments rather than as part of the Disney Interactive Media Group.

Beginning with the first quarter fiscal 2009 financial statements, the Company is reporting the Disney Interactive Media Group along with certain new business initiatives as Interactive Media for segment reporting purposes. Previously, Disney Interactive Studios and the Walt Disney Internet Group

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

were reported in the Consumer Products and Media Networks segments, respectively, while the new business initiatives were reported in corporate and unallocated shared expenses. The new presentation aligns with how management reports and measures segment performance for internal management purposes.

	Quarter Ended	
	December 27, 2008	December 29, 2007
Revenues [(1)] **:**		
Media Networks	**$ 3,903**	$ 4,109
Parks and Resorts	**2,665**	2,772
Studio Entertainment	**1,945**	2,641
Consumer Products	**773**	654
Interactive Media	**313**	276
	$ 9,599	$ 10,452
Segment operating income (loss) [(1)] **:**		
Media Networks	**$ 655**	$ 929
Parks and Resorts	**382**	505
Studio Entertainment	**187**	514
Consumer Products	**265**	287
Interactive Media	**(45)**	13
	$ 1,444	$ 2,248

(1) Studio Entertainment segment revenues and operating income include an allocation of Consumer Products and Interactive Media revenues, which is meant to reflect royalties on sales of merchandise based on certain Studio film properties. Consumer Products and Interactive Media results exclude amounts allocated to Studio Entertainment. For the quarters ended December 27, 2008 and December 29, 2007, the intersegment revenue and operating income was $43 million and $44 million between Consumer Products and Studio Entertainment, respectively, and $9 million and $10 million between Interactive Media and Studio Entertainment, respectively.

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

	Quarter Ended	
	December 27, 2008	December 29, 2007
Segment operating income	**$ 1,444**	$ 2,248
Corporate and unallocated shared expenses	**(80)**	(92)
Other income	**114**	
Net interest expense	**(139)**	(123)
Income before income taxes and minority interests	**$ 1,339**	$ 2,033

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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

In December 2008, the Company acquired an additional 26% interest in Jetix Europe N.V., a publicly traded pan-European kids entertainment company, for approximately $349 million (bringing our total ownership interest to over 99%). The Company intends to acquire the remaining outstanding shares through open-market purchases and statutory buy-out proceedings. The Company is in the process of finalizing its allocation of the purchase price to the assets acquired and liabilities assumed.

On October 11, 2008, the Company entered into an agreement with Media-One Holdings Limited to acquire a 49% ownership interest in Media-One TV, LLC (Media-One TV) for approximately $233 million. Consummation of the transaction is subject to receipt of regulatory approval from Russian governmental authorities. If such approval is obtained, the joint venture plans to launch a predominately free-to-air Disney branded television channel on 30 stations throughout Russia that are currently owned and operated by Media-One TV. The Company expects to provide programming, marketing and content acquisition support while Media-One TV would provide local market operating and advertising experience.

On May 9, 2008, the Company acquired an 18% interest (bringing its fully diluted interest to 32%) in UTV Software Communications Limited (UTV), a media company headquartered and publicly traded in India, for approximately $197 million. In accordance with Indian securities regulations, the Company was required to make an open tender offer to purchase up to an additional 23% of UTV s voting shares held by the public for a price equivalent to the May 9th Indian rupee purchase price. In November 2008, the Company completed the open offer and acquired an incremental 23% of UTV s voting shares for approximately $138 million. Due to the change in the exchange rate between the US dollar and the Indian rupee from May to November, the dollar price per share was lower in November as compared to May. UTV s founder has a four year option to buy all or a portion of the shares acquired during the open offer period at a price no less than the Company s open offer price or the then trading price, capped at a 10% annual return. The Company does not have the right to vote the shares subject to the option until the expiration of the option and accordingly the Company s ownership interest in voting shares is 48%. In addition to the acquisition of UTV, on August 5, 2008, the Company invested $28 million in a UTV subsidiary, UTV Global Broadcasting Limited, (along with UTV, the UTV Group). The UTV Group is accounted for under the equity method.

As of December 27, 2008, the Company s combined carrying value of the UTV Group was $371 million. Due to a recent decline in UTV s publicly traded stock price, the market value of the Company s shares of UTV has declined to approximately $111 million. Given the short duration of the decline and other indicators of value including projected future cash flows along with the fact that UTV s performance to date has been consistent with our expectations, the Company does not believe that it is appropriate to recognize an impairment at this time. However, the Company will continue to monitor and evaluate its investment in UTV and the performance of the underlying business.

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 payable if Club Penguin achieved predefined earnings targets in calendar years 2008 and 2009. There have been no additional payments of consideration for Club Penguin and remaining additional consideration of $175 million is potentially payable based on calendar year 2009 results.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Dispositions

On December 22, 2008, the Company sold our investment in two pay television services in Latin America, for approximately $185 million, resulting in a pre-tax gain of $114 million reported in Other income in the Condensed Consolidated Statements of Income.

4. *Borrowings*

During the quarter ended December 27, 2008, the Company s borrowing activity was as follows:

	September 27, 2008	Additions	Payments	Other Activity	**December 27, 2008**
Commercial paper borrowings	$ 1,985	$ 687	$	$	**$ 2,672**
U.S. medium-term notes	7,005	1,000	(125)	(9)	**7,871**
European medium-term notes	318			28	**346**
Capital Cities/ABC debt	178			(1)	**177**
Film financing	248	95	(47)	7	**303**
Other [1]	1,199	1	(2)	216	**1,414**
Euro Disney borrowings [2]	2,457		(30)	(101)	**2,326**
Hong Kong Disneyland borrowings [3]	1,249		(375)	20	**894**
Total	$ 14,639	$ 1,783	$ (579)	$ 160	**$ 16,003**

(1) The other activity is primarily market value adjustments for debt with qualifying hedges.
(2) The other activity is primarily the impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Euro.
(3) During the quarter, Hong Kong Disneyland borrowed funds from the Company that were used to repay Hong Kong Disneyland s commercial term loan and revolving credit facility.

5. *Euro Disney and Hong Kong Disneyland*

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 in the Company s financial statements.

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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 December 27, 2008, reflecting the impact of consolidating the balance sheets of Euro Disney and Hong Kong Disneyland.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Cash and cash equivalents	$ 3,282	$ 513	$ 3,795
Other current assets	9,393	284	9,677
Total current assets	12,675	797	13,472
Investments	2,684	(1,010)	1,674
Fixed assets	12,771	4,534	17,305
Other assets	32,399	51	32,450
Total assets	$ 60,529	$ 4,372	$ 64,901
Current portion of borrowings	$ 3,649	$ 122	$ 3,771
Other current liabilities	8,331	502	8,833
Total current liabilities	11,980	624	12,604
Borrowings	9,134	3,098	12,232
Deferred income taxes and other long-term liabilities	5,977	173	6,150
Minority interest	783	477	1,260
Shareholders equity	32,655		32,655
Total liabilities and shareholders equity	$ 60,529	$ 4,372	$ 64,901

The following table presents a condensed consolidating income statement of the Company for the quarter ended December 27, 2008, reflecting the impact of consolidating the income statements of Euro Disney and Hong Kong Disneyland.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Revenues	$ 9,068	$ 531	$ 9,599
Cost and expenses	(7,888)	(494)	(8,382)
Other income	114		114
Net interest expense	(98)	(41)	(139)
Equity in the income of investees	149	(2)	147

Income before income taxes and minority interests		1,345		(6)	1,339
Income taxes		(488)			(488)
Minority interests		(12)		6	(6)
Net income	$	845	$	$	845

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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 quarter ended December 27, 2008, reflecting the impact of consolidating the cash flow statements of Euro Disney and Hong Kong Disneyland.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Cash provided (used) by operations	$ 365	$ (103)	$ 262
Investments in parks, resorts and other property	(278)	(13)	(291)
Other investing activities	(628)	341	(287)
Cash provided (used) by financing activities	1,515	(405)	1,110
Increase / (decrease) in cash and cash equivalents	974	(180)	794
Cash and cash equivalents, beginning of period	2,308	693	3,001
Cash and cash equivalents, end of period	$ 3,282	$ 513	$ 3,795

6. *Pension and Other Benefit Programs*

The components of net periodic benefit cost are as follows:

	Pension Plans Quarter Ended		**Postretirement Medical Plans Quarter Ended**	
	December 27, 2008	December 29, 2007	**December 27, 2008**	December 29, 2007
Service cost	**$ 42**	$ 45	**$ 4**	$ 5
Interest cost	**90**	81	**18**	16
Expected return on plan assets	**(93)**	(89)	**(6)**	(6)
Recognized net actuarial (gain) loss	**1**	9	**(3)**	
Net periodic benefit cost	**$ 40**	$ 46	**$ 13**	$ 15

During the quarter ended December 27, 2008, the Company did not make any material contributions to its pension and post-retirement medical plans. The Company expects pension and post-retirement medical plan contributions in fiscal 2009 to range from $200 million to $300 million. However, final funding requirements for fiscal 2009 will be determined based on our funding actuarial valuation as of January 1, 2009 which will be completed later in the fiscal year. The Company may also make discretionary contributions above the minimum requirements.

The Company adopted the measurement provisions of SFAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans,* an amendment of FAS Statements No. 87, 88, 106, and 132(R) (SFAS 158). See Note 12 for the impact of adopting SFAS 158.

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 through the redemption date which occurred in the third quarter of fiscal 2008. Options excluded from the diluted earnings per share calculation as they were anti-dilutive were 138 million and 46 million shares for the quarters ended December 27, 2008 and December 29, 2007, respectively. A reconciliation of net income and weighted average number of common and common equivalent shares outstanding for calculating diluted earnings per share is as follows:

	Quarter Ended	
	December 27, 2008	December 29, 2007
Net income	**$ 845**	$ 1,250
Interest expense on convertible senior notes (net of tax)		5
	$ 845	$ 1,255
Shares (in millions):		
Weighted average number of common shares outstanding (basic)	**1,852**	1,904
Weighted average dilutive impact of equity-based compensation awards	**20**	40
Weighted average assumed conversion of convertible senior notes		45
Weighted average number of common and common equivalent shares outstanding (diluted)	**1,872**	1,989

8. *Shareholders Equity*

The Company declared a $648 million dividend ($0.35 per share) on December 3, 2008, related to fiscal 2008, which was paid on January 20, 2009, to shareholders of record on December 15, 2008. The Company paid a $664 million dividend ($0.35 per share) during the second quarter of fiscal 2008 related to fiscal 2007.

During the quarter ended December 27, 2008, the Company repurchased 3 million shares for approximately $104 million. As of December 27, 2008, the Company had remaining authorization in place to repurchase approximately 180 million additional shares. The repurchase program does not have an expiration date.

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	
	December 27, 2008	December 29, 2007
Net income	**$ 845**	$ 1,250
Market value adjustments for investments and hedges	**91**	11
Pension and postretirement medical adjustments	**(1)**	5
Foreign currency translation and other	**(32)**	2
Comprehensive income	**$ 903**	$ 1,268

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

	December 27, 2008	September 27, 2008
Market value adjustments for investments and hedges	**$ 169**	$ 78
Foreign currency translation and other	**105**	137
Unrecognized pension and postretirement medical expense [(1)]	**(197)**	(296)
Accumulated other comprehensive income (loss)	**$ 77**	$ (81)

(1) Pursuant to the adoption of the measurement provisions of SFAS 158, the Company recorded a $100 million benefit to the opening balance of accumulated other comprehensive income (loss). See footnote 12 for further details on the impact of the adoption of SFAS 158.

10. *Equity-Based Compensation*

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

	Quarter Ended	
	December 27, 2008	December 29, 2007
Stock option compensation expense	**$ 62**	$ 60
RSU compensation expense	**52**	43
Total equity-based compensation expense	**$ 114**	$ 103

Unrecognized compensation cost related to unvested stock options and RSUs totaled approximately $379 million and $407 million, respectively, as of December 27, 2008.

In January 2009, the Company made stock compensation grants, which included its regular annual grant, consisting of 14 million stock options and 15 million RSUs, of which 3 million RSUs included market and/or performance conditions.

The weighted average grant date fair values of options issued during the quarters ended December 27, 2008, and December 29, 2007, were $7.80 and $9.96, respectively.

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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, 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, and then on July 29, 2008, the District Court referred the summary judgment motion to a Special Master who will issue findings and recommendations on the preclusion and termination issues raised by the motion.

Relatedly, on December 4, 2006, August 22, 2007, and February 8, April 18, August 27, 2008, and October 31, 2008, SSI initiated proceedings in the United States Patent and Trademark Office (PTO) seeking cancellation of certain Winnie the Pooh trademark registrations and opposing applications for other Winnie the Pooh trademarks. The PTO has suspended all the proceedings on the grounds that the relief sought is effectively duplicative of that sought in the Fourth Amended Answer. Also, on April 18 and October 16, 2008, SSI initiated actions before the Canadian Intellectual Property Office (CIPO) opposing applications for certain Winnie the Pooh trademarks. On September 4, 2008, the Company filed an answer to the April 18 action before the CIPO, denying SSI s claims.

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 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 December 27, 2008, the remaining debt service obligation guaranteed by the Company was $380 million, of which $100 million was principal. To the extent that subsequent tax revenues exceed the debt service payments, the Company would be reimbursed for any shortfalls it funded. To date, tax revenues have exceeded the debt service payments for the 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.

Accounts Receivable Risk

In light of the recent turmoil in the domestic and global economy, our estimates and judgments with respect to the collectibility of our receivables have become subject to greater uncertainty than in more stable periods.

12. *New Accounting Pronouncements*

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 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). SFAS 141R establishes principles and requirements for determining how an

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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 upon the deconsolidation of a subsidiary, a retained noncontrolling interest 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 between liabilities and shareholders equity 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. The Company adopted SFAS 159 at the beginning of fiscal year 2009. The Company did not elect to account for any of its financial assets and liabilities using the fair value option and accordingly, the adoption did not have a material impact on the Company s 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 provisions of SFAS 158 in fiscal year 2007 which resulted in a $261 million charge to accumulated other comprehensive income. The Company adopted the measurement date provisions by remeasuring plan assets and benefit obligations at the beginning of fiscal 2009. Adoption of the measurement date provisions resulted in a reduction of $35 million to retained earnings and a $100 million benefit to accumulated other comprehensive income (loss).

Key assumptions used for the measurements at the beginning of fiscal 2009 were 7.80% for the discount rate, 7.50% for the rate of return on plan assets, and 5.00% for salary increases. Based on this measurement of plan assets and benefit obligations, pension and postretirement medical costs will decrease to approximately $214 million in fiscal 2009 compared to $255 million for fiscal 2008. The decrease in pension and postretirement medical expense was primarily due to an increase in the discount rate used to measure the present value of plan obligations.

FSP FAS 140-4 and FIN 46(R)-8

In December 2008, the FASB issued FASB Staff Position No. FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities* (FSP 140-4). FSP 140-4 requires disclosure about transfers of financial assets.

Through December 4, 2008, the Company sold mortgage receivables arising from the sales of its vacation ownership units under a receivable purchase facility that expired on December 4, 2008 and was not renewed. The Company sold $17 million and $41 million of mortgage receivables during the three months ended December 27, 2008, and December 29, 2007, which resulted in immaterial gains.

The Company continues to service the sold receivables and has a residual interest in those receivables. As of December 27, 2008, the outstanding principal amount for sold mortgage receivables was $476 million and the carrying value of the Company s residual interest, which is recorded in other long-term assets, was $96 million.

The Company also provides a letter of credit in support of the outstanding balance of the sold mortgage receivables which the mortgage receivables acquirer may draw on in the event of losses under the facility. The Company s maximum exposure under this letter of credit is equal to approximately 17% of the outstanding principal balance. The Company maintains a reserve for estimated credit losses under the facility.

The Company repurchases defaulted mortgage receivables at their outstanding balance. The Company did not make material repurchases in the three months ended December 27, 2008 or December 29, 2007. The Company generally has been able to sell the repurchased vacation ownership units for amounts that exceed their carrying value.

13. *Fair Value Measurements*

In September 2006, the FASB issued Statement of Financial Accounting Standards 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.

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 adopted SFAS 157 at the beginning of fiscal 2009 for fair value measurements of financial instruments and fair value measurements of non-financial assets and liabilities made on a recurring basis. Pursuant to the provisions of FASB Staff Position 157-2, the Company will not apply the provisions of SFAS 157 to non-financial assets and liabilities measured on a non-recurring basis until fiscal 2010. The Company does not expect the adoption of SFAS 157 for nonrecurring fair value measurements of nonfinancial assets and liabilities will have a material impact on its financial statements.

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SFAS 157 defines fair value as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants and requires that assets and liabilities carried at fair value are classified and disclosed in the following three categories:

Level 1 - Quoted prices for identical instruments in active markets

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

The Company s assets and liabilities measured at fair value on a recurring basis are summarized in the following table by the type of inputs applicable to the fair value measurements.

		Fair Value Measurements at December 27, 2008		
Description	**Total as of December 27, 2008**	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments	**$ 68**	$ 10	$ 55	$ 3
Derivatives	**757**		661	96
Liabilities				
Derivatives	**(119)**		(119)	
Other	**(14)**			(14)
Total	**$ 692**	$ 10	$ 597	$ 85

The fair value of Level 1 investments are determined by using publicly quoted market prices in active markets. The fair value of Level 2 investments are primarily determined by reference to market prices based on recent trading activity and other relevant information including pricing for similar securities as determined by third-party pricing services.

The fair values of Level 2 derivatives, which consist of interest rate and foreign currency hedges, are primarily determined based on the present value of future cash flows using internal models and third-party pricing services with observable inputs, including interest rates, yield curves and foreign currency exchange rates. Counterparty credit risk, which is mitigated by the existence of master netting agreements and collateral posting arrangements with certain counterparties, did not have a material impact on derivative fair value estimates. Level 3 derivatives consist of our residual interests in securitized vacation ownership mortgage receivables and are determined using a discounted cash flow model that considers estimated interest rates, discount rates, prepayment, and defaults. There were no material changes in Level 3 derivatives from September 28, 2008 to December 27, 2008.

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

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 **December 27, 2008**	December 29, 2007
Revenues	**$ 9,599**	$ 10,452
Costs and expenses	**(8,382)**	(8,419)
Other income	**114**	
Net interest expense	**(139)**	(123)
Equity in the income of investees	**147**	123
Income before income taxes and minority interests	**1,339**	2,033
Income taxes	**(488)**	(759)
Minority interests	**(6)**	(24)
Net income	**$ 845**	$ 1,250
Diluted earnings per share	**$ 0.45**	$ 0.63

Quarter Results

Diluted earnings per share decreased 29% for the quarter due primarily to lower operating results, partially offset by a gain on the sale of our investment in two pay television services in Latin America which resulted in a benefit of $0.04 per diluted share. Lower operating results reflected decreased DVD unit sales due to the strong performance in the prior-year quarter of *Pirates of the Caribbean: At World s End* and *High School Musical 2* and a decrease in catalog sales, lower advertising revenues at the ABC Television Network, ESPN and the owned television stations and decreased attendance and occupancy at our domestic parks. These decreases were partially offset by higher revenues from cable, satellite and telecommunications service providers (Cable Service Providers), principally at ESPN and lower broadcast programming and production cost amortization.

SEASONALITY

The Company s businesses are subject to the effects of seasonality. Consequently, the operating results for the quarter ended December 27, 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 theatrical releases and cable programming broadcasts.

Interactive Media revenues fluctuate due to the timing and performance of video game releases which are determined by several factors, including theatrical releases and cable programming broadcasts, competition and the timing of holiday periods. Revenues from our internet and mobile operations are not subject to significant seasonal trends.

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 December 27, 2008	December 29, 2007
Revenues:		
Media Networks	**$ 3,903**	$ 4,109
Parks and Resorts	**2,665**	2,772
Studio Entertainment	**1,945**	2,641
Consumer Products	**773**	654
Interactive Media	**313**	276
	$ 9,599	$ 10,452
Segment operating income:		
Media Networks	**$ 655**	$ 929
Parks and Resorts	**382**	505
Studio Entertainment	**187**	514
Consumer Products	**265**	287
Interactive Media	**(45)**	13
	$ 1,444	$ 2,248

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

(in millions)	Quarter Ended December 27, 2008	December 29, 2007
Segment operating income	**$ 1,444**	$ 2,248
Corporate and unallocated shared expenses	**(80)**	(92)
Other income	**114**	
Net interest expense	**(139)**	(123)
Income before income taxes and minority interests	**$ 1,339**	$ 2,033

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Depreciation expense is as follows:

(in millions)	Quarter Ended December 27, 2008	December 29, 2007
Media Networks		
Cable Networks	**$ 24**	$ 22
Broadcasting	**22**	21
Total Media Networks	**46**	43
Parks and Resorts		
Domestic	**205**	198
International	**79**	82
Total Parks and Resorts	**284**	280
Studio Entertainment	**12**	9
Consumer Products	**6**	4
Interactive Media	**3**	5
Corporate	**32**	30
Total depreciation expense	**$ 383**	$ 371

Media Networks

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

(in millions)	Quarter Ended December 27, 2008	December 29, 2007	Change
Revenues:			
Cable Networks	**$ 2,452**	$ 2,412	2 %
Broadcasting	**1,451**	1,697	(14) %
	$ 3,903	$ 4,109	(5) %
Segment operating income:			
Cable Networks	**$ 517**	$ 586	(12) %
Broadcasting	**138**	343	(60) %
	$ 655	$ 929	(29) %

Revenues

Media Networks revenues decreased 5%, or $206 million, to $3.9 billion, consisting of a 2% increase, or $40 million, at the Cable Networks and a 14% decrease, or $246 million, at Broadcasting.

Increased Cable Networks revenues were due to growth of $111 million from Cable Service Providers, partially offset by decreases of $55 million in advertising revenues and $16 million in other revenues. Revenues from Cable Service Providers are generally derived from fees charged on a per subscriber basis, and the increase in the current quarter was due to contractual rate increases and, to a lesser extent, subscriber growth primarily at ESPN. Lower advertising revenue reflected a decrease in sold inventory, partially offset by higher rates. The decrease in other revenues was driven by lower DVD sales reflecting the success of *High School Musical 2* in the prior-year quarter, partially offset by miscellaneous other revenue increases.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Certain of the Company s contracts with Cable Service Providers 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.

Decreased Broadcasting revenues were primarily due to lower advertising revenue at the ABC Television Network and at the owned television stations. The decrease in advertising revenues at the ABC Television Network was driven by lower primetime ratings.

Costs and Expenses

Costs and expenses at Media Networks, which consist primarily of programming rights costs, production costs, participation costs, distribution and marketing expenses, labor costs, and general and administrative costs, increased 2%, or $78 million, reflecting a 6% increase, or $119 million, at the Cable Networks, and a 3% decrease, or $41 million, at Broadcasting. The increase at Cable Networks was driven by an increase at ESPN primarily due to higher NFL programming costs and higher general and administrative costs. The decrease at Broadcasting was primarily due to lower programming costs at the ABC Television Network due to a lower cost mix of programming including a shift of hours from primetime to news, partially offset by a bad debt charge in connection with the bankruptcy of a syndication customer.

Segment Operating Income

Segment operating income decreased 29%, or $274 million, to $655 million for the quarter due to a decrease of 12%, or $69 million, at the Cable Networks and a decrease of 60%, or $205 million, at Broadcasting. The decrease at the Cable Networks was primarily due to decreases at the domestic Disney Channels and at ESPN. The decrease at Broadcasting was primarily due to lower primetime advertising revenue at the ABC Television Network and at the owned television stations, and a bad debt charge in connection with the bankruptcy of a syndication customer, partially offset by lower programming and development costs.

Parks and Resorts

Revenues

Parks and Resorts revenues decreased 4%, or $107 million, to $2.7 billion due to decreases of $69 million at our domestic operations and $38 million at our international operations.

Domestic Operations

At our domestic operations, decreased revenue was primarily due to lower attendance and occupancy, partially offset by higher vacation club ownership sales at Disney Vacation Club.

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 Quarter Ended		West Coast Quarter Ended		Total Domestic Quarter Ended	
	December 27, 2008	December 29, 2007	**December 27, 2008**	December 29, 2007	**December 27, 2008**	December 29, 2007
Parks						
(Increase/decrease)						
Attendance	**(5)%**	4%	**(6)%**	1%	**(5)%**	3%
Per Capita Guest Spending	**1%**	3%	**(3)%**	2%	**%**	3%
Hotels [(1)]						
Occupancy	**85%**	89%	**85%**	91%	**85%**	89%
Available Room Nights (in thousands)	**2,113**	2,136	**200**	200	**2,313**	2,336
Per Room Guest Spending	**$ 219**	$ 218	**$ 333**	$ 321	**$ 229**	$ 227

(1) 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 Operations

At our international operations, decreased revenue was due to a decline at Disneyland Resort Paris due to the unfavorable impact of foreign currency translation, as a result of the strengthening of the U.S. dollar against the Euro, and lower real estate sales, partially offset by an increase in attendance.

Costs and Expenses

Costs and expenses, which consist primarily of labor, depreciation, costs of merchandise, food and beverage sold, marketing and sales expense, repairs and maintenance and entertainment, increased 1%, or $16 million. The increase in costs and expenses was due to an increase at our domestic operations, partially offset by a decrease at Disneyland Resort Paris. Higher costs at our domestic operations reflected mark to market adjustments on fuel hedge contracts, labor and other cost inflation and higher cost of ownership sales at Disney Vacation Club, partially offset by cost mitigation activities. The decrease at Disneyland Resort Paris was primarily due to the favorable impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Euro and lower real estate cost of sales, partially offset by labor cost inflation and higher marketing and sales costs.

Segment Operating Income

Segment operating income decreased 24%, or $123 million, to $382 million due to decreases at the domestic operations and Disneyland Resort Paris.

Studio Entertainment

Revenues

Revenues decreased 26%, or $696 million, to $1.9 billion primarily due to a decrease of $516 million at worldwide home entertainment driven by a decline in DVD unit sales reflecting the strong performance of *Pirates of the Caribbean: At World s End*, *High School Musical 2*, *Ratatouille* and *Jungle Book* Platinum Release in the prior-year quarter and lower catalog sales in the current quarter. Key current quarter releases included *WALL-E*, *The Chronicles of Narnia: Prince Caspian* and *Tinker Bell*.

Costs and Expenses

Costs and expenses, which consist primarily of production cost amortization, distribution and marketing expenses, product costs and participation costs decreased 17%, or $369 million, primarily due to a decrease in worldwide home entertainment driven by lower amortization, distribution expenses, and participation costs as a result of decreased unit sales.

Segment Operating Income

Segment operating income decreased 64%, or $327 million, to $187 million primarily due to a decrease at worldwide home entertainment.

Consumer Products

Revenues

Revenues for the quarter increased 18%, or $119 million, to $773 million, primarily due to an increase of $114 million at our retail business due to the acquisition of the Disney Stores North America during the third quarter of fiscal 2008. At Merchandise Licensing, revenue was comparable to the prior-year quarter.

Costs and Expenses

Costs and expenses, which consist primarily of cost of sales, salaries and benefits, marketing, and occupancy, increased 38%, or $141 million, to $508 million, primarily due to an increase at our retail business driven by the acquisition of the Disney Stores North America as well as higher selling and administrative costs.

Operating Income

Segment operating income decreased 8%, or $22 million, to $265 million, driven by lower results at our retail business, including the absence of royalties from the former licensee for the Disney Stores North America, and higher selling and administrative costs.

Interactive Media

Revenues

Interactive Media revenues increased 13%, or $37 million, to $313 million primarily due to an increase of $23 million at Disney Interactive Studios.

The increase at Disney Interactive Studios was primarily due to higher video game unit volume driven by current quarter titles, which included *High School Musical 3*, *Sing It* and *Bolt* compared to the prior-year quarter, which included *High School Musical* and *Hannah Montana*.

Costs and Expenses

Costs and expenses, which consist primarily of video game and internet content development costs, product costs, distribution and marketing expenses, general and administrative costs, and technology infrastructure costs, increased 36%, or $95 million, to $358 million. The increase was primarily due to an increase in unit cost of sales and increased distribution and marketing costs at Disney Interactive Studios.

Operating Income

Segment operating income decreased $58 million to a loss of $45 million due to a decline at Disney Interactive Studios.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

OTHER FINANCIAL INFORMATION

Corporate and Unallocated Shared Expenses

Corporate and unallocated shared expenses decreased from $92 million to $80 million for the quarter due to an increase in allocation of costs to the business segments.

Net Interest Expense

Net interest expense is as follows:

(in millions)	Quarter Ended December 27, 2008	Quarter Ended December 29, 2007	Change
Interest expense	**$ (168)**	$ (216)	(22) %
Interest and investment income	**29**	93	(69) %
Net interest expense	**$ (139)**	$ (123)	13 %

The decrease in interest expense for the quarter was primarily due to lower effective interest rates.

Interest and investment income for the quarter decreased as the prior-year quarter included a gain on the sale of an investment and a recovery in connection with the Company s leveraged lease investment with Delta Air Lines which had been written off previously.

Income Taxes

The effective income tax rate decreased 0.9 percentage points from 37.3% to 36.4% for the quarter. The decrease in the effective income tax rate was driven by increased benefits from Internal Revenue Code (IRC) Section 199 related to qualified domestic production activities.

Minority Interests

Minority interest expense decreased for the quarter due to the impact of lower performance at Disneyland Resort Paris and at ESPN. The minority interest impact 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)	Quarter Ended December 27, 2008	Quarter Ended December 29, 2007	Change
Cash provided by operations	**$ 262**	$ 662	$ (400)
Cash used in investing activities	**(578)**	(324)	(254)
Cash provided (used) by financing activities	**1,110**	(594)	1,704

Increase/(decrease) in cash and cash equivalents	**$ 794**	$ (256)	$ 1,050

Operating Activities

Cash provided by operations decreased by $400 million to $262 million primarily due to lower segment operating results and higher net investment in film and television productions, partially offset by lower income tax payments.

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 quarters ended December 27, 2008 and December 29, 2007 are as follows:

	Quarter Ended	
(in millions)	**December 27, 2008**	December 29, 2007
Beginning balances:		
Production and programming assets	**$ 5,935**	$ 5,682
Programming liabilities	**(1,108)**	(1,210)
	4,827	4,472
Spending:		
Film and television production	**998**	850
Broadcast programming	**1,431**	1,348
	2,429	2,198
Amortization:		
Film and television production	**(790)**	(1,022)
Broadcast programming	**(1,394)**	(1,392)
	(2,184)	(2,414)
Change in film and television production and programming costs	**245**	(216)
Other non-cash activity	**(24)**	12
Ending balances:		
Production and programming assets	**6,290**	5,632
Programming liabilities	**(1,242)**	(1,364)
	$ 5,048	$ 4,268

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Investing Activities

Cash used by investing activities during the quarter ended December 27, 2008 of $578 million included $291 million of investments in parks, resorts and other property and $475 million of acquisitions, partially offset by proceeds totaling $185 million from the sale of our investment in two pay television services in Latin America.

(in millions)	Quarter Ended December 27, 2008	Quarter Ended December 29, 2007
Media Networks	**$ 41**	$ 29
Parks and Resorts		
Domestic	**169**	133
International	**13**	43
Total Parks and Resorts	**182**	176
Studio Entertainment	**54**	25
Consumer Products	**7**	9
Interactive Media	**6**	3
Corporate	**1**	7
	$ 291	$ 249

The increase in capital expenditures for the quarter was primarily due to the expansion at Disney s California Adventure and new production facilities at Studio Entertainment.

Financing Activities

Cash provided by financing activities during the quarter ended December 27, 2008 of $1.1 billion reflected net proceeds from borrowings.

During the quarter ended December 27, 2008, the Company s borrowing activity was as follows:

(in millions)	September 27, 2008	Additions	Payments	Other Activity	December 27, 2008
Commercial paper borrowings	$ 1,985	$ 687	$	$	**$ 2,672**
U.S. medium-term notes	7,005	1,000	(125)	(9)	**7,871**
European medium-term notes	318			28	**346**
Capital Cities/ABC debt	178			(1)	**177**
Film financing	248	95	(47)	7	**303**
Other [(1)]	1,199	1	(2)	216	**1,414**
Euro Disney borrowings [(2)]	2,457		(30)	(101)	**2,326**
Hong Kong Disneyland borrowings [(3)]	1,249		(375)	20	**894**
Total	$ 14,639	$ 1,783	$ (579)	$ 160	**$ 16,003**

(1) The other activity is primarily market value adjustments for debt with qualifying hedges.

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

(3) During the quarter, Hong Kong Disneyland borrowed funds from the Company that were used to repay Hong Kong Disneyland s commercial term loan and revolving credit facility.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The Company s bank facilities as of December 27, 2008 were as follows:

(in millions)	Committed Capacity	Capacity Used	Unused Capacity
Bank facilities expiring 2010	$ 2,225	$	$ 2,225
Bank facilities expiring 2011	2,225	242	1,983
Total	$ 4,450	$ 242	$ 4,208

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 December 27, 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 December 27, 2008, $242 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 $648 million dividend ($0.35 per share) on December 3, 2008, related to fiscal 2008, which was paid on January 20, 2009, to shareholders of record on December 15, 2008. The Company paid a $664 million dividend ($0.35 per share) during the second quarter of fiscal 2008 related to fiscal 2007.

During the quarter ended December 27, 2008, the Company repurchased 3 million shares for approximately $104 million. As of December 27, 2008, the Company had remaining authorization in place to repurchase approximately 180 million additional shares. 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 December 27, 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 December 27, 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.

Euro Disney has annual covenants under its debt agreements that limit its investment and financing activities and require it to meet certain financial performance covenants. Euro Disney was in compliance with these covenants for fiscal 2008.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

COMMITMENTS AND CONTINGENCIES

Legal Matters

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

Guarantees

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

Tax Matters

As disclosed in Note 8 to the Consolidated Financial Statements in the 2008 Annual Report on Form 10-K, the Company has exposure for certain tax matters.

Contractual Commitments

Refer to Note 14 in the Consolidated Financial Statements in the 2008 Annual Report on Form 10-K for information regarding the Company s contractual commitments.

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 2008 Annual Report on Form 10-K as amended on Form 8-K dated February 3, 2009.

Film and Television Revenues and Costs

We expense film and television production and participation costs 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 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.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

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 over the contract period, 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, amortization of the rights costs may be accelerated or slowed.

Costs of film and television productions are subject to regular recoverability assessments which compare the estimated fair values with the unamortized costs. 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 2008 Annual Report on Form 10-K for a summary of these revenue recognition policies.

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,

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

which is derived from historical usage patterns. A change from the 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 which we evaluate annually. Refer to the 2008 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. A lower discount rate increases the present value of benefit obligations and increases pension expense. The guideline for setting this rate is high-quality long-term corporate bond rates that are currently available. The Company s discount rate is 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 and between annual tests if current events or circumstances require an interim impairment assessment. 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. A key factor for our discounted cash flow analyses is the estimate of future cash flows of each reporting unit which is, in turn, sensitive to our estimates of future revenue growth and margins for these businesses.

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 was 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.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

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.

In light of recent adverse economic conditions in the global economy, the Company s long-term cash flow forecasts are subject to a greater degree of uncertainty. If there is a material reduction in our estimates, or if actual results are materially below our estimates, we may be required to record an impairment to goodwill and other indefinite lived intangible assets.

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 and market values, where available. If these forecasts are not met or market values indicate an other than temporary decline in value, impairment charges may be required.

Allowance for Doubtful Accounts

We evaluate our allowance for doubtful accounts and estimate collectibility of accounts receivable based on our analysis of historical bad debt experience in conjunction with our assessment of the financial condition of individual companies with which we do business. In light of the recent turmoil in the domestic and global economy that has affected many companies, our estimates and judgments with respect to the collectibility of our receivables from these companies have become subject to greater uncertainty than in more stable periods. If our estimate of uncollectible accounts is too low, costs and expenses may increase in future periods and if it is too high, cost and expenses may decrease in future periods.

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.

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 quarter ended December 27, 2008 were 33% 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 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 2008 Annual Report on Form 10-K for estimated impacts of changes in these assumptions.

New Accounting Pronouncements

See Note 12 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, commodity 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, commodities, 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 targets 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.

Our objectives in managing exposure to commodity fluctuations are to use commodity derivatives to reduce volatility of earnings and cash flows arising from commodity price changes. The amounts hedged using commodity swap contracts are based on forecasted levels of consumption of certain commodities, such as fuel oil and gasoline.

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 December 27, 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 first quarter of fiscal 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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: changes in domestic and global economic conditions, competitive conditions and consumer preferences; adverse weather conditions or natural disasters; health concerns; international, political or military developments; and technological developments. 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 discussed in the 2008 Annual Report on Form 10-K under the Item 1A, Risk Factors.

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 December 27, 2008**:**

Period	Total Number of Shares Purchased [1]	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs[2]
September 28, 2008 October 25, 2008	3,410,923	$ 31.63	3,275,100	180 million
October 26, 2008 November 29, 2008	154,746	22.28		180 million
November 30, 2008 December 27, 2008	208,782	21.55		180 million
Total	3,774,451	30.69	3,275,100	180 million

(1) 499,351 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.

(2) The Company is authorized to repurchase shares of its common stock under a share repurchase program implemented effective June 10, 1998. 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

February 3, 2009

Burbank, California

INDEX OF EXHIBITS

Number and Description of Exhibit (Numbers Coincide with Item 601 of Regulation S-K)		Document Incorporated by Reference from a Previous Filing or Filed Herewith, as Indicated below
10.1	Amended and Restated Employment Agreement, dated as of December 23, 2008 between the Company and Robert A. Iger	Filed herewith
10.2	Amended and Restated Employment Agreement, dated as of December 18, 2008 between the Company and Thomas O. Staggs	Filed herewith
10.3	Amended and Restated Employment Agreement, dated as of December 22, 2008 between the Company and Dennis Shuler	Filed herewith
10.4	Severance Pay Plan Amended and Restated effective January 1, 2009	Filed herewith
10.5	Form of Performance-Based Stock Unit Award Agreement (Total Shareholder Return/Average Annual Adjusted EPS Growth Goals/Section 162(m) Vesting Requirement)	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.