SunOpta Inc.
Form 10-Q
May 11, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **April 2, 2016**

OR

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

For the transition period from _____________ to _____________ .

Commission file number: 001-34198

SUNOPTA INC.
(Exact name of registrant as specified in its charter)

CANADA	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2233 Argentia Road **Mississauga, Ontario L5N 2X7, Canada**	**(905) 821-9669**
(Address of principal executive offices)	(Registrant s telephone number, including area code)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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 Exchange Act).

Yes [ ] No [X]

The number of the registrant s common shares outstanding as of May 6, 2016 was 85,509,835.

SUNOPTA INC.
FORM 10-Q
For the quarterly period ended April 2, 2016

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Basis of Presentation

Except where the context otherwise requires, all references in this Quarterly Report on Form 10-Q (Form 10-Q) to the Company , SunOpta , we , us , our or similar words and phrases are to SunOpta Inc. and its subsidiaries, taken toge

In this report, all currency amounts are expressed in thousands of United States (U.S.) dollars ($), except per share amounts, unless otherwise stated. Amounts expressed in Canadian dollars are expressed in thousands of Canadian dollars and preceded by the symbol Cdn $, and amounts expressed in euros are expressed in thousands of euros and preceded by the symbol € . As at April 2, 2016, the closing rates of exchange for the U.S. dollar, expressed in Canadian dollars and euros, were $1.00 = Cdn $1.3014 and $1.00 = €0.8779. These rates are provided solely for convenience and do not necessarily reflect the rates used in the preparation of our financial statements.

Forward-Looking Statements

This Form 10-Q contains forward-looking statements which are based on our current expectations and assumptions and involve a number of risks and uncertainties. Generally, forward-looking statements do not relate strictly to historical or current facts and are typically accompanied by words such as anticipate , estimate , intend , projec potential , continue , believe , expect , could , would , should , might , plan , will , may , predict , t and words and phrases of similar impact and include, but are not limited to references to our recent acquisition of Sunrise Holdings (Delaware) Inc. (Sunrise); business acquisition transaction values; future financial and operating results, plans, objectives, expectations and intentions, and other statements that are not historical facts; possible operational consolidation; reduction of non-core assets and operations; business strategies; plant and production capacities; revenue generation potential; anticipated construction costs; competitive strengths; goals; capital expenditure plans; business and operational growth and expansion plans; anticipated operating margins and operating income targets; gains or losses associated with business transactions; cost reductions; rationalization and improved

efficiency initiatives; proposed new product offerings; and references to the future growth of our business and global markets for our products. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on certain assumptions, expectations and analyses we make in light of our experience and our interpretation of current conditions, historical trends and expected future developments, as well as other factors that we believe are appropriate in the circumstances

Whether actual results and developments will agree with and meet our expectations and predictions is subject to many risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from our expectations and predictions. We believe these factors include, but are not limited to, the following:

our ability to successfully integrate the operations of Sunrise (as well as other recent acquisitions) into our business and, once integrated, the effects of this acquisition on our future financial condition, operating results, strategy and plans, including the impact of the substantial additional debt incurred to finance this acquisition and our ability to achieve the estimated synergies from this acquisition;

our ability to retain key management and employees of acquired businesses;

restrictions in our five-year revolving asset-based credit facility (the Global Credit Facility) on how we may operate our business;

our ability to meet the covenants of the Global Credit Facility or to obtain necessary waivers from our lenders;

our ability to obtain additional capital as required to maintain current growth rates;

our ability to successfully consummate possible future divestitures of businesses;

our increased vulnerability to economic downturns and adverse industry conditions due to our level of indebtedness;

that our customers may choose not to buy products from us;

loss of one or more key customers;

changes and difficulty in predicting consumer preferences for natural and organic food products;

the highly competitive industry in which we operate;

an interruption at one or more of our manufacturing facilities;

technology failures that could disrupt our operations and negatively impact our business;

the loss of service of our key management;

labor shortages or increased labor costs;

the effective management of our supply chain;

volatility in the prices of raw materials and energy;

the availability of organic and non-genetically modified ingredients;

enactment of climate change laws;

unfavorable growing and operating conditions due to adverse weather conditions;

dilution in the value of our common shares through the exercise of stock options, participation in our employee stock purchase plan and issuance of additional securities;

impairment charges in goodwill or other intangible assets;

technological innovation by our competitors;

- our ability to protect our intellectual property and proprietary rights;
- substantial environmental regulation and policies to which we are subject;
- significant food and health regulations to which we are subject;
- agricultural policies that influence our operations;
- product liability suits, recalls and threatened market withdrawals that may arise or be brought against us;
- food safety concerns and instances of food-borne illnesses that could harm our business;
- litigation and regulatory enforcement concerning marketing and labeling of food products;
- our exposure to our international operations;
- that we do not currently intend to, and are restricted in our ability to, pay any cash dividends on our common shares in the foreseeable future;
- fluctuations in exchange rates, interest rates and the prices of certain commodities;
- our ability to effectively manage our growth and integrate acquired companies; and
- the volatility of our operating results and share price.

All forward-looking statements made herein are qualified by these cautionary statements, and our actual results or the developments we anticipate may not be realized. We do not undertake any obligation to update our forward-looking statements after the date of this report for any reason, even if new information becomes available or other events occur in the future, except as may be required under applicable securities laws. The foregoing factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and our Annual Report on Form 10-K for the fiscal year ended January 2, 2016. Additional information about these factors and about the material factors or assumptions underlying such forward-looking statements may be found under Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended January 2, 2016, under Item 1A. Risk Factors of this report, and in our other filings with the U.S. Securities and Exchange Commission and the Canadian Securities Administrators.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SunOpta Inc.
Consolidated Statements of Operations
For the quarters ended April 2, 2016 and April 4, 2015
(Unaudited)
(All dollar amounts expressed in thousands of U.S. dollars)

		Quarter ended
	April 2, 2016	April 4, 2015
	$	$
		(note 1)
Revenues	352,314	273,949
Cost of goods sold	320,413	244,779
Gross profit	31,901	29,170
Selling, general and administrative expenses	24,272	20,697
Intangible asset amortization	2,822	625
Other expense, net (note 7)	3,978	104
Foreign exchange loss (gain)	2,172	(2,103)
Earnings (loss) from continuing operations before the following	(1,343)	9,847
Interest expense, net	11,022	927
Earnings (loss) from continuing operations before income taxes	(12,365)	8,920
Provision for (recovery of) income taxes (note 8)	(3,086)	3,021
Earnings (loss) from continuing operations	(9,279)	5,899
Discontinued operations (note 3)		
Loss from discontinued operations	(1,993)	(1,345)
Gain on classification as held for sale	560	-
Recovery of income taxes	599	264
Loss from discontinued operations attributable to non-controlling interests	264	361
Loss from discontinued operations attributable to SunOpta Inc.	(570)	(720)
Earnings (loss)	(9,849)	5,179
Earnings (loss) attributable to non-controlling interests	384	(55)
Earnings (loss) attributable to SunOpta Inc.	(10,233)	5,234
Earnings (loss) per share basic (note 9)		

- from continuing operations	(0.11)	0.09
- from discontinued operations	(0.01)	(0.01)
	(0.12)	0.08
Earnings (loss) per share diluted (note 9)		
- from continuing operations	(0.11)	0.09
- from discontinued operations	(0.01)	(0.01)
	(0.12)	0.08

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Consolidated Statements of Comprehensive Earnings
For the quarters ended April 2, 2016 and April 4, 2015
(Unaudited)
(All dollar amounts expressed in thousands of U.S. dollars)

		Quarter ended
	April 2, 2016	April 4, 2015
	$	$
		(note 1)
Earnings (loss) from continuing operations	(9,279)	5,899
Loss from discontinued operations attributable to SunOpta Inc.	(570)	(720)
Earnings (loss)	(9,849)	5,179
Change in fair value of interest rate swap, net of taxes (note 4)	-	(196)
Currency translation adjustment	1,939	(4,437)
Other comprehensive earnings (loss), net of income taxes	1,939	(4,633)
Comprehensive earnings (loss)	(7,910)	546
Comprehensive earnings (loss) attributable to non-controlling interests	241	(782)
Comprehensive earnings (loss) attributable to SunOpta Inc.	(8,151)	1,328

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Consolidated Balance Sheets
As at April 2, 2016 and January 2, 2016
(Unaudited)
(All dollar amounts expressed in thousands of U.S. dollars)

	April 2, 2016 $	January 2, 2016 $
ASSETS		
Current assets		
Cash and cash equivalents	5,475	2,274
Accounts receivable	135,167	117,412
Inventories (note 5)	357,146	371,223
Prepaid expenses and other current assets	22,399	20,088
Current income taxes recoverable	21,722	21,728
Current assets held for sale (notes 1 and 3)	59,732	64,330
Total current assets	601,641	597,055
Property, plant and equipment	173,552	176,513
Goodwill (note 2)	242,047	241,690
Intangible assets (note 2)	192,284	195,008
Deferred income taxes	970	958
Other assets	12,131	7,979
Total assets	1,222,625	1,219,203
LIABILITIES		
Current liabilities		
Bank indebtedness (note 6)	202,444	159,773
Accounts payable and accrued liabilities	134,318	151,831
Customer and other deposits	4,259	5,322
Income taxes payable	2,745	1,720
Other current liabilities	1,143	1,521
Current portion of long-term debt (note 6)	2,226	1,773
Current portion of long-term liabilities (note 2)	5,243	5,243
Current liabilities held for sale (notes 1 and 3)	48,597	52,486
Total current liabilities	400,975	379,669
Long-term debt (note 6)	313,911	321,222
Long-term liabilities (note 2)	17,934	17,809
Deferred income taxes	70,649	74,324
Total liabilities	803,469	793,024
EQUITY		
SunOpta Inc. shareholders equity		
Common shares, no par value, unlimited shares authorized, 85,439,680 shares issued and outstanding (January 2, 2016 - 85,417,849)	298,099	297,987
Additional paid-in capital	23,366	22,327
Retained earnings	96,605	106,838
Accumulated other comprehensive loss	(4,295)	(6,113)

	413,775	421,039
Non-controlling interests	5,381	5,140
Total equity	419,156	426,179
Total equity and liabilities	1,222,625	1,219,203

Commitments and contingencies (note 11)

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Consolidated Statements of Shareholders Equity
As at and for the quarter ended April 2, 2016 and April 4, 2015
(Unaudited)
(All dollar amounts expressed in thousands of U.S. dollars)

	Common shares 000s	Common shares $	Additional paid-in capital $	Retained earnings $	Accumulated other comprehensive loss $	Non-controlling interests $	Total $
Balance at January 2, 2016	85,418	297,987	22,327	106,838	(6,113)	5,140	426,179
Employee stock purchase plan	19	96	-	-	-	-	96
Stock incentive plan	3	16	-	-	-	-	16
Stock-based compensation	-	-	1,039	-	-	-	1,039
Earnings from continuing operations	-	-	-	(9,663)	-	384	(9,279)
Loss from discontinued operations, net of income taxes	-	-	-	(570)	-	(264)	(834)
Currency translation adjustment	-	-	-	-	1,818	121	1,939
Balance at April 2, 2016	85,440	298,099	23,366	96,605	(4,295)	5,381	419,156

	Common shares 000s	Common shares $	Additional paid-in capital $	Retained earnings $	Accumulated other comprehensive loss $	Non-controlling interests $	Total $
Balance at January 3, 2015	67,074	190,668	22,490	129,309	(1,778)	12,639	353,328
Employee stock purchase plan	9	122	-	-	-	-	122
Stock incentive plan	394	2,273	(779)	-	-	-	1,494
Warrants	250	1,253	(441)	-	-	-	812
Stock-based compensation	-	-	1,082	-	-	-	1,082
Earnings from continuing operations	-	-	-	5,954	-	(55)	5,899
Earnings from discontinued operations, net of income taxes	-	-	-	(720)	-	(361)	(1,081)
Currency translation adjustment	-	-	-	-	(4,138)	(299)	(4,437)
Change in fair value of interest rate swap, net of income taxes (note 4)	-	-	-	-	(129)	(67)	(196)
Balance at April 4, 2015	67,727	194,316	22,352	134,543	(6,045)	11,857	357,023

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Consolidated Statements of Cash Flows
For the quarters ended April 2, 2016 and April 4, 2015
(Unaudited)
(Expressed in thousands of U.S. dollars)

		Quarter ended
	April 2, 2016	April 4, 2015
	$	$
		(note 1)
CASH PROVIDED BY (USED IN) Operating activities		
Earnings (loss)	(9,849)	5,179
Loss from discontinued operations attributable to SunOpta Inc.	(570)	(720)
Earnings (loss) from continuing operations	(9,279)	5,899
Items not affecting cash:		
Depreciation and amortization	8,760	4,063
Acquisition accounting adjustment on inventory sold	7,626	-
Amortization and write-off of debt issuance costs (note 6)	3,368	98
Impairment of long-lived assets (note 7)	1,735	-
Deferred income taxes	(3,687)	(195)
Stock-based compensation	1,039	970
Unrealized gain on derivative instruments (note 4)	(209)	(103)
Other	238	515
Changes in non-cash working capital, net of business acquired (note 10)	(27,485)	(22,200)
Net cash flows from operations - continuing operations	(17,894)	(10,953)
Net cash flows from operations - discontinued operations	758	(533)
	(17,136)	(11,486)
Investing activities		
Purchases of property, plant and equipment	(4,547)	(5,521)
Acquisition of business (note 2)	-	(13,300)
Other	-	(30)
Net cash flows from investing activities - continuing operations	(4,547)	(18,851)
Net cash flows from investing activities - discontinued operations	(191)	(222)
	(4,738)	(19,073)
Financing activities		
Increase under line of credit facilities (note 6)	232,543	21,347
Repayment of line of credit facilities (note 6)	(192,677)	-
Borrowings under long-term debt (note 6)	432	-
Repayment of long-term debt (note 6)	(10,486)	(243)
Payment of debt issuance costs	(4,110)	-
Proceeds from the exercise of stock options and employee share purchases	112	1,616
Proceeds from the exercise of warrants	-	812
Other	(15)	(137)
Net cash flows from financing activities - continuing operations	25,799	23,395
Net cash flows from financing activities - discontinued operations	(1,180)	738
	24,619	24,133
Foreign exchange gain (loss) on cash held in a foreign currency	37	(21)
Increase (decrease) in cash and cash equivalents in the period	2,782	(6,447)

Discontinued operations cash activity included above:		
Add: Balance included at beginning of period	1,707	2,170
Less: Balance included at end of period	(1,288)	(2,083)
Cash and cash equivalents - beginning of the period	2,274	7,768
Cash and cash equivalents - end of the period	5,475	1,408

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Consolidated Statements of Cash Flows
For the quarters ended April 2, 2016 and April 4, 2015
(Unaudited)
(Expressed in thousands of U.S. dollars)

		Quarter ended
	April 2, 2016	April 4, 2015
	$	$
		(note 1)
Non-cash investing activities		
Acquisition of business, working capital adjustment (note 2)	-	319
Acquisition of business, settlement of pre-existing relationship (note 2)	-	(749)
Acquisition of business, contingent consideration at fair value (note 2)	-	(18,000)

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended April 2, 2016 and April 4, 2015
(Unaudited)
(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)
1. Description of Business and Significant Accounting Policies

SunOpta Inc. (the Company or SunOpta) was incorporated under the laws of Canada on November 13, 1973. The Company operates businesses focused on a healthy products portfolio that promotes sustainable well-being. The Company s two reportable segments, Global Ingredients and Consumer Products, operate in the natural, organic and specialty food sectors and utilize an integrated business model to bring cost-effective and quality products to market.

In addition, the Company owned approximately 66% of Opta Minerals Inc. (Opta Minerals) as at April 2, 2016 and January 2, 2016, on a non-dilutive basis. Opta Minerals produces, distributes and recycles industrial minerals, silica-free abrasives and specialty sands. On February 12, 2016, the Company announced that Opta Minerals had entered into a definitive acquisition agreement, pursuant to which an affiliate of Speyside Equity Fund I LP (Speyside), agreed to acquire substantially all of the issued and outstanding shares of Opta Minerals. The acquisition of Opta Minerals by Speyside was completed on April 6, 2016, following a vote of the shareholders of Opta Minerals in favor of the transaction on March 31, 2016. For further information regarding the Company s divestiture of its equity interest in Opta Minerals, see note 3.

Basis of Presentation

The interim consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended, and in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information. Accordingly, these condensed interim consolidated financial statements do not include all of the disclosures required by U.S. GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included and all such adjustments are of a normal, recurring nature. Operating results for the quarter ended April 2, 2016 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016 or for any other period. The interim consolidated financial statements include the accounts of the Company and its subsidiaries, and have been prepared on a basis consistent with the annual consolidated financial statements for the year ended January 2, 2016. For further information, refer to the consolidated financial statements, and notes thereto, included in the Company s Annual Report on Form 10-K for the fiscal year ended January 2, 2016.

Comparative Balances

As at April 2, 2016 and January 2, 2016, Opta Minerals was classified as a discontinued operation held for sale. As a result, the operating results and cash flows of Opta Minerals for the quarter ended April 4, 2015 has been reclassified to discontinued operations to be consistent with presentation for the quarter ended April 2, 2016. In addition, the assets and liabilities of Opta Minerals have been reported as held for sale on the consolidated balance sheets as at April 2, 2016 and January 2, 2016.

Fiscal Year-End

The fiscal year of the Company consists of a 52- or 53-week period ending on the Saturday closest to December 31. Fiscal year 2016 is a 52-week period ending on December 31, 2016, with quarterly periods ending on April 2, July 2 and October 1, 2016. Fiscal year 2015 was a 52-week period ending on January 2, 2016, with quarterly periods ending on April 4, July 4 and October 3, 2015.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting , which is intended to simplify the accounting for share-based payment transactions, including income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. Under the new guidance, companies will record excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than in additional paid-in capital. In addition, the guidance permits companies to elect to recognize forfeitures of share-based payments as they occur, rather than estimating the number of awards expected to be forfeited as is currently required. This guidance is effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended April 2, 2016 and April 4, 2015
(Unaudited)
(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)
In February 2016, the FASB issued ASU 2016-02, Leases , a comprehensive new standard that amends various aspects of existing accounting guidance for leases, including the recognition of a right of use asset and a lease liability for leases with a duration of greater than one year. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements; however, the Company anticipates that upon adoption of the standard it will recognize additional assets and corresponding liabilities related to leases on its balance sheet.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities . ASU 2016-01 will require equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The guidance provides a new measurement alternative for equity investments that do not have readily determinable fair values and do not qualify for the net asset practical expedient. Under this alternative, these investments can be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment with the same issuer. Additionally, ASU 2016-01 also changes certain disclosure requirements and other aspects of current U.S. GAAP. ASU 2016-01 is effective for interim and annual reporting periods beginning on or after December 15, 2017. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers , which will supersede existing revenue recognition guidance under U.S. GAAP. Under the new standard, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which defers by one year the effective date of ASU 2014-09. In addition, in March 2016, the FASB issued ASU 2016-08, an amendment to clarify the implementation guidance around considerations whether an entity is a principal or an agent, impacting whether an entity reports revenue on a gross or net basis, and, in April 2016, the FASB issued ASU 2016-10, an amendment to clarify guidance on identifying performance obligations and the implementation guidance on licensing of intellectual property. ASU 2014-09, as amended, will be effective for annual and interim periods beginning on or after December 15, 2017, and is to be applied on either a full retrospective or modified retrospective basis. Early adoption is permitted only as of annual and interim reporting periods beginning on or after December 15, 2016. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

2. Business Acquisitions

Sunrise Holdings (Delaware), Inc.

On October 9, 2015, the Company completed the acquisition of 100% of the issued and outstanding common shares of Sunrise Holdings (Delaware), Inc. (Sunrise), pursuant to a Purchase and Sale Agreement (the PSA) dated July 30, 2015 (the Sunrise Acquisition). Sunrise is a processor of conventional and organic individually quick frozen (IQF) fruit in the U.S. and Mexico. The acquisition of Sunrise has been accounted for as a business combination under the acquisition method of accounting. The results of Sunrise have been included in the Company s consolidated financial statements since the date of acquisition and are reported in the Consumer Products operating segment. The acquisition of Sunrise is aligned with the Company s strategic focus on healthy and organic foods.

Total consideration for the Sunrise Acquisition was $472.7 million in cash paid at the acquisition date, which included the repayment of all outstanding obligations under Sunrise s senior credit facility in the amount of $171.5 million. In addition, the total consideration included $23.0 million paid by the Company to the holders of Sunrise stock options. As all outstanding Sunrise stock options vested upon the consummation of the Sunrise Acquisition, pursuant to the terms of Sunrise s pre-existing stock option agreements, the cash consideration paid to the optionholders has been attributed to services prior to the Sunrise Acquisition and included as a component of the purchase price. The total consideration also included $20.9 million paid by the Company to settle acquisition-related transaction costs incurred by Sunrise in connection with the Sunrise Acquisition. As none of these costs were incurred by Sunrise on behalf of the Company, the cash consideration paid to settle these costs has been included as a component of the purchase price.

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended April 2, 2016 and April 4, 2015
(Unaudited)
(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed as at the acquisition date. The following amounts recognized for the assets acquired and liabilities assumed are provisional and subject to change: (i) amounts for working capital pending final evaluation of certain pre-acquisition contingencies; (ii) amounts for property, plant and equipment, and intangible assets pending final validation of the inputs and assumptions used in the valuation analysis; (iii) amounts for income tax assets and liabilities pending finalization of estimates and assumptions in respect of certain tax implications of the Sunrise Acquisition and filing of Sunrise s pre-acquisition tax returns; and (iv) amount of goodwill pending the completion of the valuations of assets acquired and liabilities assumed. The Company expects to finalize these amounts no later than one year from the acquisition date.

	$
Cash and cash equivalents	1,728
Accounts receivable(1)	26,090
Inventories(2)	124,829
Income taxes recoverable	12,025
Other current assets	3,982
Property, plant and equipment(3)	46,068
Intangible assets(4)	170,000
Accounts payable and accrued liabilities	(24,169)
Long-term debt, including current portion	(7,620)
Deferred income taxes, net	(75,193)
Net identifiable assets acquired	277,740
Goodwill(5)	196,709
Non-controlling interest(6)	(1,781)
Net assets acquired	472,668

(1) The gross amount of accounts receivable acquired was $26.2 million, of which the Company expects $0.2 million will be uncollectible.

(2) Includes an estimated fair value adjustment to inventory of $19.0 million, of which $7.6 million and $4.0 million was recognized in costs of goods sold for inventory sold in the first quarter of 2016 and fourth quarter of 2015, respectively.

(3) Includes an estimated fair value adjustment to property, plant and equipment of $3.7 million.

(4) The identified intangible assets relate to customer relationships in existence at the acquisition date between Sunrise and major U.S. retail and foodservice customers. The customer relationships intangible assets will be amortized over an estimated weighted-average useful life of approximately 23 years. The estimated fair value of the intangible asset was determined using a discounted cash flow analysis (income approach), which applied a risk-adjusted discount rate of approximately 12.0%.

(5) Goodwill is calculated as the difference between the acquisition-date fair values of the total consideration and the net assets acquired. The total amount of goodwill has been assigned to the Consumer Products operating segment and is not expected to be deductible for tax purposes. The goodwill recognized is attributable to: (i) cost savings, operating synergies, and other benefits expected to result from combining the operations of Sunrise with those of the Company; (ii) the value of longer-term growth prospects in the private label frozen fruit market; (iii) the value of acquiring the current capabilities and low-cost position of the existing Sunrise business (i.e., the higher rate of return on the assembled net assets versus acquiring all of the net assets separately); and (iv) the value of Sunrise s assembled workforce.

(6) Represents the estimated fair value of the non-controlling interest in Sunrise s 75%-owned Mexican subsidiary.

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Niagara Natural Fruit Snack Company Inc.

On August 11, 2015, the Company acquired the net operating assets of Niagara Natural Fruit Snack Company Inc. (Niagara Natural). Niagara Natural is a manufacturer of all-natural fruit snacks located in the Niagara Region of Ontario. The acquisition of the net operating assets of Niagara Natural has been accounted for as a business combination under the acquisition method of accounting. The results of Niagara Natural have been included in the Company s consolidated financial statements since the date of acquisition and are reported in the Consumer Products operating segment.

The following table summarizes the preliminary fair values of the consideration transferred as at the acquisition date:

	$
Cash	6,475
Preliminary working capital adjustment	237
Contingent consideration(1)	2,330
Total consideration transferred	9,042

(1) The Company agreed to pay the owners of Niagara Natural an additional amount of up to approximately $2.8 million over a period of two years subject to adjustment based on certain performance targets. The fair value of the contingent consideration was determined to be $2.3 million as of the acquisition date. On May 5, 2016, the Company and the owners of Niagara Natural entered into an agreement to settle the contingent consideration obligation in exchange for a one-time cash payment of $0.6 million (see note 13).

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed as at the acquisition date, which are subject to change pending finalization of the working capital adjustment. The Company expects to finalize these amounts no later than one year from the acquisition date.

	$
Current assets	2,220
Machinery and equipment	3,414
Intangible assets(1)	2,459
Current liabilities	(687)
Net identifiable assets acquired	7,406
Goodwill(2)	1,636
Net assets acquired	9,042

(1) Intangible assets comprise customer relationships and non-competition arrangements, which will be amortized over an estimated weighted-average useful life of approximately 19 years.
(2) The total amount of goodwill has been assigned to the Consumer Products operating segment.

Citrusource, LLC

On March 2, 2015, the Company acquired 100% of the issued and outstanding units of Citrusource, LLC (Citrusource), a producer of premium not-from-concentrate private label organic and conventional orange juice and citrus products in the U.S. The acquisition of Citrusource has been accounted for as a business combination under the acquisition method of accounting. The results of Citrusource have been included in the Company s consolidated financial statements since the date of acquisition and are reported in the Consumer Products operating segment. The

acquisition of Citrusource aligns with the Company s strategy of growing its value-added consumer products portfolio and leveraging its integrated operating platform.

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The following table summarizes the fair values of the consideration transferred as at the acquisition date:

	$
Cash	13,300
Working capital adjustment	(319)
Settlement of pre-existing relationship	749
Contingent consideration[1]	18,000
Total consideration transferred	31,730

(1) The contingent consideration arrangement with the former unitholders of Citrusource comprises two components: (i) deferred consideration calculated based on a seven-times multiple of the incremental growth in Citrusource s earnings before interest, taxes, depreciation and amortization (EBITDA) in fiscal year 2015 versus EBITDA for fiscal year 2014; and (ii) an earn-out calculated based on 25% of the incremental growth in the sum of Citrusource s EBITDA and the EBITDA of the Company s San Bernardino, California, juice production facility (the Combined EBITDA) in each of fiscal years 2016, 2017 and 2018 versus the Combined EBITDA for fiscal year 2015. There are no upper limits to the amount of each of the components. The fair value measurement of the contingent consideration arrangement was determined to be approximately $18.0 million as at the acquisition date, based on a probability-weighted present value analysis, of which approximately $15.0 million is related to the deferred consideration and approximately $3.0 million is related to the earn-out. The deferred consideration is payable in four equal annual installments commencing in 2016. Of the total contingent consideration obligation, $4.0 million is included in current portion of long-term liabilities and $11.0 million is included in long-term liabilities on the consolidated balance sheets as at April 2, 2016 and January 2, 2016. The fair value of the contingent consideration arrangement is based on significant level 3 unobservable inputs, including the following factors: (i) estimated range of EBITDA values in each of the earn-out periods; and (ii) the probability- weighting applied to each of the EBITDA values within the estimated range for each earn-out period. The resultant probability-weighted EBITDA values for each earn-out period were discounted at a credit risk-adjusted discount rate of approximately 3.5%.

The following table summarizes the fair values of the assets acquired and liabilities assumed as at the acquisition date.

	$
Accounts receivable	2,351
Inventories	1,745
Machinery and equipment	164
Customer relationships intangible asset[1]	14,000
Accounts payable and accrued liabilities	(1,666)
Net identifiable assets acquired	16,594
Goodwill[2]	15,136
Net assets acquired	31,730

(1) The customer relationships intangible asset was recognized based on contracts in existence at the acquisition date between Citrusource and major U.S. retail customers. This intangible asset will be amortized over an estimated useful life of approximately 12 years.

(2) Goodwill is calculated as the difference between the acquisition-date fair values of the consideration transferred and net assets acquired. The total amount of goodwill has been assigned to the Consumer Products operating segment and is expected to be fully deductible for tax purposes. The goodwill

recognized is attributable to: (i) operating synergies expected to result from combining the operations of Citrusource with the Company s vertically-integrated juice production and supply chain capabilities; and (ii) opportunities to leverage the business experience of Citrusource s management team to grow the Company s existing citrus beverage program.

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3. Discontinued Operations

Opta Minerals Inc.

On February 11, 2016, Opta Minerals entered into a definitive acquisition agreement, pursuant to which Speyside agreed to acquire substantially all of the issued and outstanding shares of Opta Minerals. The acquisition agreement was approved by Opta Minerals Boards of Directors, which recommended that Opta Minerals shareholders approve the transaction. Also on February 12, 2016, the Company entered into a support agreement pursuant to which it irrevocably agreed to vote all of its Opta Minerals shares in favor of the transaction. The acquisition of Opta Minerals by Speyside was completed on April 6, 2016, following a vote of the shareholders of Opta Minerals in favor of the transaction on March 31, 2016.

Upon closing of the transaction, the Company received aggregate gross proceeds of $4.8 million (C$6.2 million), of which $3.2 million (C$4.2 million) was received in cash, with the remainder received in the form of a $1.6 million (C$2.0 million) subordinated promissory note bearing interest at 2.0% per annum that will mature on October 6, 2018. In the first quarter of 2016, the Company recognized direct costs related to the sale of Opta Minerals of $0.8 million. The sale of Company s equity interest in Opta Minerals was consistent with its objective of divesting its non-core assets in order to become a pure-play healthy and organic foods company. The Company does not expect to have any significant continuing involvement with Opta Minerals.

The Company determined that Opta Minerals qualified for reporting as a discontinued operation held for sale as at April 2, 2016 and January 2, 2016. In the fourth quarter of 2015, the Company recognized a loss on classification as held for sale of $10.5 million, or $7.7 million net of non-controlling interest, to write down the carrying value of Opta Minerals net assets to fair value less cost to sell based on estimated net proceeds on sale of approximately $4.5 million as at January 2, 2016. In the first quarter of 2016, the Company recognized a $0.6 million gain on classification as held for sale, which reflected a $1.1 million decline in the carrying value of Opta Mineral s net assets, partially offset by a $0.5 million reduction in the estimated net proceeds on sale.

The net assets and liabilities of Opta Minerals have been reported as held for sale on the consolidated balance sheets as at April 2, 2016 and January 2, 2016. The following table reconciles the major classes of assets and liabilities of Opta Minerals to the amounts reported as held for sale:

	April 2, 2016 $	January 2, 2016 $
Cash and cash equivalents	1,288	1,707
Accounts receivable	14,355	14,676
Inventories	22,789	25,869
Property, plant and equipment	16,531	16,019
Intangible assets	13,354	13,194
Other assets	1,370	3,380
Loss recognized on classification as held for sale	(9,955)	(10,515)
Total assets held for sale	59,732	64,330
Bank indebtedness	12,353	12,107

Accounts payable and accrued liabilities	9,100	9,634
Long-term debt	26,324	25,858
Other liabilities	820	4,887
Total liabilities held for sale	48,597	52,486

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The following table reconciles the major components of the results of discontinued operations to the amounts reported in the consolidated statements of operations:

		Quarter ended
	April 2, 2016[1]	April 4, 2015
	$	$
Revenues	24,896	29,457
Cost of goods sold[2]	(22,133)	(25,735)
Selling, general and administrative expenses	(3,024)	(2,973)
Intangible asset amortization	-	(505)
Other income (expense), net[3]	(794)	70
Foreign exchange loss	(454)	(763)
Interest expense	(484)	(896)
Loss before income taxes	(1,993)	(1,345)
Gain on classification as held for sale before income taxes	560	-
Total pre-tax loss from discontinued operations	(1,433)	(1,345)
Recovery of income taxes	599	264
Loss from discontinued operations	(834)	(1,081)
Loss from discontinued operations attributable to non-controlling interest	264	361
Loss from discontinued operations attributable to SunOpta Inc.	(570)	(720)

(1) For the quarter ended April 2, 2016, no depreciation or amortization was recorded on Opta Minerals long-lived assets classified as held for sale.

(2) For the quarter ended April 2, 2016, cost of goods sold includes a charge related to the write-down of inventory recorded by Opta Minerals of $0.8 million.

(3) For the quarter ended April 2, 2016, other expense, net includes a charge related to the impairment of long-lived assets recorded by Opta Minerals of $0.4 million.

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4. Derivative Financial Instruments and Fair Value Measurements

The following table presents for each of the fair value hierarchies, the assets and liabilities that are measured at fair value on a recurring basis as of April 2, 2016 and January 2, 2016:

				April 2, 2016
	Fair value asset (liability) $	Level 1 $	Level 2 $	Level 3 $
(a) Commodity futures and forward contracts[1]				
Unrealized short-term derivative asset	503	73	430	-
Unrealized long-term derivative asset	4	-	4	-
Unrealized short-term derivative liability	(957)	-	(957)	-
Unrealized long-term derivative liability	(25)	-	(25)	-
(b) Inventories carried at market[2]	6,841	-	6,841	-
(c) Forward foreign currency contracts[3]	(848)	-	(848)	-
(d) Contingent consideration[4]	(21,208)	-	-	(21,208)
(e) Embedded derivative[5]	3,409	-	-	3,409

				January 2, 2016
	Fair value asset (liability) $	Level 1 $	Level 2 $	Level 3 $
(a) Commodity futures and forward contracts[1]				
Unrealized short-term derivative asset	748	-	748	-
Unrealized long-term derivative asset	21	-	21	-
Unrealized short-term derivative liability	(1,417)	(10)	(1,407)	-
Unrealized long-term derivative liability	(36)	-	(36)	-
(b) Inventories carried at market[2]	5,945	-	5,945	-
(c) Forward foreign currency contracts[3]	311	-	311	-
(d) Contingent consideration[4]	(21,010)	-	-	(21,010)
(e) Embedded derivative[5]	3,409	-	-	3,409

(1) Unrealized short-term derivative asset is included in prepaid expenses and other current assets, unrealized long-term derivative asset is included in other assets, unrealized short-term derivative liability is included in other current liabilities and unrealized long-term derivative liability is included in long-term liabilities on the consolidated balance sheets.
(2) Inventories carried at market are included in inventories on the consolidated balance sheets.
(3) The forward foreign currency contracts are included in accounts receivable or accounts payable and accrued liabilities on the consolidated balance sheets.
(4) Contingent consideration obligations are included in long-term liabilities (including the current portion thereof) on the consolidated balance sheets.
(5) The embedded derivative is included in other assets (long-term) on the consolidated balance sheets.

(a) Commodity futures and forward contracts

The Company s derivative contracts that are measured at fair value include exchange-traded commodity futures and forward commodity purchase and sale contracts. Exchange-traded futures are valued based on unadjusted quotes for identical assets priced in active markets and are classified as level 1. Fair value for forward commodity purchase and sale contracts is estimated based on exchange-quoted prices adjusted for differences in local markets. Local market adjustments use observable inputs or market transactions for similar assets or liabilities, and, as a result, are classified as level 2. Based on historical experience with the Company s suppliers and customers, the Company s own credit risk, and the Company s knowledge of current market conditions, the Company does not view non-performance risk to be a significant input to fair value for the majority of its forward commodity purchase and sale contracts.

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These exchange-traded commodity futures and forward commodity purchase and sale contracts are used as part of the Company s risk management strategy, and represent economic hedges to limit risk related to fluctuations in the price of certain commodity grains, as well as the prices of cocoa and coffee. These derivative instruments are not designated as hedges for accounting purposes. Gains and losses on changes in fair value of these derivative instruments are included in cost of goods sold on the consolidated statement of operations. For the quarter ended April 2, 2016, the Company recognized a gain of $0.2 million (April 4, 2015 gain of $0.1 million) related to changes in the fair value of these derivatives.

As at April 2, 2016, the notional amounts of open commodity futures and forward purchase and sale contracts were as follows (in thousands of bushels):

	Number of bushels purchased (sold)	
	Corn	Soybeans
Forward commodity purchase contracts	554	524
Forward commodity sale contracts	(419)	(660)
Commodity futures contracts	(300)	(190)

In addition, as at April 2, 2016, the Company had net open forward contracts to purchase 1 lot of cocoa and to sell 6 of coffee.

(b) Inventories carried at market
Grains inventory carried at fair value is determined using quoted market prices from the Chicago Board of Trade (CBoT). Estimated fair market values for grains inventory quantities at period end are valued using the quoted price on the CBoT adjusted for differences in local markets, and broker or dealer quotes. These assets are placed in level 2 of the fair value hierarchy, as there are observable quoted prices for similar assets in active markets. Gains and losses on commodity grains inventory are included in cost of goods sold on the consolidated statements of operations. As at April 2, 2016, the Company had 280,161 bushels of commodity corn and 379,914 bushels of commodity soybeans in inventories carried at market.

(c) Foreign forward currency contracts
As part of its risk management strategy, the Company enters into forward foreign exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates. For any open forward foreign exchange contracts at period end, the contract rate is compared to the forward rate, and a gain or loss is recorded. These contracts are placed in level 2 of the fair value hierarchy, as the inputs used in making the fair value determination are derived from and are corroborated by observable market data. While these forward foreign exchange contracts typically represent economic hedges that are not designated as hedging instruments, certain of these contracts may be designated as hedges. As at April 2, 2016 the Company had open forward foreign exchange contracts with a notional value of €27.2 million ($30.2 million). Gains and losses on changes in the fair value of these derivative instruments are included in foreign exchange loss or gain on the consolidated statement of operations. For the quarter ended April 2, 2016, the Company recognized a loss of $1.2 million (April 4, 2015 gain of $0.4 million) related to changes in the fair value of these derivatives.

(d) Contingent consideration
The fair value measurement of contingent consideration arising from business acquisitions is determined using unobservable (level 3) inputs. These inputs include: (i) the estimated amount and timing of the projected cash flows on which the contingency is based; and (ii) the risk-adjusted discount rate used to present value those cash flows. The

following table presents a reconciliation of contingent consideration obligations for the quarter ended April 2, 2016:

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	January 2, 2016	Issuances	Fair Value Adjustments(1)	Payments	April 2, 2016
	$	$	$	$	$
Contingent consideration	(21,010)	-	(198)	-	(21,208)

(1) Reflects accretion for the time value of money related to the Citrusource and Niagara Natural obligations, as well as an adjustment to the contractual amount owing to a former shareholder of Organic Land Corporation OOD, which was acquired by the Company on December 31, 2012. Fair value adjustments are included in other income/expense (see note 7).

(e) Embedded derivative
On August 5, 2011 and August 29, 2014, the Company invested $0.5 million and $0.9 million, respectively, in convertible subordinated notes issued by Enchi Corporation (Enchi), a developer of advanced bioconversion products for the renewable fuels industry, of which $0.2 million principal amount remained outstanding as at April 2, 2016 and January 2, 2016. The Company s investment in subordinated convertible notes of Enchi includes the value of an accelerated payment option embedded in the notes, which may result in a maximum payout to the Company of $5.1 million. As at April 2, 2016 and January 2, 2016, the Company determined that the fair value of this embedded derivative was $3.4 million. Due to a lack of level 1 or level 2 observable market quotes for the notes, the Company used a discounted cash flow analysis (income approach) to estimate the original fair value of the embedded derivative based on unobservable level 3 inputs. The Company assesses changes in the fair value of the embedded derivative based on the performance of actual cash flows derived from certain royalty rights owned by Enchi, which are expected to be the primary source of funds available to settle the embedded derivative, relative to the financial forecasts used in the valuation analysis. As at April 2, 2016, there was no significant change to the expectations related to the royalty rights that would impact the fair value of the embedded derivative. On April 15, 2016, the Company received a distribution from Enchi of $0.7 million, which has been applied to repay the remaining $0.2 million principal amount of the convertible subordinated notes, with the balance of $0.5 million applied against the carrying value of the embedded derivative.

5. Inventories

	April 2, 2016	January 2, 2016
	$	$
Raw materials and work-in-process	258,610	276,434
Finished goods	89,287	87,215
Company-owned grain	15,687	14,348
Inventory reserves	(6,438)	(6,774)
	357,146	371,223

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6. Bank Indebtedness and Long-Term Debt

	April 2, 2016	January 2, 2016
	$	$
Bank indebtedness:		
Global Credit Facility[1]	199,555	-
North American credit facilities[1]	-	70,563
European credit facilities[1]	-	87,419
Bulgarian credit facility[2]	2,889	1,791
	202,444	159,773
Long-term debt:		
Second Lien Loan Agreement, net of unamortized debt issuance costs of $4,757 (January 2, 2016 - $7,757)[3]	305,242	312,243
Capital lease obligations	9,378	9,245
Other	1,517	1,507
	316,137	322,995
Less: current portion	2,226	1,773
	313,911	321,222

(1) Global Credit Facility

On February 11, 2016, the Company entered into a five-year credit agreement for a senior secured asset-based revolving credit facility with a syndicate of banks in the maximum aggregate principal amount of $350.0 million, subject to borrowing base capacity (the Global Credit Facility). The Global Credit Facility replaced the Company s previous North American credit facilities that were set to expire January 27, 2017, and its European credit facilities that were due on demand with no set maturity date. The Global Credit Facility will be used to support the working capital and general corporate needs of the Company s global operations, in addition to funding future strategic initiatives. The Global Credit Facility also includes borrowing capacity available for letters of credit and provides for borrowings on same-day notice, including in the form of swingline loans. Subject to customary borrowing conditions and the agreement of any such lenders to provide such increased commitments, the Company may request to increase the total lending commitments under the Global Credit Facility to a maximum aggregate principal amount not to exceed $450.0 million. Outstanding principal amounts under the Global Credit Facility are repayable in full on the maturity date of February 10, 2021.

Individual borrowings under the Global Credit Facility have terms of six months or less and bear interest based on various reference rates, including prime rate and LIBOR plus an applicable margin. The applicable margin in the Global Credit Facility ranges from 1.25% to 1.75% for loans bearing interest based on LIBOR and from 0.25% to 0.75% for loans bearing interest based on the prime rate and, in each case, is set quarterly based on average borrowing availability for the preceding fiscal quarter. The initial margin for the Global Credit Facility was 0.50% with respect to prime rate borrowings and 1.50% with respect to LIBOR borrowings. As at April 2, 2016, the weighted-average interest rate on the facilities was 2.46% .. The obligations under the Global Credit Facility are guaranteed by substantially all of the Company s subsidiaries and, subject to certain exceptions, such obligations are secured by first priority liens on substantially all assets of the Company.

The Global Credit Facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, the Company s ability to create liens on assets; sell assets and enter into sale and leaseback transactions; pay dividends, prepay junior lien and unsecured indebtedness and make other restricted payments; incur additional indebtedness and make guarantees; make investments, loans or advances, including acquisitions; and engage in mergers or consolidations.

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(2) Bulgarian credit facility
On April 19, 2016, a subsidiary of The Organic Corporation (TOC), a wholly-owned subsidiary of the Company, amended its revolving credit facility agreement dated May 22, 2013, to provide up to €4.5 million to cover the working capital needs of TOC s Bulgarian operations. The facility is secured by the accounts receivable and inventories of the Bulgarian operations and is fully guaranteed by TOC. Interest accrues under the facility based on EURIBOR plus a margin of 2.75%, and borrowings under the facility are repayable in full on April 30, 2017. As at April 2, 2016, the weighted-average interest rate on the Bulgarian credit facility was 2.75% .

(3) Second Lien Loan Agreement
On October 9, 2015, SunOpta Foods Inc. (the Borrower), a wholly-owned subsidiary of the Company, the Company and certain subsidiaries of the Company, as guarantors (together with the Company, the Guarantors), entered into a second lien loan agreement (the Second Lien Loan Agreement) with a group of lenders, pursuant to which the Company borrowed an aggregate principal amount of $330.0 million of term loans. In connection with the Second Lien Loan Agreement, the Company incurred $10.8 million of debt issuance costs, which were recorded as a reduction against the principal amount of the borrowings. The net proceeds of the Second Lien Loan Agreement were used to partially fund the Sunrise Acquisition. The Second Lien Loan Agreement is guaranteed by the Company and the Company s subsidiaries that guarantee the Global Credit Facility, subject to certain exceptions, and is secured on a second-priority basis by security interests on all of the Borrower s and Guarantors assets that secure the Global Credit Facility, subject to certain exceptions and permitted liens.

The term loans made under the Second Lien Loan Agreement on October 9, 2015 (the Initial Loans) mature on October 9, 2016. If any Initial Loans remain outstanding on the maturity date and no bankruptcy or event of default then exists, all Initial Loans then outstanding will automatically convert into term loans (such converted loans, the Term Loans), which would mature on October 9, 2022. At the Company s election, interest on the Initial Loans is initially determined by reference to either: (i) LIBOR (subject to a 1.0% per annum floor) plus an applicable margin of 6.0% per annum; or (ii) an alternate base rate specified in the Second Lien Loan Agreement plus an applicable margin of 5.0% . The applicable margin increases by 0.50% at the end of each three-month period after October 9, 2015 and before October 9, 2016. In each case, the Initial Loans carry a maximum interest rate of 9.5% per annum, and any Term Loans will bear interest at 9.5% per annum. Giving effect to the amortization of the debt issuance costs, the effective interest rate on the Initial Loans is estimated to be approximately 11.2% per annum.

The Initial Loans may be voluntarily prepaid at par at any time prior to October 9, 2016 and must be prepaid at par upon the incurrence of certain indebtedness, the issuance of certain types of equity and the sale of certain assets. As at April 2, 2016 and January 2, 2016, the Company had repaid $20.0 million and $10.0 million principal amount, respectively, of the Initial Loans.

The Second Lien Loan Agreement contains certain customary representations and warranties, customary covenants that restrict the Company s and its restricted subsidiaries ability to, among other things: incur, assume or permit to exist additional indebtedness (including guarantees thereof); pay dividends or certain other distributions on capital stock or repurchase capital stock or prepay certain indebtedness; incur liens on certain assets; make certain investments; permit certain restrictions on the ability of the restricted subsidiaries to pay dividends or make other payments to the Borrower and Guarantors; engage in transactions with affiliates; and sell certain assets or merge or consolidate with or into other companies.

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7. Other Expense, Net

The components of other expense (income) are as follows:

		Quarter ended
	April 2, 2016	April 4, 2015
	$	$
Severance and rationalization costs[1]	2,207	-
Product withdrawal and recall costs[2]	1,468	-
Fair value of contingent consideration (see note 4)	198	-
Business development costs	97	125
Other	8	(21)
	3,978	104

(1) Severance and rationalization costs
For the quarter ended April 2, 2016, severance and rationalization costs primarily relate to the consolidation of the Company s frozen fruit processing facilities following the Sunrise Acquisition. In particular, during the first quarter of 2016, the Company transferred all production volume from its Buena Park, California facility into Sunrise s facilities located in Kansas and California. Costs recognized in the first quarter of 2016 include an impairment charge of $1.7 million, mainly related to leasehold improvements at the Buena Park facility. The Company expects to fully vacate the leased Buena Park facility in the second quarter of 2016.

(2) Product withdrawal and recall costs
For the quarter ended April 2, 2016, the Company recognized estimated costs of $1.0 million associated with the voluntary withdrawal by a customer, in coordination with the Company, of private label orange juice product produced at the Company s San Bernardino, California premium juice facility, due to instances of early spoilage within the prescribed shelf life of the product. In addition, the Company recognized a loss of $0.5 million in the first quarter of 2016 in connection with a voluntary recall of certain sunflower kernel products that was announced on May 3, 2016 (see note 13).

8. Income Taxes

For the quarters ended April 2, 2016 and April 4, 2015, the Company s effective tax rate was different from the Company s statutory Canadian tax rate due to the Company s annualized mix of earnings by jurisdiction, and the impact of discrete items. The Company recognized a recovery of income tax of $3.1 million, or 25.0% of loss before income taxes, for the quarter ended April 2, 2016, compared with a provision for income tax of $3.0 million, or 33.9% of earnings before income taxes, for the quarter ended April 4, 2015. The decrease in the effective tax rate reflects the impact of changes in the jurisdictional mix of earnings, mainly due to lower pre-tax earnings in the U.S., which was the result of higher cash interest costs related to the financing of the Sunrise Acquisition, as well as discrete costs related to business acquisitions, including the acquisition accounting adjustment to Sunrise inventory sold in the period (see note 2) and amortization of debt issuance costs related to the Second Lien Loan Agreement (see note 6), as well as the impact of other discrete items including costs associated with the consolidation of our frozen fruit processing facilities and product withdrawal and recall costs (see note 7).

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(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

9. Earnings Per Share

Earnings (loss) per share are calculated as follows:

		Quarter ended		
		April 2, 2016		April 4, 2015
Earnings (loss) from continuing operations attributable to SunOpta Inc.	$	(9,663)	$	5,954
Earnings (loss) from discontinued operations attributable to SunOpta Inc.		(570)		(720)
Earnings (loss) attributable to SunOpta Inc.	$	(10,233)	$	5,234
Basic weighted-average number of shares outstanding		85,425,943		67,399,642
Dilutive potential of the following:				
Employee/director stock options and RSUs		-		548,747
Warrants		-		319,777
Diluted weighted-average number of shares outstanding		85,425,943		68,268,166
Earnings (loss) per share - basic:				
- from continuing operations	$	(0.11)	$	0.09
- from discontinued operations		(0.01)		(0.01)
	$	(0.12)	$	0.08
Earnings (loss) per share - diluted:				
- from continuing operations	$	(0.11)	$	0.09
- from discontinued operations		(0.01)		(0.01)
	$	(0.12)	$	0.08

For the quarter ended April 2, 2016, stock options to purchase 2,648,392 (April 4, 2015 - 557,628) common shares were excluded from the calculation of potential dilutive common shares due to their anti-dilutive effect.

10. Supplemental Cash Flow Information

	Quarter ended	
	April 2, 2016	April 4, 2015
	$	$
Changes in non-cash working capital, net of businesses acquired:		
Accounts receivable	(16,837)	(4,669)
Inventories	9,867	(9,674)
Income tax recoverable	1,031	(1,486)
Prepaid expenses and other current assets	(2,313)	(5,423)
Accounts payable and accrued liabilities	(18,170)	(5,194)
Customer and other deposits	(1,063)	4,246
	(27,485)	(22,200)

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11. Commitments and Contingencies

Plum Dispute

Plum, PBC, a Delaware public benefit corporation (Plum), and SunOpta Global Organic Ingredients, Inc., a wholly-owned subsidiary of the Company (SGOI), are parties to a manufacturing and packaging agreement dated September 21, 2011 (the Plum Manufacturing Agreement). Pursuant to the Plum Manufacturing Agreement, SGOI agreed to manufacture and package certain food items for Plum at SGOI s Allentown, Pennsylvania facility in accordance with Plum s specifications regarding, among other things, product ingredients and packaging, manufacturing processes, and quality control standards. On November 8, 2013, Plum initiated a voluntary recall of certain products manufactured by SGOI at its Allentown facility. On February 3, 2015, Plum filed a complaint against SGOI in the Lehigh County Court of Common Pleas in Allentown, Pennsylvania. On April 13, 2015, Plum filed an amended complaint adding packaging manufacturer and supplier Cheer Pack North America (CPNA) as a Defendant. SGOI has asserted counterclaims against Plum, crossclaims against CPNA and third-party claims against Gualapack S.p.A, Hosokawa Yoko, Co., Secure HY Packaging Co., Ltd. and CDF Corporation. CPNA has asserted cross-claims against SGOI. Plum alleges it initiated the recall in response to consumer complaints of bloated packaging and premature spoilage of certain products, which could lead to gastrointestinal symptoms and discomfort if consumed. Plum alleges that the spoilage of its products resulted from a post-processing issue at SGOI s Allentown facility. Plum is seeking unspecified damages equal to the direct costs of the recall and handling of undistributed product, incidental and consequential damages, lost profits and attorneys fees. The Company disputes the allegations made by Plum against SGOI and intends to vigorously defend itself against these claims; however, the Company cannot reasonably predict the outcome of this claim, nor can it estimate the amount of loss, or range of loss, if any, that may result from this claim.

Employment Matter

On April 19, 2013, a class-action complaint, in the case titled *De Jesus, et al. v. Frozsun, Inc. d/b/a Frozsun Foods*, was filed against Sunrise Growers, Inc. (then named Frozsun, Inc.) in California Superior Court, Santa Barbara County seeking damages, equitable relief and reasonable attorneys fees for alleged wage and hour violations. This case includes claims for failure to pay all hours worked, failure to pay overtime wages, meal and rest period violations, waiting-time penalties, improper wage statements and unfair business practices. The putative class includes approximately 4,000 to 4,500 non-exempt hourly employees from Sunrise s production facilities in Santa Maria and Oxnard, California. The parties are currently engaged in pre-class certification discovery. The Company is unable to estimate any potential liabilities relating to this proceeding, and any such liabilities could be material.

Other Claims

In addition, various claims and potential claims arising in the normal course of business are pending against the Company. It is the opinion of management that these claims or potential claims are without merit and the amount of potential liability, if any, to the Company is not determinable. Management believes the final determination of these claims or potential claims will not materially affect the financial position or results of the Company.

12. Segmented Information

In connection with the definitive agreement for the sale of Opta Minerals, the Company recognized Opta Minerals as a discontinued operation held for sale as at April 2, 2016 and January 2, 2016 (see notes 1 and 3). Prior to being recognized as a discontinued operation, Opta Minerals was reported as a standalone operating segment within the Company. With the recognition of Opta Minerals as a discontinued operation, the composition of the Company s remaining reportable segments is as follows:

Global Ingredients aggregates our North American-based Raw Material Sourcing and Supply and European-based International Sourcing and Supply operating segments focused on the procurement and sale of specialty and organic grains and seeds, raw material ingredients, value-added grain- and cocoa-based ingredients, and organic commodities.

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Consumer Products consists of three main commercial platforms: Healthy Beverages, Healthy Fruit and Healthy Snacks. Healthy Beverages includes aseptic packaged products including non-dairy and dairy beverages, broths and teas; refrigerated premium juices; and shelf-stable juices and functional waters. Healthy Fruit includes IQF fruits for retail; IQF and bulk frozen fruit for foodservice; and custom fruit preparations for industrial use. Healthy Snacks includes fruit snacks; nutritional and protein bars; and re-sealable pouch products.

In addition, Corporate Services provides a variety of management, financial, information technology, treasury and administration services to each of the SunOpta Foods operating segments from the Company s headquarters in Mississauga, Ontario and administrative office in Edina, Minnesota.

When reviewing the operating results of the Company s operating segments, management uses segment revenues from external customers and segment operating income to assess performance and allocate resources. Segment operating income excludes other income/expense items and goodwill impairment losses. In addition, interest expense and income amounts, and provisions for income taxes are not allocated to the operating segments.

			Quarter ended April 2, 2016
	Global Ingredients	Consumer Products	Consolidated
	$	$	$
Segment revenues from external customers	146,022	206,292	352,314
Segment operating income (loss)	6,441	(1,778)	4,663
Corporate Services			(2,028)
Other expense, net			(3,978)
Interest expense, net			(11,022)
Loss from continuing operations before income taxes			(12,365)

			Quarter ended April 4, 2015
	Global Ingredients	Consumer Products	Consolidated
	$	$	$
Segment revenues from external customers	155,057	118,892	273,949
Segment operating income	8,981	2,560	11,541
Corporate Services			(1,590)
Other expense, net			(104)
Interest expense, net			(927)
Earnings from continuing operations before income taxes			8,920

13. Subsequent Events

Recall of Certain Sunflower Kernel Products

On May 3, 2016, the Company announced a voluntary recall of certain sunflower kernel products produced at its Crookston, Minnesota facility due to potential contamination with Listeria monocytogenes bacteria. For the quarter

ended April 2, 2016, the Company recognized a loss of $0.5 million related to this recall, reflecting the cost of the affected sunflower kernel products expected to be returned to or replaced by the Company. The Company expects to record additional costs related to this recall subsequent to the quarter ended April 2, 2016, including costs to reimburse customers for the costs related to the recall of their retail products that contain the affected sunflower kernels as an ingredient or component; costs incurred in connection with the ongoing investigation of the extent and root cause of the contamination; and costs associated with the interruption of production at the Crookston facility. The Company continues to work with its customers to ensure all affected products are removed from the market. As of the filing date of this report, the Company is unable to estimate the amount of additional costs that it may incur in connection with the recall of these products. In addition, the Company is currently unable to estimate the impact of this recall on the Company s future sales of sunflower kernel products or on its relationships with its customers.

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The Company carries product recall insurance and business interruption insurance and will seek to recover a portion of the recall-related costs through its insurance policies. To the extent the Company is able to recover costs related to the recall through its insurance policies, such recoveries will be recorded in the period in which the recoveries are determined to be probable of realization. However, the Company cannot guarantee that it will be able to recover amounts through insurance or the extent of any such recoveries.

Settlement of Niagara Natural Contingent Consideration Obligation

On May 5, 2016, the Company and the owners of Niagara Natural entered into an agreement to settle the contingent consideration obligation related to the acquisition of Niagara Natural (see note 2) in exchange for a one-time cash payment of $0.6 million. In the second quarter of 2016, the Company expects to recognize a gain of approximately $1.7 million in connection with this settlement, based on the difference between the fair value of the contingent consideration obligation of $2.3 million as at April 2, 2016 and the cash payment.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Financial Information

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the interim consolidated financial statements, and notes thereto, for the quarter ended April 2, 2016 contained under Item 1 of this Quarterly Report on Form 10-Q and in conjunction with the annual consolidated financial statements, and notes thereto, contained in the Annual Report on Form 10-K for the fiscal year ended January 2, 2016 (Form 10-K). Unless otherwise indicated herein, the discussion and analysis contained in this MD&A includes information available to May 11, 2016.

Certain statements contained in this MD&A may constitute forward-looking statements as defined under securities laws. Forward-looking statements may relate to our future outlook and anticipated events or results and may include statements regarding our future financial position, business strategy, budgets, litigation, projected costs, capital expenditures, financial results, taxes, plans and objectives. In some cases, forward-looking statements can be identified by terms such as anticipate , estimate , intend , project , potential , continue , believe , expect should , might , plan , will , may , predict , or other similar expressions concerning matters that are not historical the extent any forward-looking statements contain future-oriented financial information or financial outlooks, such information is being provided to enable a reader to assess our financial condition, material changes in our financial condition, our results of operations, and our liquidity and capital resources. Readers are cautioned that this information may not be appropriate for any other purpose, including investment decisions.

Forward-looking statements contained in this MD&A are based on certain factors and assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. While we consider these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Forward-looking statements are also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what we currently expect. These factors are more fully described in the Risk Factors section at Item 1A of the Form 10-K and Item 1A of this report.

Forward-looking statements contained in this commentary are based on our current estimates, expectations and projections, which we believe are reasonable as of the date of this report. You should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. Other than as required under securities laws, we do not undertake to update any forward-looking information at any particular time.

Unless otherwise noted herein, all currency amounts in this MD&A are expressed in U.S. dollars. All tabular dollar amounts are expressed in thousands of U.S. dollars, except per share amounts.

Overview

In connection with the sale of our equity interest in Opta Minerals Inc. (Opta Minerals) (as described below under Recent Developments Sale of Opta Minerals), we have recognized Opta Minerals as a discontinued operation held for sale as at April 2, 2016 and January 2, 2016. Accordingly, the results of operations of Opta Minerals for the current and prior fiscal periods have been reported in discontinued operations in our consolidated statements of operations. Prior to being recognized as a discontinued operation, Opta Minerals was reported as a standalone operating segment within SunOpta.

Calendar Year

We operate on a fiscal calendar that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to December 31. Fiscal year 2016 will be a 52-week period ending on December 31, 2016, with quarterly periods ending on April 2, July 2 and October 1, 2016. Fiscal year 2015 was a 52-week period ending on

January 2, 2016, with quarterly periods ending on April 4, July 4 and October 3, 2015.

Recent Developments

Recall of Certain Sunflower Kernel Products

On May 3, 2016, we announced a voluntary recall of certain sunflower kernel products produced at our Crookston, Minnesota facility due to potential contamination with Listeria monocytogenes bacteria. For the quarter ended April 2, 2016, we recognized a loss of $0.5 million related to this recall, reflecting the cost of the affected sunflower kernel products expected to be returned to or replaced by us. We expect to record additional costs related to this recall subsequent to the quarter ended April 2, 2016, including costs to reimburse customers for the costs related to the recall of their retail products that contain the affected sunflower kernels as an ingredient or component; costs incurred in connection with the ongoing investigation of the extent and root cause of the contamination; and costs associated with the interruption of production at the Crookston facility. We continue to work with our customers to ensure all affected products are removed from the market. As of the filing date of this report, we are unable to estimate the amount of additional costs that it may incur in connection with the recall of these products. In addition, we are currently unable to estimate the impact of this recall on our future sales of sunflower kernel products or on our relationships with our customers.

We carry product recall insurance and business interruption insurance and we will seek to recover a portion of the recall-related costs through our insurance policies. To the extent we are able to recover costs related to the recall through our insurance policies, such recoveries will be recorded in the period in which the recoveries are determined to be probable of realization. However, we cannot guarantee that we will be able to recover amounts through insurance or the extent of any such recoveries.

Withdrawal of Private Label Orange Juice Product

On March 9, 2016, in coordination with us, a customer initiated a voluntary withdrawal of a private label orange juice product that we produced at our San Bernardino, California premium juice facility, due to instances of early spoilage within the prescribed shelf life of the product. When we received notice from the customer regarding this matter, we temporarily halted production of the product while we investigated the cause, and production has now resumed. In the first quarter of 2016, we recognized total costs of $1.0 million associated with this withdrawal, which primarily represented the cost of the affected product expected to be returned by the customer and consumers. As the voluntary withdrawal is substantively complete, we do not expect to incur significant additional costs associated with this withdrawal.

Sale of Opta Minerals

On February 11, 2016, Opta Minerals entered into a definitive acquisition agreement, pursuant to which an affiliate of Speyside Equity Fund I LP (Speyside) agreed to acquire substantially all of the issued and outstanding shares of Opta Minerals. The acquisition of Opta Minerals by Speyside was completed on April 6, 2016, following a vote of the shareholders of Opta Minerals in favor of the transaction on March 31, 2016.

Upon closing of the transaction, we received aggregate gross proceeds of $4.8 million (C$6.2 million), of which $3.2 million (C$4.2 million) was received in cash, with the remainder received in the form of a $1.6 million (C$2.0 million) subordinated promissory note bearing interest at 2.0% per annum that will mature on October 6, 2018. We incurred direct costs related to the sale of Opta Minerals of $0.8 million. The sale of our equity interest in Opta Minerals was consistent with our objective of divesting our non-core assets in order to become a pure-play healthy and organic foods company. We do not expect to have any significant continuing involvement with Opta Minerals.

We determined that Opta Minerals qualified for reporting as a discontinued operation held for sale as at April 2, 2016 and January 2, 2016. In the fourth quarter of 2015, we recognized a loss on classification as held for sale of $10.5 million, or $7.7 million net of non-controlling interest, to write down the carrying value of Opta Minerals net assets to

fair value less cost to sell based on estimated net proceeds on sale of approximately $4.5 million as at January 2, 2016. In the first quarter of 2016, we recognized a $0.6 million gain on classification as held for sale which reflected a $1.1 million decline in the carrying value of Opta Mineral s net assets, partially offset by a $0.5 million reduction in the estimated net proceeds on sale.

Five-Year Global Revolving Asset-Based Credit Facility

On February 11, 2016, we entered into a five-year credit agreement for a senior secured asset-based revolving credit facility in the maximum aggregate principal amount of $350 million, subject to borrowing base capacity (the Global Credit Facility), as described below under Liquidity and Capital Resources and in note 6 to the unaudited consolidated financial statements included in this report.

Sunrise Holdings (Delaware), Inc.

On October 9, 2015, we completed the acquisition of 100% of the issued and outstanding common shares of Sunrise Holding (Delaware), Inc. (Sunrise), pursuant to a Purchase and Sale Agreement (the PSA) dated July 30, 2015 (the Sunrise Acquisition), for total consideration of $472.7 million in cash. We financed the Sunrise Acquisition through a combination of: (i) net proceeds of approximately $95.5 million from a registered offering of 16.7 million of our common shares that closed on September 30, 2015; (ii) net borrowings of approximately $318.0 million under a second lien loan agreement (the Second Lien Loan Agreement), as described below under Liquidity and Capital Resources ; and (iii) borrowings of approximately $59.2 million under our existing credit facilities. Sunrise is a processor of conventional and organic individually quick frozen fruit in the U.S. The acquisition of Sunrise is aligned with our strategic focus on healthy foods, and is expected to provide us with a leadership position in frozen fruit, both leveraging and complementing our integrated field-to-table business model, as well as providing multiple synergy opportunities. Sunrise has been included in the Consumer Products operating segment since the date of acquisition.

In January 2016, we initiated the consolidation of our frozen fruit processing facilities following the Sunrise Acquisition. In particular, during the first quarter of 2016, we transferred all production volume from our Buena Park, California facility into Sunrise s facilities located in Kansas and California. We expect to fully vacate our leased Buena Park facility in the second quarter of 2016. This operational consolidation is expected to provide a large part of our targeted cost synergies from the Sunrise Acquisition for 2016.

Niagara Natural Fruit Snack Company Inc.

On August 11, 2015, we acquired the net operating assets of Niagara Natural Fruit Snack Company Inc. (Niagara Natural), a manufacturer of all-natural fruit snacks. Niagara Natural s operations are located in the Niagara Region of Ontario. The transaction included a cash purchase price of $6.5 million, subject to certain post-closing adjustments, plus contingent consideration of up to approximately $2.8 million based on specific performance targets. The fair value of the contingent consideration obligation was determined to be $2.3 million as at the acquisition date. We believe Niagara Natural is a strong strategic fit within our core consumer products strategy, aligning well with our focus on healthy and convenient snacking, as well as within our vertically integrated business model since the majority of ingredients can be sourced through our Global Ingredients segment. In addition, with this acquisition, we extend our market presence in fruit snacks with manufacturing operations in both the east and west regions of North America, which is expected to generate operational and logistical synergies. Niagara Natural has been included in the Consumer Products operating segment since the date of acquisition.

On May 5, 2016, we entered an agreement with the owners of Niagara Natural to settle the contingent consideration obligation in exchange for a one-time cash payment of $0.6 million. In the second quarter of 2016, we expect to recognize a gain of approximately $1.7 million in connection with this settlement, based on the difference between the fair value of the contingent consideration obligation of $2.3 million as at April 2, 2016 and the cash payment.

Citrusource, LLC

On March 2, 2015, we acquired Citrusource, LLC (Citrusource), a producer of premium not-from-concentrate private label organic and conventional orange juice and citrus products in the U.S. We paid $13.3 million in cash at closing and we may pay additional consideration based on the incremental growth in Citrusource s base business and the value

of synergies created from combining the operations of Citrusource with our premium juice facility. The fair value of the total consideration transferred to acquire Citrusource was $31.7 million as at the acquisition date. The acquisition of Citrusource aligns with our strategy of growing our value-added consumer products portfolio and leveraging our integrated operating platform. Citrusource has been included in the Consumer Products operating segment since the date of acquisition.

Consolidated Results of Operations for the quarters ended April 2, 2016 and April 4, 2015

For the quarter ended	April 2, 2016	April 4, 2015	Change	Change
	$	$	$	%
Revenues				
Global Ingredients	146,022	155,057	(9,035)	-5.8%
Consumer Products	206,292	118,892	87,400	73.5%
Total revenues	352,314	273,949	78,365	28.6%
Gross profit				
Global Ingredients	18,092	17,319	773	4.5%
Consumer Products	13,809	11,851	1,958	16.5%
Total gross profit	31,901	29,170	2,731	9.4%
Segment operating income (loss)[(1)]				
Global Ingredients	6,441	8,981	(2,540)	-28.3%
Consumer Products	(1,778)	2,560	(4,338)	-169.5%
Corporate Services	(2,028)	(1,590)	(438)	-27.5%
Total segment operating income	2,635	9,951	(7,316)	-73.5%
Other expense, net	3,978	104	3,874	3725.0%
Earnings (loss) from continuing operations before the following	(1,343)	9,847	(11,190)	-113.6%
Interest expense, net	11,022	927	10,095	1089.0%
Provision for (recovery of) income taxes	(3,086)	3,021	(6,107)	-202.2%
Earnings (loss) from continuing operations	(9,279)	5,899	(15,178)	-257.3%
Earnings (loss) attributable to non-controlling interests	384	(55)	439	798.2%
Loss from discontinued operations attributable to SunOpta Inc.	(570)	(720)	150	20.8%
Earnings (loss) attributable to SunOpta Inc.[(2)]	(10,233)	5,234	(15,467)	-295.5%

(1) When assessing the financial performance of our operating segments, we use an internal measure of operating income that excludes other income/expense items determined in accordance with U.S. GAAP. This measure is the basis on which management, including the Chief Executive Officer, assesses the underlying performance of our operating segments. We believe that disclosing this non-GAAP measure assists investors in comparing financial performance across reporting periods on a consistent basis by excluding items that are not indicative of our core operating performance. However, the non-GAAP measure of operating income should not be considered in isolation or as a substitute for performance measures calculated in accordance with U.S. GAAP. The following table presents a reconciliation of segment operating income (loss) to earnings from continuing operations before the following , which we consider to be the most directly comparable U.S. GAAP financial measure.

For the quarter ended	Global Ingredients	Consumer Products	Corporate Services	Consolidated
	$	$	$	$
April 2, 2016				
Segment operating income (loss)	6,441	(1,778)	(2,028)	2,635
Other expense, net	(660)	(3,091)	(227)	(3,978)
Earnings (loss) from continuing operations before the following	5,781	(4,869)	(2,255)	(1,343)

April 4, 2015				
Segment operating income (loss)	8,981	2,560	(1,590)	9,951
Other income (expense), net	-	-	(125)	(125)
Earnings (loss) from continuing operations before the following	8,981	2,560	(1,715)	9,826

We believe that investors understanding of our financial performance is enhanced by disclosing the specific items that we exclude from segment operating income. However, any measure of operating income excluding any or all of these items is not, and should not be viewed as, a substitute for operating income prepared under U.S. GAAP. These items are presented solely to allow investors to more fully understand how we assess financial performance.

(2) When assessing our financial performance, we use an internal measure that excludes the following items from earnings attributable to SunOpta Inc. determined in accordance with U.S. GAAP: (i) results of discontinued operations; (ii) specific items recognized in other income/expense; (iii) impairment losses on long-lived assets, investments, and goodwill; and (iv) other unusual items that are identified and evaluated on an individual basis, which due to their nature or size, we would not expect to occur as part of our normal business on a regular basis. We believe that the identification of these items enhances an analysis of our financial performance of our core business when comparing those operating results between periods, as we do not consider these items to be reflective of normal core business operations. The following table presents a reconciliation of adjusted earnings from loss attributable to SunOpta Inc. , which we consider to be the most directly comparable U.S. GAAP financial measure.

		Per Diluted Share
For the quarter ended	$	$
April 2, 2016		
Loss attributable to SunOpta Inc.	(10,233)	(0.12)
Loss from discontinued operations attributable to SunOpta Inc.	570	0.01
Loss from continuing operations attributable to SunOpta Inc.	(9,663)	(0.11)
Adjusted for:		
Costs related to business acquisitions[(a)]	12,511	
Plant start-up costs[(b)]	1,287	
Legal fees related to ongoing litigation[(c)]	625	
Write-off of debt issuance costs[(d)]	215	
Other[(e)]	2,243	
Net income tax effect of preceding adjustments	(4,531)	
Adjusted earnings	2,687	0.03
April 4, 2015		
Earnings attributable to SunOpta Inc.	5,234	0.08
Loss from discontinued operations attributable to SunOpta Inc.	720	0.01
Earnings from continuing operations attributable to SunOpta Inc.	5,954	0.09
Adjusted for:		
Other expense (net of income taxes of $35)	69	
Adjusted earnings	6,023	0.09

(a) Reflects costs related to business combinations, including an acquisition accounting adjustment related to Sunrise's inventory sold in the first quarter of 2016 of $7.6 million, which is recorded in cost of goods sold; the non-cash amortization of debt issuance costs incurred in connection with the financing related to the Sunrise Acquisition of $3.0 million, which is recorded in interest expense; and $1.9 million of integration costs related to the closure and consolidation of our frozen fruit processing facilities following the Sunrise Acquisition, which are recorded in cost of goods sold and other expense.

(b) Plant start-up costs relate to the ramp-up of production at our Allentown, Pennsylvania facility following the completion of the addition of aseptic beverage processing and filling capabilities in the fourth quarter of 2015, which are recorded in cost of goods sold. These start-up costs reflect the negative gross margin reported by the facility, which is expected to decrease as the facility ramps up to break-even production levels.

(c) Reflects litigation-related legal costs associated with a previously disclosed dispute with Plum PBC (Plum) related to a recall of resealable pouch products in the fourth quarter of 2013, which are recorded in selling, general and administrative (SG&A) expenses.

(d) Reflects the write-off to interest expense of remaining unamortized debt issuance costs related to our North American credit facilities, which were replaced by the Global Credit Facility.

(e) Other includes costs of $1.0 million associated with the voluntary product withdrawal of private label orange juice and a loss of $0.5 million recognized in connection with the voluntary recall of certain sunflower kernel products, as well as severance costs and fair value adjustments related to contingent consideration arrangements, which are recorded in other expense.

We believe that investors understanding of our financial performance is enhanced by disclosing the specific items that we exclude from earnings/loss attributable to SunOpta Inc. to compute adjusted earnings. However, adjusted earnings is not, and should not be viewed as, a substitute for earnings prepared under U.S. GAAP. Adjusted earnings is presented solely to allow investors to more fully understand how we assess our financial performance.

Revenues for the quarter ended April 2, 2016 increased by 28.6% to $352.3 million from $273.9 million for the quarter ended April 4, 2015. The increase in revenues was driven primarily by the acquired businesses, as well as growth in frozen fruit, aseptic beverage and resealable pouch products. These factors were partially offset by the effect of lower commodity prices and volumes of specialty raw materials, as well as the unfavorable impact of a stronger U.S. dollar on the competitiveness of our raw material exports. Excluding the impact on revenues in the first quarter of 2016 of acquired businesses (an increase in revenues of approximately $77 million) and changes in commodity-related pricing and foreign exchange rates (a decrease in revenues of approximately $11 million), revenues increased 3.5% in the first quarter of 2016, compared with the first quarter of 2015.

Gross profit increased $2.7 million, or 9.4%, to $31.9 million for the quarter ended April 2, 2016, compared with $29.2 million for the quarter ended April 4, 2015. As a percentage of revenues, gross profit for the quarter ended April 2, 2016 was 9.1% compared to 10.6% for the quarter ended April 4, 2015, a decrease of 1.5% . The gross profit percentage for the first quarter of 2016 would have been approximately 11.6%, excluding the impact of an acquisition accounting adjustment related to the Sunrise s inventory sold in the first quarter of 2016 ($7.6 million) and start-up costs related to the ramp-up of production at our Allentown, Pennsylvania aseptic beverage processing facility ($1.3 million). The 1.0% increase in the first-quarter-over-first-quarter gross profit percentage on an adjusted basis was driven mainly by acquired businesses and improved pricing for frozen fruit offerings, as well as improved plant utilization within our resealable pouch and sunflower operations. These factors were partially offset by a temporary shutdown of our San Bernardino, California premium juice facility while we investigated the cause of the shorter than expected shelf life for the private label orange juice product that was subject to the voluntary withdrawal.

Total segment operating income for the quarter ended April 2, 2016 decreased by $7.3 million, or 73.5%, to $2.6 million, compared with $10.0 million for the quarter ended April 4, 2015. As a percentage of revenues, segment operating income was 0.7% for the quarter ended April 2, 2016, compared with 3.6% for the quarter ended April 4, 2015. The decrease in segment operating income reflected lower overall gross profit as described above, and a $3.6 million increase in SG&A expenses, mainly reflecting incremental expenses from acquired businesses, as well as higher litigation-related legal costs mainly related to the Plum dispute (see note 11 to the unaudited consolidated financial statements included in this report). As a percentage of revenues, SG&A expenses were 6.9% in in the first quarter of 2016, compared with 7.6% in the first quarter of 2015. Also contributing to the decrease in segment operating income was an increase in intangible asset amortization of $2.2 million in the first quarter of 2016, compared with the first quarter of 2015, reflecting the incremental amortization of identified intangible assets of acquired businesses. In addition, the decrease in segment operating income reflected a foreign exchange loss of $2.2 million in the first quarter of 2016, compared with a foreign exchange gain of $2.1 million in the first quarter of 2015, mainly reflecting the impact of a weakening of the U.S. dollar relative to the euro on forward foreign exchange contracts within our international sourcing and supply operations, compared with a strengthening of the U.S. dollar relative to the euro in the corresponding period of 2015.

Further details on revenue, gross margin and segment operating income variances are provided below under Segmented Operations Information .

Other expense for the quarter ended April 2, 2016 of $4.0 million included facility rationalization and severance costs primarily related to the consolidation of our frozen fruit processing facilities following the Sunrise Acquisition, as well as costs associated with the voluntary withdrawal of private label orange juice product and voluntary recall of certain sunflower kernel products (as described above under Recent Developments Withdrawal of Private Label Orange Juice Product and Recall of Certain Sunflower Kernel Products).

The increase in interest expense of $10.1 million to $11.0 million for the quarter ended April 2, 2016, compared with $0.9 million for the quarter ended April 4, 2015, primarily reflected increased costs associated with borrowings under the Second Lien Loan Agreement and our credit facilities in order to finance the Sunrise Acquisition, which included $3.0 million of non-cash amortization of debt issuance costs associated with the Second Lien Loan Agreement. In addition, in the first quarter of 2016, we wrote-off $0.3 million of remaining unamortized debt issuance costs related to our former North American credit facilities, which were replaced by the Global Credit Facility.

We recognized a recovery of income tax of $3.1 million, or 25.0% of loss before income taxes, for the quarter ended April 2, 2016, compared with a provision for income tax of $3.0 million, or 33.9% of earnings before income taxes, for the quarter ended April 4, 2015. The decrease in the effective tax rate reflects the impact of changes in the jurisdictional mix of earnings, mainly due to lower pre-tax earnings in the U.S., which was the result of higher cash interest costs related to the financing of the Sunrise Acquisition, as well as discrete costs related to business acquisitions, including the acquisition accounting adjustment to Sunrise inventory sold in the period and the amortization of debt issuance costs related to the Second Lien Loan Agreement, as well as the impact of other discrete

items including costs associated with the consolidation of our frozen fruit processing facilities and product withdrawal and recall costs. For fiscal 2016, we expect our effective tax rate to be in the range of 32% to 34%, excluding discrete items.

Loss from continuing operations attributable to SunOpta Inc. for the quarter ended April 2, 2016 was $9.7 million, compared with earnings of $6.0 million for the quarter ended April 4, 2015, a decrease of $15.7 million. Diluted loss per share from continuing operations was $0.11 for the quarter ended April 2, 2016, compared with diluted earnings per share from continuing operations of $0.09 for the quarter ended April 4, 2015.

Loss from discontinued operations of $0.6 million for the quarter ended April 2, 2016 reflected the loss from operations of Opta Minerals of $2.0 million, which included an asset impairment charge of $1.2 million, partially offset by a $0.6 million gain on classification as held for sale, net of recovery of income taxes and non-controlling interest of $0.9 million. Loss from discontinued operations of $0.7 million for the quarter ended April 4, 2015 reflected the loss from operations of Opta Minerals of $1.3 million, net of recovery of income taxes and non-controlling interest of $0.6 million.

On a consolidated basis, we realized a loss of $10.2 million (diluted loss per share of $0.12) for the quarter ended April 2, 2016, compared with earnings of $5.2 million (diluted earnings per share of $0.08) for the quarter ended April 4, 2015.

For the quarter ended April 2, 2016, adjusted earnings were $2.7 million, or $0.03 per diluted share, compared with adjusted earnings of $6.0 million, or $0.09 per diluted share for the quarter ended April 4, 2015. Adjusted earnings is a non-GAAP financial measure. See footnote (2) to the table above for a reconciliation of adjusted earnings from earnings attributable to SunOpta Inc. , which we consider to be the most directly comparable U.S. GAAP financial measure.

Segmented Operations Information

Global Ingredients

For the quarter ended	April 2, 2016	April 4, 2015	Change	% Change
Revenues	$ 146,022	$ 155,057	$ (9,035)	-5.8%
Gross Margin	18,092	17,319	773	4.5%
Gross Margin %	12.4%	11.2%		1.2%
Operating Income	$ 6,441	$ 8,981	$ (2,540)	-28.3%
Operating Income %	4.4%	5.8%		-1.4%

Global Ingredients contributed $146.0 million in revenues for the quarter ended April 2, 2016, compared to $155.1 million for the quarter ended April 4, 2015, a decrease of $9.0 million, or 5.8% . Excluding the impact of changes including foreign exchange rates and commodity-related pricing, Global Ingredients revenues increased approximately 1.0% . The table below explains the decrease in revenue:

Global Ingredients Revenue Changes	
Revenues for the quarter ended April 4, 2015	$155,057
Lower volumes of specialty corn and soy driven by a reduction of contracted acres, as well as lower volumes of sunflower in-shell and kernel due primarily to a stronger U.S. currency, which pressured exports, partially offset by increased volumes of organic feed, roasted and other ingredient products	(9,601)
Decreased pricing of specialty corn, soy, sunflower and organic feed	(7,118)
Decreased pricing for organic fruit and vegetables, seeds and nuts, quinoa, coffee and oils, partially offset by increases in pricing for sugar	(2,636)
Unfavorable foreign exchange impact on euro-denominated sales due to the stronger U.S. dollar	(877)

Higher sales volumes of internationally sourced organic ingredients including cocoa, coffee, grains and pulses, oils, and fruit and vegetables	11,197
Revenues for the quarter ended April 2, 2016	**$146,022**

Gross margin in Global Ingredients increased by $0.8 million to $18.1 million for the quarter ended April 2, 2016 compared to $17.3 million for the quarter ended April 4, 2015, and the gross margin percentage increased by 1.2% to 12.4% . The increase in gross margin as a percentage of revenue was primarily due to a favorable sales mix of higher margin organic raw materials, mark-to-market gains on commodity futures contracts, and improved sunflower processing yields and operating efficiencies, partially offset by lower pricing spreads on non-GMO soy, corn and organic feed. The table below explains the increase in gross margin:

Global Ingredients Gross Margin Changes	
Gross margin for the quarter ended April 4, 2015	$17,319
Favorable margin impact of higher sales volumes, improved operating performance at our cocoa ingredient facility and mark-to-market gains related to commodity futures contracts, partially offset by lower pricing spread on coffee	1,651
Improved sunflower processing yields on raw materials and improved operating efficiencies due in part to reduced overhead costs and lower diversion to by-product streams	1,069
Improved efficiency of international production facilities and the impact from positive claim resolutions partially offset by lower pricing on cocoa and sugar	499
Lower pricing spread on specialty corn and soy, and organic feed	(2,031)
Margin impact from reduced yield and other operational inefficiencies at European sunflower operations	(415)
Gross margin for the quarter ended April 2, 2016	**$18,092**

Operating income in Global Ingredients decreased by $2.5 million, or 28.3%, to $6.4 million for the quarter ended April 2, 2016, compared to $9.0 million for the quarter ended April 4, 2015. The table below explains the decrease in operating income:

Global Ingredients Operating Income Changes	
Operating income for the quarter ended April 4, 2015	$8,981
Increase in gross margin, as explained above	773
Decrease in corporate cost allocations	683
Decrease in SG&A expenses, primarily due to lower compensation costs partially offset by higher bad debt and other SG&A costs	62
Decreased foreign exchange gains on forward derivative contracts, partially offset by a favorable impact on expenses due to the stronger U.S. dollar relative to the euro	(4,058)
Operating income for the quarter ended April 2, 2016	**$6,441**

Looking forward, we believe Global Ingredients is well positioned in growing non-GMO and organic food categories. We intend to focus our efforts on (i) growing our organic sourcing and supply capabilities, making certified organic ingredients a larger proportion of our overall sales; (ii) leveraging our international sourcing and supply capabilities internally, and forward and backward integrating where opportunities exist; and (iii) expanding our international sales base via strategic relationships for procurement of product to drive incremental sales volume. The statements in this paragraph are forward-looking statements. See Forward-Looking Statements above. Increased supply pressure in the commodity-based markets in which we operate, increased competition, volume decreases or loss of customers, unexpected delays in our expansion plans, or our inability to secure quality inputs or achieve our product mix or cost reduction goals, along with the other factors described above under Forward-Looking Statements , could adversely impact our ability to meet these forward-looking expectations.

Consumer Products **For the quarter ended**	**April 2, 2016**	**April 4, 2015**	**Change**	**% Change**
Revenues	$ 206,292	$ 118,892	$ 87,400	73.5%
Gross Margin	13,809	11,851	1,958	16.5%
Gross Margin %	6.7%	10.0%		-3.3%
Operating Income (Loss)	$ (1,778)	$ 2,560	$ (4,338)	-169.5%
Operating Income (Loss)%	-0.9%	2.2%		-3.1%

Consumer Products contributed $206.3 million in revenues for the quarter ended April 2, 2016, compared to $118.9 million for the quarter ended April 4, 2015, an $87.4 million, or 73.5% increase. Excluding the impact of changes primarily related to revenues acquired as a result of the acquisitions of Sunrise, Citrusource and Niagara Natural in 2015, Consumer Products revenues increased approximately 5.4% . The table below explains the increase in revenues:

Consumer Products Revenue Changes	
Revenues for the quarter ended April 4, 2015	$118,892
Acquired revenues as a result of 2015 acquisitions of Sunrise, Citrusource and Niagara Natural	76,560
Increased volumes of IQF fruit, as well as customer price increases due to higher cost fruit, partially offset by customer transition in advance of the closure of the Buena Park processing facility	7,151
Increase in revenues of aseptic beverages, primarily serving the food service channel, partially offset by lower retail aseptic sales and lower sales of premium juice as a result of downtime associated with the voluntary withdrawal of private label orange juice product	2,836
Increased volumes of resealable pouch offerings as a result of new business contracted and increases with existing customers, partially offset by lower volumes of fruit snacks and specialty bars	853
Revenues for the quarter ended April 2, 2016	**$206,292**

Gross margin in Consumer Products increased by $2.0 million to $13.8 million for the quarter ended April 2, 2016 compared to $11.9 million for the quarter ended April 4, 2015, and the gross margin percentage decreased by 3.3% to 6.7% . The decrease in gross margin as a percentage of revenue was due primarily to the $7.6 million acquisition accounting adjustment related to Sunrise inventory sold, as well as costs associated with expansion activities at our Allentown aseptic facility of $1.3 million. Excluding these costs, the gross margin percentage in the consumer products segment would have been 11.0% for the quarter ended April 2, 2016. The table below explains the increase in gross margin:

Consumer Products Gross Margin Changes	
Gross margin for the quarter ended April 4, 2015	$11,851
Margin impact of the Sunrise Acquisition and improved pricing for frozen fruit offerings, partially offset by lower margins for fruit bases and toppings	11,391
Increased volumes of resealable pouch offerings partially offset by lower volumes of fruit snacks and specialty bars	121
Margin impact from acquisition accounting adjustment related to Sunrise inventory sold in the quarter	(7,626)
Decreased contribution from sales of aseptic and non-aseptic private label beverages, driven by increased fixed costs associated with the expanded aseptic processing and packaging capabilities at our Modesto, California facility and recently opened Allentown, Pennsylvania facility, production inefficiencies due in part to downtime associated with the voluntary withdrawal of private label orange juice product, and lower tolling rates with certain aseptic customers	(1,928)
Gross margin for the quarter ended April 2, 2016	**$13,809**

Operating income in Consumer Products decreased by $4.3 million, or 169.5%, to an operating loss of $1.8 million for the quarter ended April 2, 2016, compared to operating income of $2.6 million for the quarter ended April 4, 2015. The table below explains the decrease in operating income:

Consumer Products Operating Income Changes	
Operating income for the quarter ended April 4, 2015	$2,560
Increase in gross margin, as explained above	1,958
Increased SG&A costs due primarily to the acquisitions of Sunrise, Citrusource and Niagara Natural, partially offset by lower compensation costs	(4,964)
Increase in corporate cost allocations	(1,332)
Operating loss for the quarter ended April 2, 2016	**$(1,778)**

During 2015, we completed three strategic acquisitions in each of our primary consumer product commercial platforms; healthy beverage, healthy fruit, and healthy snacks. In addition, we completed a significant capacity expansion at our West Coast aseptic beverage facility, and in the fourth quarter opened a new East Coast aseptic beverage facility. All of these acquisitions and investments are designed to expand our ability to address fast growing markets, provide a strategic east-west footprint, strengthen our revenue growth, and drive improvements in our margin profile and operating income. Looking forward we intend to leverage these new assets, as well as our innovation capabilities to bring new value-added packaged products and processes to market and to increase our capacity utilization across the Consumer Products segment. In addition, we believe the Sunrise Acquisition will allow us to further leverage our global sourcing expertise, as it provides us with a leading market positon in conventional and organic private label IQF fruit. The statements in this paragraph are forward-looking statements. See Forward-Looking Statements above. Unfavorable shifts in consumer preferences, increased competition, volume decreases or loss of customers, unexpected delays in our expansion and integration plans, inefficiencies in our manufacturing processes, lack of consumer product acceptance, or our inability to successfully implement the particular goals and strategies indicated above, along with the other factors described above under Forward-Looking Statements , could have an adverse impact on these forward-looking expectations.

Corporate Services For the quarter ended	April 2, 2016	April 4, 2015	Change	% Change
Operating Loss	$ (2,028)	$ (1,590)	$ (438)	-27.5%

Operating loss at Corporate Services increased by $0.4 million to $2.0 million for the quarter ended April 2, 2016, from a loss of $1.6 million for the quarter ended April 4, 2015. The table below explains the increase in operating loss:

Corporate Services Operating Loss Changes	
Operating loss for the quarter ended April 4, 2015	$(1,590)
Increased information technology consulting, professional fees and costs associated with an ongoing litigation	(938)
Higher compensation-related costs due to increased headcount, stock-based compensation and health benefits	(416)
Increase in corporate cost allocations that are charged to SunOpta reporting segments, due in part to a further centralization of services	649
Decrease in foreign exchange losses	267
Operating loss for the quarter ended April 2, 2016	**$(2,028)**

segments, as well as costs related to the enterprise resource management system. These expenses are allocated to the operating segments based on (1) specific identification of allocable costs that represent a service provided to each segment and (2) a proportionate distribution of costs based on a weighting of factors such as revenue contribution and number of people employed within each segment. The 2016 management fee allocations reflect the additional revenues and head count added as a result of the acquisitions of Sunrise, Citrusource, and Niagara Natural. These acquisitions added approximately $350.0 million in annualized revenues all to the Consumer Products segment.

Liquidity and Capital Resources

We have the following sources from which we can fund our operating cash requirements:

- Existing cash and cash equivalents;
- Available operating lines of credit;
- Cash flows generated from operating activities;
- Cash flows generated from the exercise, if any, of stock options during the year;
- Potential additional long-term financing, including the offer and sale of debt and/or equity securities; and
- Potential sales of non-core divisions, or assets.

On February 11, 2016, we entered into a five-year, $350.0 million Global Credit Facility, which replaced our previous North American credit facilities, which were comprised of a $165.0 million facility and a C$10.0 million facility, that were set to expire January 27, 2017, and our €92.5 million multipurpose European credit facilities that were due on demand with no set maturity date. The Global Credit Facility will be used to support the working capital and general corporate needs of our global operations, in addition to funding future strategic initiatives. In addition, subject to customary borrowing conditions and the agreement of any such lenders to provide such increased commitments, we

may request to increase the total lending commitments under this facility to a maximum aggregate principal amount not to exceed $450.0 million. The applicable margin in the Global Credit Facility ranges from 1.25% to 1.75% for loans bearing interest based on LIBOR and from 0.25% to 0.75% for loans bearing interest based on the prime rate and, in each case, is set quarterly based on average borrowing availability for the preceding fiscal quarter. As at April 2, 2016, we had outstanding borrowings of $199.6 million and approximately $90 million of available borrowing capacity under the Global Credit Facility. For more information on the Global Credit Facility, see note 6 to the unaudited consolidated financial statements included in this report.

On October 9, 2015, SunOpta Foods Inc. and certain of our other subsidiaries entered into the Second Lien Loan Agreement with a group of lenders, pursuant to which we borrowed an aggregate principal amount of $330.0 million of term loans. The net proceeds of the Second Lien Loan Agreement were used to partially fund the Sunrise Acquisition, as described above under Recent Developments Sunrise Holdings (Delaware), Inc. The term loans made under the Second Lien Loan Agreement on October 9, 2015 (the Initial Loans) mature on October 9, 2016. If any Initial Loans rhat 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.

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.

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

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

Revenue Recognition

The Company has revenue recognition policies for its various operating segments that are appropriate to the circumstances of each business. See Note 2 to the Consolidated Financial Statements 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 patterns, which are derived from historical usage patterns. A change in these estimated usage patterns could have an impact on the timing of revenue recognition.

Pension and Postretirement Medical Plan Actuarial Assumptions

The Company s pension and postretirement medical benefit obligations and related costs are calculated using a number of actuarial assumptions. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement. We evaluate these critical assumptions annually. Other assumptions include the healthcare cost trend rate and employee demographic factors such as retirement patterns, mortality, turnover and rate of compensation increase.

The discount rate enables us to state expected future cash payments for benefits as a present value on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. A lower discount rate increases the present value of benefit obligations and increases pension expense. We decreased our discount rate to 6.35% at the end of fiscal 2007 from 6.40% at the end of fiscal 2006 to reflect market interest rate conditions at our June 30, 2007 measurement date. This decrease in the discount rate will affect net periodic pension and postretirement medical expense in fiscal 2008. The assumed discount rate reflects market rates for high-quality corporate bonds currently available. The Company s discount rate was determined by considering the average of pension yield curves constructed of a large population of high quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves. A one percentage point decrease in the assumed discount rate would

increase total net periodic pension and postretirement medical expense for fiscal 2008 by $122 million and would increase the projected benefit obligation at September 29, 2007 by $999 million, respectively. A one percentage point increase in the assumed discount rate would decrease these amounts by $74 million and $849 million, respectively.

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. Our long-term expected return on plan assets was 7.50% in both 2007 and 2006, respectively. A one percentage point change in the long-term return on pension plan asset assumption would impact fiscal 2008 annual pension and postretirement medical expense by approximately $51 million.

See Note 9 to the Consolidated Financial Statements for more information on our pension and postretirement medical plans.

Goodwill, Intangible Assets and Investments

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

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

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

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

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

We completed our impairment testing as of September 29, 2007, which resulted in a non-cash impairment charge of $26 million related to ESPN Radio and Radio Disney FCC licenses. During fiscal 2006, the Company recorded a non-cash impairment charge of $32 million related to FCC licenses primarily associated with ESPN Radio stations. These impairment charges reflected overall market declines in certain radio markets in which we operate. During fiscal 2005, the Company adopted EITF D-108 and recorded a non-cash impairment charge of $57 million primarily associated with ESPN and Radio Disney FCC licenses.

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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 14 to the 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 recorded estimates of liability related to income tax audits are made in consultation with outside tax and legal counsel where appropriate and are based upon the expected outcome of proceedings (or negotiations) with taxing and legal authorities in consideration of applicable tax statutes and related interpretations and precedents. The outcome of such proceedings and the ultimate liability borne by the Company may differ from our estimates 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

Each year during the second quarter, the Company awards stock options and restricted stock units to a broad-based group of management and creative personnel (the Annual Grant). Prior to the fiscal 2006 Annual Grant, the fair value of options granted was estimated on the grant date using the Black-Scholes option pricing model. Beginning with the fiscal 2006 Annual Grant, the Company has changed to the binomial valuation model. The binomial valuation model considers certain characteristics of fair value option pricing that are not considered under the Black-Scholes model. Similar to the Black-Scholes model, the binomial valuation model takes into account variables such as volatility, dividend yield, and the risk-free interest rate. However, the binomial valuation model also considers the expected exercise multiple (the multiple of exercise price to grant price at which exercises are expected to occur on average) and the termination rate (the probability of a vested option being cancelled due to the termination of the option holder) in computing the value of the option. Accordingly, the Company believes that the binomial valuation model should produce a fair value that is more representative of the value of an employee option.

In fiscal years 2007, 2006, and 2005, the weighted average assumptions used in the options-pricing models were as follows:

	2007 [1]	2006 [1]	2005 [2]
Risk-free interest rate	**4.5 %**	4.3 %	3.7 %
Expected term (years) [3]	**4.61**	5.09	4.75
Expected volatility	**26 %**	26 %	27 %
Dividend yield	**0.79 %**	0.79 %	0.79 %
Termination rate	**7.4 %**	4.0 %	n/a
Exercise multiple	**1.38**	1.48	n/a

(1) Commencing with the 2006 Annual Grant, the Company utilized the binomial valuation model.

(2) The Company utilized the Black-Scholes model during fiscal 2005.

(3) The expected term assumption is included for fiscal 2005 during which we utilized the Black-Scholes model. Under the binomial model, expected term is not an input assumption.

Although the initial fair value of stock options is not adjusted after the grant date, changes in the Company s assumptions may change the value 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. See Note 11 to the Consolidated

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Financial Statements for more detailed information. If the assumed volatility of 26% used by the Company during 2007 was increased or decreased by five percentage points (i.e. to 31% or to 21%), the weighted average grant date fair value of our 2007 stock option grants would have increased or decreased by 10%.

The expected exercise multiple may be influenced by the Company s future stock performance, stock price volatility, and employee turnover rates. If the exercise multiple assumption of 1.38 used by the Company during 2007 were increased to 1.6 or decreased to 1.2, the weighted average binomial value of our 2007 stock option grants would have increased by 7% or decreased by 12%, respectively.

In connection with the acquisition of Pixar on May 5, 2006, the Company converted previously issued vested and unvested Pixar stock-based awards into Disney stock-based awards consisting of 44 million stock options and one million RSUs. The fair value of these awards was estimated using the Black-Scholes option pricing model, as the information required to use the binomial valuation model was not reasonably available. The methodology utilized to determine the assumptions in the Black-Scholes model was consistent with that used by the Company for its option pricing models.

ACCOUNTING CHANGES

SFAS 159

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 gives the Company the irrevocable option to carry most financial assets and liabilities at fair value, with changes in fair value recognized in earnings. SFAS 159 is effective for the Company s 2009 fiscal year, although early adoption is permitted. The Company is currently assessing the potential effect of SFAS 159 on its financial statements.

SFAS 158

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statement Nos. 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 date of the statement of financial position. The Company adopted the recognition provisions of SFAS 158 in fiscal year 2007. See Note 9 to the Consolidated Financial Statements for information regarding the impact of adopting the recognition provisions of SFAS 158. The Company has not yet adopted the measurement provisions which are not effective until fiscal year 2009.

SFAS 157

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. SFAS 157 is effective for the Company s 2009 fiscal year, although early adoption is permitted. The Company is currently assessing the potential effect of SFAS 157 on its financial statements.

SAB 108

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 was issued in order to eliminate the diversity in practice surrounding how public companies quantify financial statement misstatements. SAB 108 requires that registrants quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. The Company adopted SAB 108 at the end of fiscal 2007, and the adoption did not have a material impact on the Company s financial statements.

FIN 48

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must

meet before a financial statement benefit is recognized. The minimum threshold is defined in FIN 48 as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 must be applied to all existing tax positions upon initial adoption. The cumulative effect of applying FIN 48 at adoption is to be reported as an adjustment to beginning retained earnings for the year of adoption. FIN 48 is effective for the Company s 2008 fiscal year and will result in a reduction of approximately $160 million to beginning retained earnings in fiscal year 2008.

EITF D-108

In September 2004, the Emerging Issues Task Force (EITF) issued Topic No. D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill* (EITF D-108). EITF D-108 requires that a direct value method be used to value intangible assets acquired in business combinations completed after September 29, 2004. EITF D-108 also requires the Company to perform an impairment test using a direct value method on all intangible assets that were previously valued using the residual method. Any impairments arising from the initial application of a direct value method are reported as a cumulative effect of accounting change. For radio station acquisitions subsequent to the acquisition of Capital Cities/ABC, Inc. in 1996, the Company applied the residual value method to value the acquired FCC licenses. The Company adopted EITF D-108 for the fiscal year ended October 1, 2005 and recorded a non-cash, $57 million pre-tax charge ($36 million after-tax) as a cumulative effect of accounting change.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 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. Such statements may, for example, express expectations or projections about future actions that we may take, including restructuring or strategic initiatives, or about developments beyond our control including changes in domestic or global economic conditions. These statements are made on the basis of management s views and assumptions as of the time the statements are made and we undertake no obligation to update these statements. There can be no assurance, however, that our expectations will necessarily come to pass. Significant factors affecting these expectations are set forth under Item 1A Risk Factors of this Report on Form 10-K.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Policies and Procedures

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

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

Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flow in order to allow management to focus on core business issues and challenges. Accordingly, the Company enters into various contracts that change in value as foreign exchange rates change to protect the U.S. dollar equivalent value of its existing foreign currency assets, liabilities, commitments, and forecasted foreign currency revenues. The Company utilizes option strategies and forward contracts that provide for the sale of foreign currencies to hedge probable, but not firmly committed, transactions. The Company also uses forward contracts to hedge foreign currency assets and liabilities. The principal foreign currencies hedged are the Euro, British pound, Japanese yen, and Canadian

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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.

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.

Value at Risk (VAR)

The Company utilizes a VAR model to estimate the maximum potential one-day loss in the fair value of its interest rate, foreign exchange, and market sensitive equity financial instruments. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. Various modeling techniques can be used in a VAR computation. The Company s computations are based on the interrelationships between movements in various interest rates, currencies, and equity prices (a variance/co-variance technique). These interrelationships were determined by observing interest rate, foreign currency, and equity market changes over the preceding quarter for the calculation of VAR amounts at fiscal 2007 year end. The model includes all of the Company s debt as well as all interest rate and foreign exchange derivative contracts and market sensitive equity investments. Forecasted transactions, firm commitments, and receivables and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were excluded from the model.

The VAR model is a risk analysis tool and does not purport to represent actual losses in fair value that will be incurred by the Company, nor does it consider the potential effect of favorable changes in market factors.

VAR on a combined basis increased to $33 million at September 29, 2007 from $21 million at September 30, 2006. The increase was primarily due to higher volatility and a higher market value of currency-sensitive instruments.

The estimated maximum potential one-day loss in fair value, calculated using the VAR model, is as follows (unaudited, in millions):

Fiscal Year 2007	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Equity Sensitive Financial Instruments	Combined Portfolio
Year end VAR	$ 26	$ 17	$ 1	$ 33
Average VAR	$ 17	$ 14	$ 1	$ 23
Highest VAR	$ 26	$ 17	$ 1	$ 33
Lowest VAR	$ 12	$ 12	$ 1	$ 18
Beginning of year VAR (year end fiscal 2006)	$ 22	$ 10	$ 1	$ 21

The VAR for Euro Disney and Hong Kong Disneyland is immaterial as of September 29, 2007. In calculating the VAR it was determined that credit risks are the primary driver for changes in the value of Euro Disney s debt rather than interest rate risks. Accordingly, we have excluded Euro Disney s borrowings from the above VAR calculation.

ITEM 8. Financial Statements and Supplementary Data

See Index to Financial Statements and Supplemental Data on page 61.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. 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,

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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 September 29, 2007, 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.

Management s Report on Internal Control Over Financial Reporting

Management s report set forth on page 62 is incorporated herein by reference.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting or in factors affecting internal control over financial reporting during the fourth quarter of the fiscal year ended September 29, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

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PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Information regarding Section 16(a) compliance, the Audit Committee, the Company s code of ethics and background of the directors appearing under the captions Section 16(a) Beneficial Ownership Reporting Compliance, Committees, Corporate Governance Guidelines and Code of Ethics and Election of Directors in the Company s Proxy Statement for the 2008 annual meeting of Shareholders is hereby incorporated by reference.

Information regarding executive officers is included in Part I of this Form 10-K as permitted by General Instruction G(3).

ITEM 11. Executive Compensation

Information appearing under the captions Board Compensation and Executive Compensation in the 2008 Proxy Statement (other than the Compensation Committee Report) is hereby incorporated by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information setting forth the security ownership of certain beneficial owners and management appearing under the caption Stock Ownership and information in the Equity Compensation Plans table appearing under the caption Overview of Plans in the 2008 Proxy Statement is hereby incorporated by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain related transactions appearing under the captions Certain Relationships and Related Person Transactions and Executive Compensation and information regarding director independence appearing under the caption Director Independence in the 2008 Proxy Statement is hereby incorporated by reference.

ITEM 14. Principal Accountant Fees and Services

Information appearing under the captions Auditor Fees and Services and Policy for Approval of Audit and Permitted Non-Audit Services in the 2008 Proxy Statement is hereby incorporated by reference.

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PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(1) Financial Statements and Schedules
See Index to Financial Statements and Supplemental Data at page 61.

(2) Exhibits
The documents set forth below are filed herewith or incorporated herein by reference to the location indicated.

Exhibit		Location
2.1	Agreement and Plan of Merger, by and among The Walt Disney Company, Lux Acquisition Corp. and Pixar, dated as of January 24, 2006	Exhibit 2.1 to the Current Report on Form 8-K of the Company filed January 26, 2006
2.2	Separation Agreement dated as of February 6, 2006, between Disney and Spinco	Exhibit 2.1 to the Current Report on Form 8-K of the Company filed February 10, 2006
2.3	Amendment No. 1 dated November 19, 2006 to the Separation Agreement dated as of February 6, 2006 between Disney and Spinco	Exhibit 2.3 to the Form 10-K for the Company for the period ended September 30, 2006
2.4	Agreement and Plan of Merger, dated as of February 6, 2006, between Disney, Spinco, Citadel and Merger Sub	Exhibit 2.2 to the Current Report on Form 8-K of the Company filed February 10, 2006
2.5	Amendment No. 1 dated November 19, 2006 to the Agreement and Plan of Merger, dated as of February 6, 2006, between Disney, Spinco, Citadel and Merger Sub	Exhibit 2.5 to the Form 10-K for the Company for the period ended September 30, 2006
3.1	Amended and Restated Certificate of Incorporation of the Company	Annex C to the Joint Proxy Statement/ Prospectus included in the Registration Statement on Form S-4 (No. 333-88105) of the Company, filed Sept. 30, 1999
3.2	Bylaws of the Company	Exhibit 3.1 to the Current Report on Form 8-K of the Company dated June 29, 2007
4.1	Amended and Restated Five Year Credit Agreement dated as of February 22, 2006	Exhibit 10.1 to the Current Report on Form 8-K of the Company, filed March 31, 2006
4.2	Amended and Restated Four Year Credit Agreement dated as of February 22, 2006	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed March 31, 2006
4.3	Indenture, dated as of Nov. 30, 1990, between DEI and Bankers Trust Company, as Trustee	Exhibit 2 to the Current Report on Form 8-K of DEI, dated Jan. 14, 1991
4.4	Indenture, dated as of Mar. 7, 1996, between the Company and Citibank, N.A., as Trustee	Exhibit 4.1(a) to the Current Report on Form 8-K of the Company, dated March 7, 1996
4.5	Senior Debt Securities Indenture, dated as of September 24, 2001, between the Company and Wells Fargo Bank, N.A., as Trustee	Exhibit 4.1 to the Current Report on Form 8-K of the Company, dated September 24, 2001
4.6	Other long-term borrowing instruments are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Company undertakes to furnish copies of such instruments to the Commission upon request	

Exhibit		Location
10.1	(i) Agreement on the Creation and the Operation of Euro Disneyland en France, dated Mar. 25, 1987, and (ii) Letter relating thereto of the Chairman of Disney Enterprises, Inc., dated Mar. 24,1987	Exhibits 10(b) and 10(a), respectively, to the Current Report on Form 8-K of DEI, dated Apr. 4, 1987
10.2	Memorandum of Agreement dated June 8, 2004, among Euro Disney S.C.A. and certain of its affiliates, the Company, Caisse des Dèpôts et Consignations, the Lenders (as defined therein), BNP Paribas and CALYON	Exhibit 3 to the Company s Report on Schedule 13D filed June 29, 2004, with respect to Euro Disney S.C.A.
10.3	Amendments to the June 8, 2004 Memorandum of Agreement	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed October 6, 2004
10.4	Composite Limited Recourse Financing Facility Agreement, dated as of Apr. 27, 1988, between DEI and TDL Funding Company, as amended	Exhibit 10(b) to the Form 10-K of the Company for the period ended September 30, 1997
10.5	Employment Agreement, dated as of Oct. 2, 2005, between the Company and Robert A. Iger	Exhibit 10(a) to the Current Report on Form 8-K of the Company dated October 6, 2005
10.6	Employment Agreement, dated September 26, 2003 between the Company and Alan N. Braverman	Exhibit 10(g) to the Form 10-K of the Company for the period ended September 30, 2003
10.7	Employment Agreement, dated September 26, 2003 between the Company and Thomas O. Staggs	Exhibit 10(h) to the Form 10-K of the Company for the period ended September 30, 2003
10.8	Amendment dated February 3, 2006 to Employment Agreement dated April 19, 2005, between the Company and Peter Murphy	Exhibit 10(b) to the Form 10-Q of the Company for the period ended December 31, 2005
10.9	Amended description of Employment Arrangement with Christine M. McCarthy	Exhibit 10.3 to the Form 10-Q of the Company for the period ended March 31, 2007
10.10	Amended description of Employment Arrangement with Kevin A. Mayer	Exhibit 10.2 to the Form 10- Q of the Company for the period ended March 31, 2007
10.11	Employment Agreement dated September 12, 2006 between the Company and Wesley Coleman	Exhibit 10.14 to the Form 10-K of the Company for the period ended September 30, 2006
10.12	Description of Directors Compensation	Item 9 of the Current Report on Form 8-K of the Company filed July 2, 2004 and Item 1.01 of the Current Report on Form 8-K of the Company filed June 28, 2006
10.13	Amended and Restated Director s Retirement Policy	Exhibit 10.4 to the Current Report on Form 8-K of the Company filed December 1, 2006
10.14	Form of Indemnification Agreement for certain officers and directors	Annex C to the Proxy Statement for the 1987 annual meeting of DEI
10.15	1995 Stock Option Plan for Non-Employee Directors	Exhibit 20 to the Form S-8 Registration Statement (No. 33-57811) of DEI, dated Feb. 23, 1995
10.16	Amended and Restated 1990 Stock Incentive Plan and Rules	Appendix B-2 to the Joint Proxy Statement/ Prospectus included in the Form S-4 Registration Statement (No. 33-64141) of DEI, dated Nov. 13, 1995
10.17	Amended and Restated 1995 Stock Incentive Plan and Rules	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed December 1, 2006
10.18	Amendment to Amended and Restated 1995 Stock Incentive Plan	Item 1.01(a) of Current Report on Form 8-K of the Company filed September 23, 2004

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Exhibit		Location
10.19	1987 Stock Incentive Plan and Rules and (ii) 1984 Stock Incentive Plan and Rules	Exhibits 1(a), 1(b), 2(a) and 2(b), respectively, to the Prospectus contained in the Form S-8 Registration Statement (No. 33-26106) of DEI, dated Dec. 20, 1988
10.20	Amendment, dated June 26, 2000, to the Company s Stock Incentive Plans	Exhibit 10(b) to the Form 10-Q of the Company for the period ended June 30, 2000
10.21	Amended and Restated 2002 Executive Performance Plan	Exhibit 10.9 to the Form 10-Q of the Company for the period ended December 30, 2006
10.22	Management Incentive Bonus Program approved September 19, 2004	Item 1.01(b) of Current Report on Form 8-K of the Company filed September 23, 2004
10.23	Amended and Restated 1997 Non-Employee Directors Stock and Deferred Compensation Plan	Annex II to the Proxy Statement for the 2003 annual meeting of the Company
10.24	Amended and Restated 2005 Incentive Plan	Annex C to the Proxy Statement for the 2007 annual meeting of the Company
10.25	The Walt Disney Company/Pixar 1995 Stock Plan	Exhibit 10.1 to the Form S-8 Registration Statement (No. 333-133840) of the Company dated May 5, 2006
10.26	The Walt Disney Company/Pixar 1995 Director Option Plan	Exhibit 10.2 to the Form S-8 Registration Statement (No. 333-133840) of the Company dated May 5, 2006
10.27	Amended and Restated The Walt Disney Company/Pixar 2004 Equity Incentive Plan	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed December 1, 2006
10.28	Key Employees Deferred Compensation and Retirement Plan	Exhibit 10(u) to the Form 10-K of the Company for the period ended September 30, 1997
10.29	Benefit Equalization Plan of ABC, Inc.	Filed herewith
10.30	Group Personal Excess Liability Insurance Plan	Exhibit 10(x) to the Form 10-K of the Company for the period ended September 30, 1997
10.31	Family Income Assurance Plan (summary description)	Exhibit 10(y) to the Form 10-K of the Company for the period ended September 30, 1997
10.32	Severance Pay Plan	Filed herewith
10.33	Form of Restricted Stock Unit Award Agreement (Time-Based Vesting)	Exhibit 10(aa) to the Form 10-K of the Company for the period ended September 30, 2004
10.34	Form of Restricted Stock Unit Award Agreement (Bonus Related)	Exhibit 10.3 to the Current Report on Form 8-K of the Company filed December 15, 2006
10.35	Form of Performance-Based Stock Unit Award	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed December 15, 2006
10.36	Form of Performance-Based Stock Unit Award Agreement (Dual Performance Goals)	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed December 15, 2006
10.37	Form of Non-Qualified Stock Option Award Agreement (Seven-year Form)	Exhibit 10(b) to the Current Report on Form 8-K of the Company dated December 23, 2004
10.38	Form of Restricted Stock Unit Award Agreement in Lieu of Equitable Adjustment	Exhibit 10.1 to the Form 10-Q of the Company for the period ended June 30, 2007
10.39	Settlement Agreement dated July 8, 2005 among Shamrock Holdings of California Inc., Roy E. Disney, Stanley P. Gold and the Registrant	Exhibit 10(hh) to the Form 10-K of the Company for the period ended October 1, 2005
21	Subsidiaries of the Company	Filed herewith

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Exhibit		Location
23	Consent of PricewaterhouseCoopers LLP	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 herewith
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 herewith

* 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.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

Date: November 21, 2007	By:	/s/ ROBERT A. IGER (Robert A. Iger, President and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
Principal Executive Officer		November 21, 2007
/s/ ROBERT A. IGER	President and Chief Executive Officer	
(Robert A. Iger)		
Principal Financial and Accounting Officers		November 21, 2007
/s/ THOMAS O. STAGGS	Senior Executive Vice President and Chief Financial Officer	
(Thomas O. Staggs)		
/s/ BRENT A. WOODFORD (Brent A. Woodford)	Senior Vice President-Planning and Control	November 21, 2007
Directors		November 21, 2007
/s/ SUSAN E. ARNOLD	Director	
(Susan E. Arnold)		
/s/ JOHN E. BRYSON (John E. Bryson)	Director	November 21, 2007
/s/ JOHN S. CHEN (John S. Chen)	Director	November 21, 2007

/s/ JUDITH L. ESTRIN (Judith L. Estrin)	Director	November 21, 2007
/s/ ROBERT A. IGER (Robert A. Iger)	Director	November 21, 2007
/s/ STEVEN P. JOBS (Steven P. Jobs)	Director	November 21, 2007
/s/ FRED H. LANGHAMMER (Fred H. Langhammer)	Director	November 21, 2007

Signature	Title	Date
/s/ AYLWIN B. LEWIS (Aylwin B. Lewis)	Director	November 21, 2007
/s/ MONICA C. LOZANO (Monica C. Lozano)	Director	November 21, 2007
/s/ ROBERT W. MATSCHULLAT (Robert W. Matschullat)	Director	November 21, 2007
/s/ JOHN E. PEPPER, JR. (John E. Pepper, Jr.)	Chairman of the Board and Director	November 21, 2007
/s/ ORIN C. SMITH (Orin C. Smith)	Director	November 21, 2007

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THE WALT DISNEY COMPANY AND SUBSIDIARIES

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All schedules are omitted for the reason that they are not applicable or the required information is included in the financial statements or notes.

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control Integrated Framework,* management concluded that our internal control over financial reporting was effective as of September 29, 2007.

The effectiveness of our internal control over financial reporting as of September 29, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of The Walt Disney Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders equity and cash flows present fairly, in all material respects, the financial position of The Walt Disney Company and its subsidiaries (the Company) at September 29, 2007 and September 30, 2006, and the results of their operations and their cash flows for each of the three years in the period ended September 29, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 29, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, as of September 29, 2007, the Company changed its method of accounting for pension and other postretirement benefits. Also, during the year ended October 1, 2005, the Company changed the manner in which it values its FCC licenses.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PRICEWATERHOUSECOOPERS LLP

Los Angeles, California

November 21, 2007

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CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share data)

	2007	2006	2005
Revenues	**$ 35,510**	$ 33,747	$ 31,374
Costs and expenses	**(28,729)**	(28,392)	(27,443)
Gains on sales of equity investments and businesses	**1,052**	70	26
Restructuring and impairment (charges) and other credits, net		18	(32)
Net interest expense	**(593)**	(592)	(597)
Equity in the income of investees	**485**	473	483
Income from continuing operations before income taxes, minority interests and the cumulative effect of accounting change	**7,725**	5,324	3,811
Income taxes	**(2,874)**	(1,837)	(1,174)
Minority interests	**(177)**	(183)	(177)
Income from continuing operations before the cumulative effect of accounting change	**4,674**	3,304	2,460
Discontinued operations, net of tax	**13**	70	109
Cumulative effect of accounting change			(36)
Net income	**$ 4,687**	$ 3,374	$ 2,533
Diluted Earnings per share:			
Earnings per share, continuing operations before the cumulative effect of accounting change	**$ 2.24**	$ 1.60	$ 1.19
Earnings per share, discontinued operations	**0.01**	0.03	0.05
Cumulative effect of accounting change per share			(0.02)
Earnings per share(1)	**$ 2.25**	$ 1.64	$ 1.22
Basic Earnings per share:			
Earnings per share, continuing operations before the cumulative effect of accounting change	**$ 2.33**	$ 1.65	$ 1.21
Earnings per share, discontinued operations	**0.01**	0.03	0.05
Cumulative effect of accounting change per share			(0.02)
Earnings per share(1)	**$ 2.34**	$ 1.68	$ 1.25

Weighted average number of common and common equivalent shares outstanding:			
Diluted	**2,092**	2,076	2,089
Basic	**2,004**	2,005	2,028

(1) Total earnings per share may not equal the sum of the column due to rounding.

See Notes to Consolidated Financial Statements

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CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

	September 29, 2007	September 30, 2006
ASSETS		
Current assets		
Cash and cash equivalents	**$ 3,670**	$ 2,411
Receivables	**5,032**	4,707
Inventories	**641**	694
Television costs	**559**	415
Deferred income taxes	**862**	592
Other current assets	**550**	743
Total current assets	**11,314**	9,562
Film and television costs	**5,123**	5,235
Investments	**995**	1,315
Parks, resorts and other property, at cost		
Attractions, buildings and equipment	**30,260**	28,843
Accumulated depreciation	**(15,145)**	(13,781)
	15,115	15,062
Projects in progress	**1,147**	913
Land	**1,171**	1,192
	17,433	17,167
Intangible assets, net	**2,494**	2,907
Goodwill	**22,085**	22,505
Other assets	**1,484**	1,307
	$ 60,928	$ 59,998
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	**$ 5,949**	$ 5,917
Current portion of borrowings	**3,280**	2,682
Unearned royalties and other advances	**2,162**	1,611
Total current liabilities	**11,391**	10,210
Borrowings	**11,892**	10,843
Deferred income taxes	**2,573**	2,651
Other long-term liabilities	**3,024**	3,131
Minority interests	**1,295**	1,343
Commitments and contingencies (Note 14)		
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 at September 29, 2007 and 2.5 billion at September 30, 2006	**24,207**	22,377

Retained earnings		**24,805**		20,630
Accumulated other comprehensive loss		**(157)**		(8)
		48,855		42,999
Treasury stock, at cost, 637.8 million shares at September 29, 2007 and 436.0 million shares at September 30, 2006		**(18,102)**		(11,179)
		30,753		31,820
	$	**60,928**	$	59,998

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	2007	2006	2005
OPERATING ACTIVITIES OF CONTINUING OPERATIONS			
Net income	**$ 4,687**	$ 3,374	$ 2,533
Income from discontinued operations	**(13)**	(70)	(109)
Depreciation and amortization	**1,491**	1,437	1,341
Gains on sales of equity investments and businesses	**(1,052)**	(70)	(26)
Deferred income taxes	**(260)**	(139)	(265)
Equity in the income of investees	**(485)**	(473)	(483)
Cash distributions received from equity investees	**420**	458	402
Write-off of aircraft leveraged lease			101
Cumulative effect of accounting change			36
Minority interests	**177**	183	177
Net change in film and television costs	**115**	860	568
Equity-based compensation	**419**	373	370
Other	**(65)**	(54)	(150)
Changes in operating assets and liabilities			
Receivables	**(355)**	(85)	(156)
Inventories	**52**	(63)	22
Other assets	**9**	(55)	(90)
Accounts payable and other accrued liabilities	**77**	304	(255)
Income taxes	**181**	(20)	123
Cash provided by continuing operations	**5,398**	5,960	4,139
INVESTING ACTIVITIES OF CONTINUING OPERATIONS			
Investments in parks, resorts and other property	**(1,566)**	(1,292)	(1,813)
Sales of investments	**5**	1,073	24
Working capital proceeds from The Disney Store North America sale			100
Proceeds from sales of equity investments and businesses	**1,530**	81	29
Acquisitions	**(588)**	(55)	(9)
Proceeds from sales of fixed assets and other	**1**	(27)	(13)
Cash used in continuing investing activities	**(618)**	(220)	(1,682)
FINANCING ACTIVITIES OF CONTINUING OPERATIONS			
Commercial paper borrowings, net	**1,847**	85	654
Borrowings	**3,143**	2,806	422
Reduction of borrowings	**(2,294)**	(1,950)	(1,775)
Dividends	**(637)**	(519)	(490)
Repurchases of common stock	**(6,923)**	(6,898)	(2,420)
Euro Disney equity offering			171
Equity partner contributions		51	147
Exercise of stock options and other	**1,245**	1,259	392
Cash used in continuing financing activities	**(3,619)**	(5,166)	(2,899)
CASH FLOWS OF DISCONTINUED OPERATIONS			
Net cash provided by operating activities of discontinued operations	**23**	98	130
Net cash used in investing activities of discontinued operations	**(3)**	(7)	(9)
Net cash provided by financing activities of discontinued operations	**78**	23	2

Increase/(decrease) in cash and cash equivalents	**1,259**	688	(319)
Cash and cash equivalents, beginning of year	**2,411**	1,723	2,042
Cash and cash equivalents, end of year	**$ 3,670**	$ 2,411	$ 1,723
Supplemental disclosure of cash flow information:			
Interest paid	**$ 551**	$ 617	$ 641
Income taxes paid	**$ 2,796**	$ 1,857	$ 1,572

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in millions, except per share data)

	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders Equity
BALANCE AT SEPTEMBER 30, 2004	2,040	$ 12,447	$ 15,732	$ (236)	$ (1,862)	$ 26,081
Exercise of stock options and issuance of restricted stock and stock options	20	841			1	842
Common stock repurchases	(91)				(2,420)	(2,420)
Dividends ($0.24 per share)			(490)			(490)
Other comprehensive loss (net of tax of $197 million)				(336)		(336)
Net income			2,533			2,533
BALANCE AT OCTOBER 1, 2005	1,969	13,288	17,775	(572)	(4,281)	26,210
Exercise of stock options and issuance of restricted stock and stock options	57	1,676				1,676
Acquisition of Pixar	279	7,413				7,413
Common stock repurchases	(243)				(6,898)	(6,898)
Dividends ($0.27 per share)			(519)			(519)
Other comprehensive income (net of tax of $394 million)				564		564
Net income			3,374			3,374
BALANCE AT SEPTEMBER 30, 2006	2,062	22,377	20,630	(8)	(11,179)	31,820
Exercise of stock options and issuance of restricted stock and stock options	57	1,823				1,823
Common stock repurchases	(202)				(6,923)	(6,923)
Dividends ($0.31 per share)		7	(644)			(637)
Other comprehensive income (net of tax of $66 million)				112		112
Adoption of SFAS 158 (see Note 9) (net of tax of $154 million)				(261)		(261)
Distribution of ABC Radio business			132			132
Net income			4,687			4,687
BALANCE AT SEPTEMBER 29, 2007	**1,917**	**$ 24,207**	**$ 24,805**	**$ (157)**	**$ (18,102)**	**$ 30,753**

Accumulated other comprehensive income/(loss) is as follows:

	September 29, 2007	September 30, 2006
Market value adjustments for investments and hedges	**$ (42)**	$ 29
Foreign currency translation and other	**164**	87
Minimum pension liability adjustment	**n/a**	(124)
Unrecognized pension and postretirement medical expense	**(279)**	n/a
	$ (157)	$ (8)

Comprehensive income/(loss) is as follows:

	2007	2006	2005
Net income	**$ 4,687**	$ 3,374	$ 2,533
Market value adjustments for investments and hedges	**(71)**	(2)	92
Foreign currency translation and other	**77**	(19)	20
Minimum pension liability adjustment, increase/(decrease) (see Note 9)	**106**	585	(448)
Comprehensive income	**$ 4,799**	$ 3,938	$ 2,197

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollars in millions, except per share amounts)

1. *Description of the Business and Segment Information*

The Walt Disney Company, together with the subsidiaries through which the Company s businesses are conducted (the Company), is a diversified worldwide entertainment company with operations in the following business segments: Media Networks, Parks and Resorts, Studio Entertainment, and Consumer Products.

DESCRIPTION OF THE BUSINESS

Media Networks

The Company operates the ABC Television Network and ten owned television stations, as well as the ESPN Radio Network, and Radio Disney Network (the Radio Networks) and 46 owned radio stations. Both the television and radio networks have affiliated stations providing coverage to households throughout the United States. The Company has cable/satellite networks and international television operations that are principally involved in the production and distribution of cable television programming, the licensing of programming to domestic and international markets, and investing in foreign television broadcasting, production, and distribution entities. Primary cable/satellite programming services that operate through consolidated subsidiary companies are the ESPN-branded networks, Disney Channel, International Disney Channel, SOAPnet, Toon Disney, ABC Family Channel, and Jetix channels in Europe and Latin America. Other programming services that operate through joint ventures and are accounted for under the equity method, include A&E Television Networks and Lifetime Entertainment Services. The Company also produces original television programming for network, first-run syndication, pay, and international syndication markets, along with original animated television programming for network, pay, and international syndication markets. Additionally, the Company operates ABC-, ESPN-, ABC Family-, SOAPnet- and Disney-branded internet website businesses, as well as Club Penguin, an online virtual world for kids.

On June 12, 2007, the Company completed the spin-off of its wholly owned subsidiary, ABC Radio Holdings, Inc., and its merger into a subsidiary of Citadel Broadcasting Corporation (Citadel). Prior to the spin-off, the Company consolidated its ABC Radio Business, consisting of 22 large-market radio stations and the ABC Radio Network businesses, under ABC Radio Holdings, Inc. The transaction did not include the Company s ESPN Radio or Radio Disney network and station businesses. Additional information regarding this transaction is included in Note 3.

Parks and Resorts

The Company owns and operates the Walt Disney World Resort in Florida and the Disneyland Resort in California. The Walt Disney World Resort includes four theme parks (the Magic Kingdom, Epcot, Disney-MGM Studios, and Disney s Animal Kingdom), seventeen resort hotels, a retail, dining, and entertainment complex, a sports complex, conference centers, campgrounds, golf courses, water parks, and other recreational facilities. The Disneyland Resort includes two theme parks (Disneyland and Disney s California Adventure), three resort hotels, and a retail, dining and entertainment district. The Company manages and has a 40% equity interest in Euro Disney S.C.A. (Euro Disney), a publicly-held French entity that is a holding company for Euro Disney Associés S.C.A. (Disney S.C.A.), in which the Company has a direct 18% interest. Consequently, the Company has a 51% effective ownership interest in Disney S.C.A., the primary operating company of Disneyland Resort Paris, which includes the Disneyland Park, the Walt Disney Studios Park, seven themed hotels, two convention centers, a shopping, dining and entertainment complex, and a 27-hole golf facility. The Company also manages and has a 43% equity interest in Hong Kong Disneyland, which includes one theme park and two resort hotels. The Company earns royalties on revenues generated by the Tokyo Disneyland Resort, which includes two theme parks and two Disney-branded hotels, near Tokyo, Japan, and is owned and operated by an unrelated Japanese corporation. The Company s Walt Disney Imagineering unit designs and develops new theme park concepts and attractions, as well as resort properties. The Company also manages and markets vacation club ownership interests through the Disney Vacation Club and operates the Disney Cruise Line out of Port Canaveral, Florida. Also included in Parks and Resorts is the ESPN Zone, which operates eight sports-themed dining and entertainment facilities around the United States.

Studio Entertainment

The Company produces and acquires live-action and animated motion pictures for worldwide distribution to the theatrical, home entertainment, and television markets. The Company distributes these products through its own distribution and marketing companies in the United States and foreign markets primarily under the Walt Disney Pictures, Touchstone Pictures, and Miramax banners, as well as Dimension for titles released prior to September 30, 2005. On May 5, 2006, the Company completed an all stock acquisition of Pixar, a digital animation studio. As a result of the acquisition the Company now produces feature animation films under both the Disney and Pixar banners. Refer to Note 3 for information about the acquisition. The Company also produces stage plays and musical recordings.

Consumer Products

The Company licenses the name Walt Disney, as well as the Company s characters and visual and literary properties, to various manufacturers, retailers, show promoters, and publishers throughout the world. The Company also engages in retail and online distribution of products through The Disney Store and DisneyShopping.com. The Disney Store is owned and operated in Europe and franchised in North America and Japan. The Company publishes books and magazines for children and families and computer software and video game products for the entertainment and educational marketplace.

SEGMENT INFORMATION

The operating segments reported below are the segments of the Company for which separate financial information is available and for which operating results are evaluated regularly by the Chief Executive Officer in deciding how to allocate resources and in assessing performance.

Segment operating results reflect earnings before corporate and unallocated shared expenses and exclude amortization of certain intangible assets, gains on sale of equity investments and businesses, restructuring and impairment (charges) and other credits, net interest expense, income taxes, minority interests, and the cumulative effect of accounting change. Segment operating income results include equity in the income of investees. Equity investees consist primarily of A&E Television Networks and Lifetime Television, which are cable businesses included in the Media Networks segment. Corporate and unallocated shared expenses principally consist of corporate functions, executive management, and certain unallocated administrative support functions.

Equity in the income of investees by segment is as follows:

	2007	2006	2005
Media Networks [1]	**$ 484**	$ 444	$ 460
Parks and Resorts		1	
Consumer Products		28	23
Corporate	**1**		
	$ 485	$ 473	$ 483

[1] Substantially all of these amounts relate to investments at Cable Networks.

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The following segment results include allocations of certain costs, including certain information technology, pension, legal, and other shared services costs, which are allocated based on various metrics designed to correlate with consumption. These allocations are agreed-upon amounts between the businesses and may differ from amounts that would be negotiated in arm s length transactions. In addition, all significant intersegment transactions have been eliminated except that Studio Entertainment revenues and operating income include an allocation of Consumer Products revenues, which is meant to reflect royalties on Consumer Products sales of merchandise based on certain Studio film properties.

	2007	2006	2005
Revenues			
Media Networks	**$ 15,046**	$ 14,100	$ 12,637
Parks and Resorts	**10,626**	9,925	9,023
Studio Entertainment			
Third parties	**7,308**	7,410	7,499
Intersegment	**183**	119	88
	7,491	7,529	7,587
Consumer Products			
Third parties	**2,530**	2,312	2,215
Intersegment	**(183)**	(119)	(88)
	2,347	2,193	2,127
Total consolidated revenues	**$ 35,510**	$ 33,747	$ 31,374
Segment operating income			
Media Networks	**$ 4,285**	$ 3,480	$ 3,040
Parks and Resorts	**1,710**	1,534	1,178
Studio Entertainment	**1,201**	729	207
Consumer Products	**631**	618	543
Total segment operating income	**$ 7,827**	$ 6,361	$ 4,968
Reconciliation of segment operating income to income from continuing operations before income taxes, minority interests and the cumulative effect of accounting change			
Segment operating income	**$ 7,827**	$ 6,361	$ 4,968
Corporate and unallocated shared expenses	**(497)**	(522)	(543)
Amortization of intangible assets	**(16)**	(11)	(11)
Equity-based compensation plan modification charge	**(48)**		
Gains on sales of equity investments and businesses	**1,052**	70	26
Restructuring and impairment (charges) and other credits, net		18	(32)
Net interest expense	**(593)**	(592)	(597)
Income from continuing operations before income taxes, minority interests and the cumulative effect of accounting change	**$ 7,725**	$ 5,324	$ 3,811

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	2007	2006	2005
Capital expenditures from continuing operations			
Media Networks	**$ 265**	$ 220	$ 218
Parks and Resorts			
Domestic	**816**	667	726
International	**256**	248	711
Studio Entertainment	**85**	41	37
Consumer Products	**36**	16	10
Corporate	**108**	100	111
Total capital expenditures from continuing operations	**$ 1,566**	$ 1,292	$ 1,813
Depreciation expense from continuing operations			
Media Networks	**$ 184**	$ 179	$ 175
Parks and Resorts			
Domestic	**790**	780	756
International	**304**	279	207
Studio Entertainment	**31**	30	26
Consumer Products	**18**	23	25
Corporate	**132**	126	132
Total depreciation expense from continuing operations	**$ 1,459**	$ 1,417	$ 1,321
Identifiable assets			
Media Networks(1)(2)	**$ 27,692**	$ 27,281	
Parks and Resorts(2)	**16,311**	15,929	
Studio Entertainment(2)	**10,812**	11,159	
Consumer Products(2)	**1,553**	1,505	
Corporate(2)(3)	**4,560**	4,124	
Total consolidated assets	**$ 60,928**	$ 59,998	
Supplemental revenue data			
Media Networks			
Advertising	**$ 7,112**	$ 7,222	$ 6,708
Affiliate Fees	**6,139**	5,538	5,098
Parks and Resorts			
Merchandise, food and beverage	**3,454**	3,221	2,879
Admissions	**3,342**	3,085	2,771
Revenues			
United States and Canada	**$ 27,286**	$ 26,027	$ 24,236
Europe	**5,898**	5,266	5,207
Asia Pacific	**1,732**	1,917	1,451
Latin America and Other	**594**	537	480
	$ 35,510	$ 33,747	$ 31,374
Segment operating income			
United States and Canada	**$ 6,042**	$ 4,808	$ 3,794
Europe	**1,192**	918	738
Asia Pacific	**437**	542	386
Latin America and Other	**156**	93	50
	$ 7,827	$ 6,361	$ 4,968

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Identifiable assets	**2007**	2006
United States and Canada [1]	**$ 52,052**	$ 52,097
Europe	**6,588**	5,624
Asia Pacific	**2,077**	2,111
Latin America and Other	**211**	166
	$ 60,928	$ 59,998

(1) Identifiable assets include amounts associated with equity method investments of $714 and $1,065 in 2007 and 2006, respectively.

(2) Goodwill and intangible assets, by segment, are as follows:

	2007	2006
Media Networks	**$ 18,403**	$ 19,257
Parks and Resorts	**173**	173
Studio Entertainment	**5,065**	5,036
Consumer Products	**691**	690
Corporate	**247**	256
	$ 24,579	$ 25,412

(3) Primarily deferred tax assets, investments, fixed assets, and other assets.

2. *Summary of Significant Accounting Policies*

Principles of Consolidation

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

Accounting Changes

SFAS 159

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 gives the Company the irrevocable option to carry most financial assets and liabilities at fair value, with changes in fair value recognized in earnings. SFAS 159 is effective for the Company s 2009 fiscal year, although early adoption is permitted. The Company is currently assessing the potential effect of SFAS 159 on its financial statements.

SFAS 158

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statement Nos. 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 date of the statement of financial position. The Company adopted the recognition provisions of SFAS 158 in fiscal year 2007. See Note 9 for information regarding the impact of adopting the recognition provision of SFAS 158. The Company has not yet adopted the measurement provisions which are not effective until fiscal year 2009.

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SFAS 157

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. SFAS 157 is effective for the Company s 2009 fiscal year, although early adoption is permitted. The Company is currently assessing the potential effect of SFAS 157 on its financial statements.

SAB 108

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 was issued in order to eliminate the diversity in practice surrounding how public companies quantify financial statement misstatements. SAB 108 requires that registrants quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. The Company adopted SAB 108 at the end of fiscal 2007, and the adoption did not have a material impact on the Company s financial statements.

FIN 48

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in FIN 48 as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 must be applied to all existing tax positions upon initial adoption. The cumulative effect of applying FIN 48 at adoption is to be reported as an adjustment to beginning retained earnings for the year of adoption. FIN 48 is effective for the Company s 2008 fiscal year and will result in a reduction of approximately $160 million to beginning retained earnings in fiscal year 2008.

EITF D-108

In September 2004, the Emerging Issues Task Force (EITF) issued Topic No. D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill* (EITF D-108). EITF D-108 requires that a direct value method be used to value intangible assets acquired in business combinations completed after September 29, 2004. EITF D-108 also requires the Company to perform an impairment test using a direct value method on all intangible assets that were previously valued using the residual method. Any impairments arising from the initial application of a direct value method are reported as a cumulative effect of accounting change. For radio station acquisitions subsequent to the acquisition of Capital Cities/ABC, Inc. in 1996, the Company applied the residual value method to value the acquired FCC licenses. The Company adopted EITF D-108 for the fiscal year ended October 1, 2005 and recorded a non-cash $57 million pre-tax charge ($36 million after-tax) as a cumulative effect of accounting change.

Reclassifications

Certain reclassifications have been made in the fiscal 2006 and fiscal 2005 financial statements and notes to conform to the fiscal 2007 presentation.

As a result of the spin-off of the ABC Radio business in fiscal 2007, ABC Radio is reported as discontinued operations for all periods presented (see Note 3 for further discussion). Previously, the ABC Radio business was included in the Media Networks segment. Prior period information has been reclassified to conform to the current presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results may differ from those estimates.

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Revenue Recognition

Broadcast advertising revenues are recognized when commercials are aired. Revenues from television subscription services related to the Company s primary cable programming services are recognized as services are provided. Certain of the Company s existing contracts with cable and satellite operators include annual live programming commitments. In these cases, recognition of revenues subject to the commitments is deferred until the annual commitments are satisfied, which generally results in higher revenue recognition in the second half of the year.

Revenues from advance theme park ticket sales are recognized when the tickets are used. For non-expiring, multi-day tickets, we recognize revenue over a three-year time period based on estimated usage patterns that are derived from historical usage patterns. Revenues from corporate sponsors at the theme parks are generally recognized over the period of the applicable agreements commencing with the opening of the related attraction.

Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited. Revenues from video and video game sales, net of anticipated returns and customer incentives, are recognized on the date that video units are made available for sale by retailers. Revenues from the licensing of feature films and television programming are recorded when the material is available for telecasting by the licensee and when certain other conditions are met.

Merchandise licensing advances and guarantee royalty payments are recognized based on the contractual royalty rate when the licensed product is sold by the licensee. Non-refundable advances and minimum guarantee royalty payments in excess of royalties earned are generally recognized as revenue at the end of the contract term.

Taxes collected from customers and remitted to governmental authorities are presented in the Consolidated Statements of Income on a net basis.

Advertising Expense

Advertising costs are expensed as incurred. Advertising expense for fiscal 2007, 2006 and 2005 was $2.6 billion, $2.5 billion and $2.9 billion, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less.

Investments

Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. Debt securities not classified as held-to-maturity and marketable equity securities are classified as either trading or available-for-sale, and are recorded at fair value with unrealized gains and losses included in earnings or accumulated other comprehensive income/(loss), respectively. All other equity securities are accounted for using either the cost method or the equity method.

The Company regularly reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary. If the decline in fair value is judged to be other than temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in the Consolidated Statements of Income.

Translation Policy

The U.S. dollar is the functional currency for the majority of our international operations. The local currency is the functional currency for Euro Disney, Hong Kong Disneyland, JETIX and international locations of The Disney Stores.

For U.S. dollar functional currency locations, foreign currency assets and liabilities are remeasured into U.S. dollars at end-of-period exchange rates, except for nonmonetary balance sheet accounts, which are remeasured at historical exchange rates. Revenue and expenses are remeasured at average exchange rates in effect during each period, except for those expenses related to the non-monetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in net earnings.

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For local currency functional locations, assets and liabilities are translated at end-of-period rates while revenues and expenses are translated at average rates in effect during the period. Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income.

Inventories

Carrying amounts of merchandise, materials, and supplies inventories are generally determined on a moving average cost basis and are stated at the lower of cost or market.

Film and Television Costs

Film and television costs include capitalizable production costs, production overhead, interest, development costs, and acquired production costs and are stated at the lower of cost, less accumulated amortization, or fair value. Acquired programming costs for the Company s television and cable/satellite networks are stated at the lower of cost, less accumulated amortization, or net realizable value. Acquired television broadcast program licenses and rights are recorded when the license period begins and the program is available for use. Marketing, distribution, and general and administrative costs are expensed as incurred.

Film and television production and participation costs are expensed based on the ratio of the current period s gross revenues to estimated remaining total gross revenues (Ultimate Revenues) from all sources on an individual production basis. Ultimate Revenues for film productions includes revenue that will be earned within ten years of the date of the initial theatrical release. For television network 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. For acquired film libraries, remaining revenues include amounts to be earned for up to twenty years from the date of acquisition. Film development costs for projects that have been abandoned or have not been set for production within three years are generally written off.

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. 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 useful life, as appropriate. Ultimate Revenues for multi-year sports programming rights 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. Individual programs are written-off when there are no plans to air or sublicense the program.

The net realizable value of network television broadcast program licenses and rights is 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 are reviewed on an aggregated basis for each cable channel.

Internal-Use Software Costs

The Company expenses costs incurred in the preliminary project stage of developing or acquiring internal use software, such as research and feasibility studies, as well as costs incurred in the post-implementation/operational stage, such as maintenance and training. Capitalization of software development costs occurs only after the preliminary-project stage is complete, management authorizes the project, and it is probable that the project will be completed and the software will be used for the function intended. As of September 29, 2007 and September 30, 2006, capitalized software costs, net of accumulated depreciation, totaled $555 million and $491 million, respectively. The capitalized costs are amortized on a straight-line basis over the estimated useful life of the software, ranging from 3-10 years.

Software Product Development Costs

Software product development costs incurred prior to reaching technological feasibility are expensed. We have determined that technological feasibility of the software is not established until substantially all product development is complete. The software product development costs that have been capitalized to date have been insignificant.

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Parks, Resorts and Other Property

Parks, resorts, and other property are carried at historical cost. Depreciation is computed on the straight-line method over estimated useful lives as follows:

Attractions	25 40 years
Buildings and improvements	40 years
Leasehold improvements	Life of lease or asset life if less
Land improvements	20 40 years
Furniture, fixtures and equipment	3 25 years

Goodwill and Other Intangible Assets

The Company performs an annual impairment test at fiscal year end for goodwill and other indefinite-lived intangible assets, including FCC licenses and trademarks. As required by Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), goodwill is allocated to various reporting units, which are generally one level below our operating segments.

To determine if there is potential goodwill impairment, SFAS 142 requires the Company to compare the fair value of the reporting unit to its carrying amount on an annual basis. If the fair value of the 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, except for the ABC Television Network, a business within the Media Networks operating segment, for which we used a revenue multiple. 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. We applied what we believe to be the most appropriate valuation methodology for each of our reporting units. If we had established different reporting units or utilized different valuation methodologies, the impairment test results could differ.

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

We completed our impairment testing as of September 29, 2007, which resulted in a non-cash impairment charge of $26 million related to ESPN Radio and Radio Disney FCC licenses. During fiscal 2006, the Company recorded a non-cash impairment charge of $32 million related to FCC licenses primarily associated with ESPN Radio stations. These impairment charges reflected overall market declines in certain radio markets in which we operate. During fiscal 2005, the Company adopted EITF D-108 and recorded a non-cash impairment charge of $57 million primarily associated with ESPN and Radio Disney FCC licenses.

Amortizable intangible assets, principally copyrights, are generally amortized on a straight-line basis over periods of up to 31 years.

Risk Management Contracts

In the normal course of business, the Company employs a variety of financial instruments to manage its exposure to fluctuations in interest rates, foreign currency exchange rates, and investments in equity and debt securities, including interest rate and cross-currency swap agreements; forward, option and swaption contracts and interest rate caps.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. There are two types of derivatives into which the Company enters: hedges of fair value exposure and hedges of cash flow exposure. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset, liability, or a firm commitment. Hedges of cash flow exposure are entered into in order to hedge a forecasted transaction (e.g. forecasted revenue) or the variability of cash flows to be paid or received, related to a recognized liability or asset (e.g. floating rate debt).

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The Company designates and assigns the financial instruments as hedges of forecasted transactions, specific assets or specific liabilities. When hedged assets or liabilities are sold or extinguished or the forecasted transactions being hedged are no longer expected to occur, the Company recognizes the gain or loss on the designated hedging financial instruments.

Option premiums and unrealized gains on forward contracts and the accrued differential for interest rate and cross-currency swaps to be received under the agreements are recorded on the balance sheet as other assets. Unrealized losses on forward contracts and the accrued differential for interest rate and cross-currency swaps to be paid under the agreements are included in liabilities. Realized gains and losses from hedges are classified in the income statement consistent with the accounting treatment of the items being hedged. The Company accrues the differential for interest rate and cross-currency swaps to be paid or received under the agreements as interest rates and exchange rates change as adjustments to interest expense over the lives of the swaps. Gains and losses on the termination of effective swap agreements, prior to their original maturity, are deferred and amortized to interest expense over the remaining term of the underlying hedged transactions.

From time to time, the Company may enter into risk management contracts that are not designated as hedges and do not qualify for hedge accounting. These contracts are intended to offset certain economic exposures of the Company and are carried at market value with any changes in value recorded in earnings. Cash flows from hedging activities are classified in the Consolidated Statements of Cash Flows under the same category as the cash flows from the related assets, liabilities or forecasted transactions (see Notes 7 and 13).

Earnings Per Share

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted EPS is based upon the weighted average number of common and common equivalent shares outstanding during the year which is calculated using the treasury-stock method for equity-based awards and assumes conversion of the Company s convertible senior notes (see Note 7). Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect. Stock options for which the exercise price exceeds the average market price over the period are anti-dilutive and, accordingly, are excluded from the calculation.

A reconciliation of income from continuing operations and the weighted average number of common and common equivalent shares outstanding for calculating diluted earnings per share from continuing operations is as follows:

	2007	2006	2005
Income from continuing operations before the cumulative effect of accounting change	**$ 4,674**	$ 3,304	$ 2,460
Interest expense on convertible senior notes (net of tax)	**21**	21	21
	$ 4,695	$ 3,325	$ 2,481
Weighted average number of common shares outstanding (basic)	**2,004**	2,005	2,028
Weighted average dilutive impact of equity-based compensations awards	**43**	26	16
Weighted average assumed conversion of convertible senior notes	**45**	45	45
Weighted average number of common and common equivalent shares outstanding (diluted)	**2,092**	2,076	2,089

For fiscal 2007, 2006 and 2005, options for 25 million, 88 million and 96 million shares, respectively, were excluded from the diluted EPS calculation because they were anti-dilutive.

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3. *Significant Acquisitions and Dispositions and Restructuring and Impairment Charges*

Acquisition of Pixar

On May 5, 2006 (the Closing Date), the Company completed an all stock acquisition of Pixar, a digital animation studio (the Acquisition). Disney believes that the creation of high quality feature animation is a key driver of success across many of its businesses and provides content useful across a variety of traditional and new platforms throughout the world. The acquisition of Pixar is intended to support the Company s strategic priorities of creating the finest content, embracing leading-edge technologies, and strengthening its global presence. The results of Pixar s operations have been included in the Company s consolidated financial statements since the Closing Date.

To purchase Pixar, Disney exchanged 2.3 shares of its common stock for each share of Pixar common stock, resulting in the issuance of 279 million shares of Disney common stock, and converted previously issued vested and unvested Pixar equity-based awards into approximately 45 million Disney equity-based awards.

The Acquisition purchase price was $7.5 billion ($6.4 billion, net of Pixar s cash and investments of approximately $1.1 billion). The value of the stock issued was calculated based on the market value of the Company s common stock using the average stock price for the five-day period beginning two days before the acquisition announcement date on January 24, 2006. The fair value of the vested equity-based awards issued at the Closing Date was estimated using the Black-Scholes option pricing model, as the information required to use a binomial valuation model was not reasonably available.

In connection with the Acquisition, the Company recorded a non-cash, non-taxable gain from the deemed termination of the existing Pixar distribution agreement. Under our previously existing distribution agreement with Pixar, the Company earned a distribution fee that, based on current market rates at the Closing Date, was favorable to the Company. In accordance with EITF 04-1, *Accounting for Pre-Existing Relationships between the Parties to a Business Combination* (EITF 04-1), the Company recognized a $48 million gain, representing the net present value of the favorable portion of the distribution fee over the remaining life of the distribution agreement. In addition, the Company abandoned the Pixar sequel projects commenced by the Company prior to the acquisition and recorded a pre-tax impairment charge totaling $26 million, which represents the costs of these projects incurred through the abandonment date. These two items are classified in Restructuring and impairment (charges) and other credits, net in the Consolidated Statement of Income.

The Company allocated the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values, which were determined primarily through third-party appraisals. The goodwill that arose from the Acquisition reflected the value to Disney from:

- Acquiring a talented, assembled workforce, particularly the creative and technological talents of key senior management and film directors with a successful track record of producing high quality feature animation
- Securing all of the economic results of future films produced by Pixar
- Obtaining the benefits of leveraging future Pixar-created intellectual property across Disney s diversified revenue streams and portfolio of entertainment assets
- Improving the results of Disney feature animation films

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The following table summarizes the allocation of the purchase price:

	Estimated Fair Value	Weighted Average Useful Lives (years)
Cash and cash equivalents	$ 11	
Investments	1,073	
Prepaid and other assets	45	
Film costs	538	12
Buildings and equipment	225	16
Intangibles	233	17
Goodwill	5,557	
Total assets acquired	$ 7,682	
Liabilities	64	
Deferred income taxes	123	
Total liabilities assumed	$ 187	
Net assets acquired	$ 7,495	

The weighted average useful life determination for intangibles excludes $164 million of indefinite-lived Pixar trademarks and tradenames. Goodwill of $4.8 billion, $0.6 billion, and $0.2 billion was allocated to the Studio Entertainment, Consumer Products, and Parks and Resorts operating segments, respectively. The goodwill is not amortizable for tax purposes.

The following table presents unaudited pro forma results of Disney for fiscal 2006 as though Pixar had been acquired as of the beginning of fiscal 2006. These pro forma results do not necessarily represent what would have occurred if the Acquisition had taken place as of the beginning of fiscal 2006 and do not represent the results that may occur in the future. The pro forma amounts represent the historical operating results of Disney and Pixar with adjustments for purchase accounting.

	Fiscal Year 2006
	(unaudited)
Revenues	**$ 34,299**
Income before cumulative effect of accounting change	**3,395**
Net Income	**3,395**
Earnings per share:	
Diluted	**$ 1.52**
Basic	**$ 1.56**

Other Acquisitions

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

On February 1, 2007, the Company acquired all the outstanding shares of NASN Limited, an Irish company that operates cable television networks in Europe dedicated to North American sporting events and related programming, for consideration valued at $112 million consisting of cash and assumption of debt.

We are in the process of finalizing the valuation of the assets acquired and liabilities assumed for both acquisitions.

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ABC Radio Transaction

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

As a result of the spin-off and merger, Company shareholders received approximately 0.0768 shares of Citadel common stock in exchange for each share of Disney common stock held as of June 6, 2007. Approximately 151.7 million shares of Citadel common stock were issued to Company shareholders in the merger. As part of the transaction, the Company retained $1.35 billion of cash, representing the proceeds from debt raised by ABC Radio Holdings, Inc. prior to the spin-off. This debt and the assets and other liabilities of the ABC Radio business were removed from the Company s balance sheet as a distribution at book value. Consequently, there was no gain or loss recorded and the negative net book value of $132 million was credited to retained earnings.

Fiscal 2007 results of the ABC Radio business through June 12, 2007 have been reported as discontinued operations. Previously reported results have been reclassified to reflect this presentation.

Summarized financial information for the discontinued ABC Radio business is as follows (in millions):

Income Statement Data:

	2007	2006	2005
Revenues	**$ 372**	$ 538	$ 570
Income from discontinued operations before income taxes	**45**	123	176

Balance Sheet Data:

	June 12, 2007	September 30, 2006
Assets		
Current assets	**$ 132**	$ 129
Property and equipment	**56**	60
FCC licenses	**476**	476
Goodwill	**726**	726
Other assets	**7**	4
	1,397	1,395
Liabilities		
Current liabilities	**25**	20
Borrowings	**1,350**	
Long-term liabilities	**154**	149
Net assets of discontinued operations	**$ (132)**	$ 1,226

Dispositions

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

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The following disposals occurred during fiscal 2006 and fiscal 2005:

A cable television equity investment in Spain was sold for $67 million on November 23, 2005, resulting in a pre-tax gain of $57 million.

The Discover Magazine business was sold for $14 million on October 7, 2005, resulting in a pre-tax gain of $13 million.

The Mighty Ducks of Anaheim was sold for $39 million on June 20, 2005, resulting in a pre-tax gain of $26 million.

These gains were reported in Gains on sales of equity investments and businesses in the Consolidated Statements of Income.

On November 21, 2004, the Company sold substantially all of The Disney Store chain in North America under a long-term licensing arrangement to a wholly-owned subsidiary of The Children s Place (TCP). The Company received $100 million for the working capital transferred to the buyer at the closing of the transaction. During fiscal 2005, the Company recorded a loss on the working capital that was transferred to the buyer and additional restructuring and impairment charges related to the sale (primarily for employee retention and severance and lease termination costs) totaling $32 million.

The changes in the carrying amount of goodwill for the years ended September 29, 2007 and September 30, 2006 are as follows:

	Media Networks	Parks and Resorts	Studio Entertainment	Consumer Products	Total
Balance at October 1, 2005	$ 16,895	$ 27	$ 23	$ 29	$ 16,974
Goodwill acquired during the year	23	146	4,790	613	5,572
Other, net	(19)		(22)		(41)
Balance at September 30, 2006	16,899	173	4,791	642	22,505
Goodwill acquired during the year	475			21	496
Goodwill disposed of during the year	(726)				(726)
Capital Cities/ABC, Inc. acquisition adjustment and other, net	(187)		(3)		(190)
Balance at September 29, 2007	**$ 16,461**	**$ 173**	**$ 4,788**	**$ 663**	**$ 22,085**

During the fourth quarter of fiscal 2007, certain preacquisition tax contingencies related to the Company s 1996 acquisition of Capital Cities/ABC, Inc. were reversed against goodwill.

4. *Investments*

Investments consist of the following:

	September 29, 2007	September 30, 2006
Investments, equity basis[(1)]	**$ 706**	$ 1,075
Investments, other	**237**	188
Investment in aircraft leveraged leases	**52**	52
	$ 995	$ 1,315

(1) Equity investments consist of investments in companies over which the Company has significant influence but not the majority of the equity or risks and rewards.

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Investments, Equity Basis

A summary of combined financial information for equity investments, which include cable investments such as A&E Television Networks (37.5% owned) and Lifetime Entertainment Services (50.0% owned), is as follows:

	2007	2006	2005
Results of Operations:			
Revenues	**$ 4,351**	$ 4,447	$ 4,317
Net Income	**$ 1,137**	$ 1,170	$ 1,275

	September 29, 2007	September 30, 2006
Balance Sheet:		
Current assets	**$ 2,383**	$ 2,620
Non-current assets	**1,331**	1,562
	$ 3,714	$ 4,182
Current liabilities	**$ 1,113**	$ 1,048
Non-current liabilities	**1,060**	1,154
Shareholders equity	**1,541**	1,980
	$ 3,714	$ 4,182

During fiscal 2007, the Company sold its interests in E! and Us Weekly. See Note 3 for further discussion.

Investments, Other

As of September 29, 2007 and September 30, 2006, the Company held $99 million and $82 million, respectively, of securities classified as available-for-sale. As of September 29, 2007 and September 30, 2006, the Company also held $138 million and $106 million, respectively, of non-publicly traded cost-method investments.

In 2007 and 2006, the Company had no realized gain or loss on sales of available-for-sale securities. In 2005, the Company recognized $14 million in net gains on sales of available for sale securities. Realized gains and losses are determined principally on an average cost basis.

In 2007, 2006 and 2005, the Company recorded non-cash charges of $18 million, $0 million and $42 million, respectively, to reflect other-than-temporary losses in value of certain investments.

Investment in Aircraft Leveraged Leases

During the fourth quarter of 2005, the Company recorded a $101 million pre-tax charge, or $0.03 per share, to write-off its remaining investment in aircraft leveraged leases with Delta Air Lines, Inc. (Delta) resulting from Delta s bankruptcy filing in September 2005. This charge was reported in Net interest expense in the Consolidated Statements of Income. Our remaining aircraft leveraged lease investment of $52 million is with FedEx Corp.

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 under FIN 46R, *Consolidation of Variable Interest Entities*.

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The following table presents a condensed consolidating balance sheet for the Company as of September 29, 2007, 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	$ 3,066	$ 604	$ 3,670
Other current assets	7,379	265	7,644
Total current assets	10,445	869	11,314
Investments	1,766	(771)	995
Fixed assets	12,597	4,836	17,433
Other assets	31,143	43	31,186
Total assets	$ 55,951	$ 4,977	$ 60,928
Current portion of borrowings	$ 2,910	$ 370	$ 3,280
Other current liabilities	7,437	674	8,111
Total current liabilities	10,347	1,044	11,391
Borrowings	8,679	3,213	11,892
Deferred income taxes and other long-term liabilities	5,423	174	5,597
Minority interests	749	546	1,295
Shareholders equity	30,753		30,753
Total liabilities and shareholders equity	$ 55,951	$ 4,977	$ 60,928

The following table presents a condensed consolidating income statement of the Company for the year ended September 29, 2007, reflecting the impact of consolidating the income statements of Euro Disney and Hong Kong Disneyland.

	Before Euro Disney and Hong Kong Disneyland Consolidation [1]	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Revenues	$ 33,695	$ 1,815	$ 35,510
Cost and expenses	(26,857)	(1,872)	(28,729)
Gains on sales of equity investments and businesses	1,052		1,052
Net interest expense	(430)	(163)	(593)
Equity in the income of investees	390	95	485
Income (loss) from continuing operations before income taxes and minority interests	7,850	(125)	7,725
Income taxes	(2,849)	(25)	(2,874)
Minority interests	(327)	150	(177)
Income from continuing operations	4,674		4,674
Discontinued operations, net of tax	13		13

Income from continuing operations	$ 4,687	$	$ 4,687

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[1] These amounts include Euro Disney and Hong Kong Disneyland under the equity method of accounting. As such, royalty and management fee income from these operations is included in Revenues and our share of their net income is included in Equity in the income of investees.

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The following table presents a condensed consolidating cash flow statement of the Company for the year ended September 29, 2007, 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 by continuing operations	$ 5,137	$ 261	$ 5,398
Investments in parks, resorts, and other property	(1,310)	(256)	(1,566)
Other investing activities	948		948
Cash used in continuing financing activities	(3,619)		(3,619)
Cash flows from discontinued operations	98		98
Increase in cash and cash equivalents	1,254	5	1,259
Cash and cash equivalents, beginning of year	1,812	599	2,411
Cash and cash equivalents, end of year	$ 3,066	$ 604	$ 3,670

Euro Disney Financial Restructuring

Effective October 1, 2004, Euro Disney, the Company, and Euro Disney s lenders finalized a Memorandum of Agreement (MOA) related to the financial restructuring of Euro Disney (the 2005 Financial Restructuring). The MOA provided for new financing as well as the restructuring of Euro Disney s existing financing at that time. The transactions contemplated by the MOA were fully implemented on February 23, 2005 with the completion of a 253 million equity rights offering. The MOA included the following provisions:

Royalties and Management Fees

Royalties and management fees for fiscal 2005 through fiscal 2009, totaling 25 million per year, payable to the Company are to be unconditionally deferred and converted into subordinated long-term borrowings

Royalties and management fees for fiscal 2007 through fiscal 2014, of up to 25 million per year, payable to the Company are subject to conditional deferrals and will be converted into subordinated long-term borrowings if operating results do not achieve specified levels. Based on operating results and subject to third-party confirmation, the Company does not expect royalties and management fees subject to conditional deferral for fiscal 2007 to be converted into subordinated long-term borrowings

New Financing

253 million equity rights offering, of which the Company s share was 100 million

New ten-year 150 million line of credit from the Company for liquidity needs, which reduces to 100 million after five years. There were no borrowings under the new line of credit as of September 29, 2007

The MOA provided for a 2% interest rate increase for certain tranches of Euro Disney s debt, resulting in a substantial modification of a portion of this debt. Relevant accounting rules required that the substantially modified portion be accounted for as though it had been extinguished and replaced with new borrowings recorded at fair value, which resulted in a $61 million gain recorded in Net interest expense in the Consolidated Statement of Income during the year ended October 1, 2005.

Certain indirect, wholly-owned subsidiaries of The Walt Disney Company have liability as current or former general partners of Disney S.C.A. In addition to their equity interest in Disney S.C.A., certain of these subsidiaries of the Company have been capitalized with interest-bearing demand notes with an aggregate face value of 200 million.

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6. *Film and Television Costs*

Film and Television costs are as follows:

	September 29, 2007	September 30, 2006
Theatrical film costs		
Released, less amortization	**$ 1,889**	$ 2,041
Completed, not released	**164**	265
In-process	**912**	928
In development or pre-production	**168**	135
	3,133	3,369
Television costs		
Released, less amortization	**804**	882
Completed, not released	**295**	210
In-process	**278**	228
In development or pre-production	**10**	17
	1,387	1,337
Television broadcast rights	**1,162**	944
	5,682	5,650
Less current portion	**559**	415
Non-current portion	**$ 5,123**	$ 5,235

Based on management s total gross revenue estimates as of September 29, 2007, approximately 80% of unamortized film and television costs for released productions (excluding amounts allocated to acquired film and television libraries) are expected to be amortized during the next three years. Approximately $603 million of accrued participation and residual liabilities will be paid in fiscal year 2008. The Company expects to amortize, based on current estimates, approximately $1.4 billion in capitalized film production costs during fiscal 2008.

At September 29, 2007, acquired film and television libraries have remaining unamortized costs of $473 million, which are generally amortized straight-line over a weighted-average remaining period of approximately 11 years.

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7. *Borrowings*

The Company s borrowings at September 29, 2007 and September 30, 2006, including the impact of interest rate swaps designated as hedges, are summarized below:

				2007			
			Stated Interest	Interest rate and Cross-Currency Swaps [2]		Effective Interest	Swap
	2007	2006	Rate [1]	Pay Variable	Pay Fixed	Rate [3]	Maturities
Commercial paper borrowings	**$ 2,686**	$ 839	5.37%	$	$	5.37%	
U.S. medium-term notes	**6,340**	6,499	6.02%	1,485		5.67%	2008-2022
Convertible senior notes	**1,323**	1,323	2.13%			2.13%	
European medium-term notes	**163**	191	4.80%	163		5.03%	2010-2011
Preferred stock		353					
Capital Cities/ABC debt	**181**	183	9.05%			8.79%	
Film financing	**355**	276					
Other[4]	**541**	619					
	11,589	10,283	5.14%	1,648		4.95%	
Euro Disney (ED) and Hong Kong Disneyland (HKDL):							
ED CDC loans	**1,418**	1,246	5.04%			5.12%	
ED Credit facilities & other	**568**	486	7.66%		501	6.64%	2008-2009
ED Other advances	**490**	440	3.21%		19	3.22%	2009
HKDL Senior and subordinated loans	**1,107**	1,070	6.55%		232	6.82%	2008-2011
	3,583	3,242	5.67%		752	5.63%	
Total borrowings	**15,172**	13,525	5.27%	1,648	752	5.11%	
Less current portion	**3,280**	2,682		60			
Total long-term borrowings	**$ 11,892**	$ 10,843		$ 1,588	$ 752		

(1) The stated interest rate represents the weighted-average coupon rate for each category of borrowings. For floating rate borrowings, interest rates are based upon the rates at September 29, 2007; these rates are not necessarily an indication of future interest rates.

(2) Amounts represent notional values of interest rate and cross-currency swaps.

(3) The effective interest rate includes the impact of existing and terminated interest rate and cross-currency swaps on the stated rate of interest. Other adjustments to the stated interest rate such as purchase accounting adjustments and debt issuance costs did not have a material impact on the overall effective interest rate.

(4) Includes market value adjustments for debt with qualifying hedges totaling $150 million and $196 million at September 29, 2007 and September 30, 2006, respectively.

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Commercial Paper

At September 29, 2007, the Company had $2.7 billion of commercial paper debt outstanding and bank facilities totaling $4.5 billion to support its commercial paper borrowings, with half of the facilities scheduled to expire in 2010 and the other half in 2011. 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%. 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 borrowing under this facility. As of September 29, 2007, $282 million of letters of credit had been issued, of which $212 million was issued under this facility, leaving total available borrowing capacity of nearly $4.3 billion under these bank facilities. The Company s bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on September 29, 2007 by a significant margin. The Company s bank facilities also specifically exclude certain entities, including Euro Disney and Hong Kong Disneyland, from any representations, covenants, or events of default. As of September 29, 2007, the Company had not borrowed against the facilities.

$5 Billion Shelf Registration Statement

At September 29, 2007, the Company had a shelf registration statement which allows the Company to borrow up to $5 billion using various types of debt instruments, such as fixed or floating rate notes, U.S. dollar or foreign currency denominated notes, redeemable notes, global notes, and dual currency or other indexed notes. As of September 29, 2007, $3.35 billion has been issued under the shelf registration statement. Our ability to issue debt is subject to market conditions and other factors impacting our borrowing capacity. As of September 29, 2007, the remaining unused capacity under the shelf registration is $1.65 billion.

U.S. Medium-Term Note Program

At September 29, 2007, the total debt outstanding under U.S. medium-term note programs was $6.3 billion. The maturities of current outstanding borrowings range from 1 to 86 years and stated interest rates range from 4.94% to 10.30%.

Convertible Senior Notes

At September 29, 2007, the Company has outstanding $1.3 billion of convertible senior notes due on April 15, 2023. The notes bear interest at a fixed annual rate of 2.13% and are redeemable at the Company s option any time after April 15, 2008 at par. The notes are redeemable at the investor s option at par on April 15, 2008, April 15, 2013, and April 15, 2018, and upon the occurrence of certain fundamental changes, such as a change in control. The notes are convertible into common stock, under certain circumstances including if the Company calls the notes for redemption, at a conversion rate of 33.9443 shares of common stock per $1,000 principal amount of notes. This is equivalent to a conversion price of $29.46. The conversion rate is subject to adjustment if certain events occur, such as the payment of a common stock dividend, the issuance of rights or warrants to all holders of the Company s common stock that allow the holders to purchase shares of the Company s common stock during a specified period of time, and subdivision, combinations or certain reclassifications of the Company s common stock.

European Medium-Term Note Program

At September 29, 2007, the Company had a European medium-term note program for the issuance of various types of debt instruments such as fixed or floating rate notes, U.S. dollar or foreign currency denominated notes, redeemable notes, index linked or dual currency notes. The size of the program is $4 billion. The remaining capacity under the program is $3.8 billion, subject to market conditions and other factors impacting our borrowing capacity. The remaining capacity under the program replenishes as outstanding debt under the program matures. In 2007, $75 million of debt was issued under the program. At September 29, 2007, the total debt outstanding under the program was $163 million. The maturities of outstanding borrowings range from 3 to 4 years and stated interest rates range from 4.72% to 4.90%. The Company has outstanding borrowings under the program denominated in U.S. dollars.

Preferred Stock

In connection with the acquisition of ABC Family in October 2001, the Company assumed Series A Preferred Stock with a 9% coupon, payable quarterly, valued at approximately $400 million reflecting an effective cost of capital of 5.25%. The Series A Preferred Stock was callable commencing August 1, 2007 and was scheduled to mature August 1, 2027. The Company called and redeemed all of the Series A Preferred Stock on August 2, 2007. The Series A Preferred Stock was classified as borrowings given its substantive similarity to a debt instrument.

Capital Cities/ABC Debt

In connection with the Capital Cities/ABC, Inc. acquisition in 1996, the Company assumed various debt previously issued by Capital Cities/ABC, Inc. At September 29, 2007, the outstanding balance was $181 million with maturities ranging from 2 to 14 years and stated interest rates ranging from 8.75% to 9.65%.

Film Financing

In August 2005, the Company entered into a film financing arrangement with a group of investors whereby the investors will fund up to approximately $500 million for 40% of the production and marketing costs of a slate of up to thirty-two live-action films, excluding certain titles such as *The Chronicles of Narnia: The Lion, The Witch and The Wardrobe* and, in general, sequels to previous films, including the *Pirates of the Caribbean* sequels, not included in the slate, in return for approximately 40% of the future net cash flows generated by these films. By entering into this transaction, the Company is able to share the risks and rewards of the performance of its live-action film production and distribution activity with outside investors. As of September 29, 2007, the investors have participated in the funding of twenty-one films. The cumulative investment in the slate by the investors, net of the cash flows generated by the slate that are returned to the investors, is classified as borrowings. Interest expense recognized from these borrowings is variable and is determined using the effective interest method based on the projected profitability of the film slate.

The last film of the slate is anticipated to be completed in fiscal 2009. The Company has the option at 5, 10 and 15 years from inception of the film financing arrangement to buy the investors remaining interest in the slate at a price that is based on the then remaining projected future cash flows that the investors would receive from the slate. As of September 29, 2007, borrowings under this arrangement totaled $355 million.

Euro Disney and Hong Kong Disneyland Borrowings

Euro Disney CDC loans. Pursuant to Euro Disney s original financing and the terms of a 1994 financial restructuring, Euro Disney borrowed funds from the CDC. As of September 29, 2007, these borrowings consisted of approximately 243 million ($343 million at September 29, 2007 exchange rates) of senior debt and 278 million ($393 million at September 29, 2007 exchange rates) of subordinated debt. The senior debt is collateralized primarily by the theme park, certain hotels, and land assets of Disneyland Resort Paris (except for Walt Disney Studios Park) with a net book value of approximately 1.5 billion ($2.1 billion at September 29, 2007 exchange rates), whereas the subordinated debt is unsecured. Interest on the senior and subordinated debt is payable semiannually. The loans bear interest at a fixed rate of 5.15% and mature from fiscal year 2015 to fiscal year 2024. In accordance with the terms of the 2005 Financial Restructuring, principal payments falling between 2004 and 2016 have been deferred by 3.5 years. In return, the interest rate on principal of 48 million ($68 million at September 29, 2007 exchange rates) was increased to 7.15%, the interest rate on principal of 43 million ($61 million at September 29, 2007 exchange rates) was increased to 6.15%, and 10 million ($14 million at September 29, 2007 exchange rates) of principal was prepaid effective February 23, 2005. Also, pursuant to the terms of the 2005 Financial Restructuring, 125 million ($177 million at September 29, 2007 exchange rates) of subordinated loans were converted into senior loans during fiscal year 2005.

Euro Disney also executed a credit agreement with the CDC to finance a portion of the construction costs of Walt Disney Studios Park. As of September 29, 2007, approximately 482 million ($682 million at September 29, 2007 exchange rates) of subordinated loans were outstanding under this agreement. The loans bear interest at a fixed rate of 5.15% per annum, unless interest or principal payments are deferred under the provisions of the loans, during which time the interest rate on the deferred amounts is the greater of 5.15% or EURIBOR plus 2.0%. The loans mature between fiscal years 2015 and 2028. Also, pursuant to the 2005 Financial Restructuring, the CDC agreed to forgive 2.5 million ($4 million at September 29, 2007 exchange rates) of interest on these loans per year starting December 31, 2004 and continuing through 2011 and to conditionally defer and convert to subordinated long-term debt, interest payments up to a maximum amount of 20 million ($28 million at September 29, 2007 exchange rates) per year for each of the fiscal years 2005 through 2012 and 23 million ($33 million at September 29, 2007 exchange rates) for each of the fiscal years 2013 and 2014.

Euro Disney Credit facilities and other. Pursuant to Euro Disney s original financing with a syndicate of international banks and the terms of a 1994 financial restructuring, Euro Disney borrowed funds which are collateralized primarily by the theme park, hotels, and land assets of Disneyland Resort Paris (except for Walt Disney Studios Park) with a net book value of approximately 1.5 billion ($2.1 billion at September 29, 2007 exchange rates). At September 29, 2007, the total balance outstanding was 401 million ($568 million at September 29, 2007 exchange rate).

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The impact of the 2005 Financial Restructuring on the credit facilities included the deferral of certain principal payments for 3.5 years, with the final maturity of the loans remaining unchanged. In return for these concessions, the interest rate was increased to EURIBOR plus 3% (7.79% at September 29, 2007) from EURIBOR plus amounts ranging from 0.84% to 1.00% and 96 million ($136 million at September 29, 2007 exchange rates) of principal was prepaid on February 23, 2005 using debt security deposits. The loans mature between fiscal years 2008 and 2013.

Euro Disney Other advances. Advances of 331 million ($469 million at September 29, 2007 exchange rates) bear interest at a fixed rate of 3.0%. The remaining advances of 15 million ($21 million at September 29, 2007 exchange rates) bear interest at EURIBOR plus 3% (7.79% at September 29, 2007). The advances are scheduled to mature between fiscal years 2013 and 2017, of which 15 million ($21 million at September 29, 2007 exchange rates) are collateralized by certain hotels assets. The impact of the 2005 Financial Restructuring on the other advances includes the deferral either directly or indirectly of principal payments for 3.5 years.

Euro Disney has covenants under its debt agreements that limit its investment and financing activities. Beginning with fiscal year 2006, Euro Disney has also been required to meet financial performance covenants that necessitated improvements to its operating margin. As a result of revenue growth in excess of increases in costs and expenses during fiscal year 2007, Euro Disney believes that it is in compliance with these covenants for fiscal 2007. There can be no assurance that these covenants will be met for any particular measurement period in the future. To the extent that conditions are such that the covenants appear unlikely to be met, management would pursue measures to meet the covenants or would seek to obtain waivers from the debt holders.

Hong Kong Disneyland Senior loans. Hong Kong Disneyland s senior loans are borrowings pursuant to a term loan facility of HK$2.3 billion ($296 million at September 29, 2007 exchange rates) and a revolving credit facility of HK$1.0 billion ($129 million at September 29, 2007 exchange rates). The balance of the senior loans as of September 29, 2007 was HK$2.2 billion ($284 million at September 29, 2007 exchange rates). The revolving credit facility has not been drawn down as of September 29, 2007. These facilities are collateralized by bank accounts, fixed assets, land and other assets of the Hong Kong Disneyland theme park with a net book value of approximately HK$12 billion ($1.5 billion at September 29, 2007 exchange rates). At September 29, 2007, both facilities had a rate of three month HIBOR + 1.25% and were scheduled to mature in fiscal 2016. The spread above HIBOR is 1.25% through November 15, 2010 and 1.375% for the last five years of the facilities. As of September 29, 2007, the rate on the senior loans was 5.98%.

Prior to November 14, 2007, Hong Kong Disneyland s commercial term loan and revolving credit facility agreement contained semi-annual financial performance covenants and had a final maturity of October 26, 2015. In anticipation of the prospect that the covenants would not be met as of the September 29, 2007 measurement date, effective November 14, 2007, the agreement was amended to remove the financial performance covenants, shorten the maturity of the loan to September 30, 2008 and decrease the amount of the revolving credit facility from HK$1 billion (approximately $129 million) to HK$800 million (approximately $103 million). The commercial term loan had a balance of approximately $284 million as of the effective date of the amendment, and the full amount of the revised revolving credit facility became available as of that date.

To support operating needs in the near-term, the Company agreed to waive management fees for fiscal 2008 and fiscal 2009 and defer royalties for those years, with payment of the deferred royalties dependent upon the future operating performance of Hong Kong Disneyland. Hong Kong Disneyland expects to need additional sources of financing to meet its financial and development needs at and beyond the maturity of the commercial loan and revolving credit facility and is currently engaged in discussions with the Company and Hong Kong Disneyland s majority shareholder (the Government of the Hong Kong Special Administrative Region) regarding financing arrangements to assist in meeting these needs. The Company expects that such financing likely would include additional investment by the Company.

Hong Kong Disneyland Subordinated loans. Hong Kong Disneyland has a subordinated unsecured loan facility of HK$5.6 billion ($724 million at September 29, 2007 exchange rates), which has been fully drawn, that is scheduled to mature on September 12, 2030. Pursuant to the terms of the loan facility, interest incurred prior to March 2006 of HK$433 million ($56 million at September 29, 2007 exchange rates) is not payable until the loan matures and is therefore classified as long-term borrowings. In addition, pursuant to the terms of the loan facility, interest of HK$332 million ($43 million at September 29, 2007 exchange rates) is accrued and is dependent upon the achievement of certain financial measurements. The interest rate on this loan is subject to biannual revisions under certain conditions, but is capped at an annual rate of 6.75% (until March 12, 2014), 7.625% (until March 12, 2022) and 8.50% (until September 12, 2030). As of September 29, 2007, the rate on the subordinated loans was 6.75%.

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Total borrowings excluding market value adjustments, have the following scheduled maturities:

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney and Hong Kong Disneyland	Total
2008	$ 2,895	$ 370	$ 3,265
2009	1,165	118	1,283
2010	889	124	1,013
2011	826	173	999
2012	1,578	217	1,795
Thereafter	4,086	2,581	6,667
	$ 11,439	$ 3,583	$ 15,022

The Company capitalizes interest on assets constructed for its parks, resorts, and other property and on theatrical productions. In 2007, 2006 and 2005, total interest capitalized was $37 million, $30 million, and $77 million, respectively.

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8. *Income Taxes*

	2007	2006	2005
Income From Continuing Operations Before Income Taxes, Minority Interests and the Cumulative Effect of Accounting Changes			
Domestic (including U.S. exports)	**$ 7,344**	$ 4,983	$ 3,500
Foreign subsidiaries	**381**	341	311
	$ 7,725	$ 5,324	$ 3,811
Income Tax (Benefit) Provision			
Current			
Federal	**$ 2,368**	$ 1,612	$ 1,078
State	**303**	125	163
Foreign	**330**	243	221
	3,001	1,980	1,462
Deferred			
Federal	**(118)**	(182)	(253)
State	**(9)**	39	(35)
	(127)	(143)	(288)
	$ 2,874	$ 1,837	$ 1,174

	September 29, 2007	September 30, 2006
Components of Deferred Tax Assets and Liabilities		
Deferred tax assets		
Accrued liabilities	**$ (1,153)**	$ (1,120)
Foreign subsidiaries	**(526)**	(674)
Equity-based compensation	**(303)**	(259)
Other, net	**(37)**	
Total deferred tax assets	**(2,019)**	(2,053)
Deferred tax liabilities		
Depreciable, amortizable and other property	**3,286**	3,470
Licensing revenues	**340**	404
Leveraged leases	**50**	96
Other, net		88
Total deferred tax liabilities	**3,676**	4,058
Net deferred tax liability before valuation allowance	**1,657**	2,005
Valuation allowance	**54**	54
Net deferred tax liability	**$ 1,711**	$ 2,059

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	2007	2006	2005
Reconciliation of Effective Income Tax Rate			
Federal income tax rate	**35.0%**	35.0%	35.0%
State taxes, net of federal benefit	**2.3**	2.0	2.2
Adjustments with respect to prior year tax matters	**(1.0)**	(0.8)	(3.3)
Foreign sales corporation and extraterritorial income	**(0.5)**	(2.2)	(2.3)
Repatriation of earnings of foreign subsidiaries			(0.9)
Other, including tax reserves and related interest	**1.4**	0.5	0.1
	37.2%	34.5%	30.8%

In 2007 the Company derived tax benefits of $37 million from an exclusion provided under U.S. income tax laws with respect to certain extraterritorial income attributable to foreign trading gross receipts (FTGRs). This exclusion was repealed as part of the *American Jobs Creation Act of 2004* (the Act), which was enacted on October 22, 2004. The Act provides for a phase-out such that the exclusion for the Company s otherwise qualifying FTGRs generated in fiscal 2005, 2006 and 2007 are limited to approximately 85%, 65% and 15%, respectively. No exclusion is available for transactions originating after the first quarter of fiscal 2007.

The Act also provided for a one-time tax deduction of 85% of certain foreign earnings that were repatriated in fiscal 2005. During the fourth quarter of fiscal 2005, the Company repatriated foreign earnings eligible for this deduction and recorded a tax benefit of $32 million as a result of the reversal of deferred taxes previously provided on these earnings.

The Act made a number of other changes to the income tax laws including the creation of a new deduction relating to qualifying domestic production activities which will affect the Company in the current and future years. The deduction equals three percent of qualifying net income for fiscal 2006 and 2007, six percent for fiscal 2008 through 2010, and nine percent for fiscal 2011 and thereafter. Our tax provisions for fiscal 2007 and fiscal 2006 reflect benefits of $41 million and $25 million, respectively, resulting from this deduction.

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. At the current time, the Internal Revenue Service continues to examine the Company s federal income tax returns for 2001 through 2004. During fiscal 2006, the Company settled certain state income tax disputes and released $40 million in related tax reserves that were no longer required. During fiscal 2005, the Company reached settlements with the Internal Revenue Service regarding all assessments proposed with respect to its federal income tax returns for 1996 through 2000, and a settlement with the California Franchise Tax Board regarding assessments proposed with respect to its state tax returns for 1994 through 2003. These favorable settlements resulted in the Company releasing $102 million in tax reserves which were no longer required with respect to the settled matters.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in FIN 48 as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 must be applied to all existing tax positions upon initial adoption. The cumulative effect of applying FIN 48 at adoption is to be reported as an adjustment to beginning retained earnings for the year of adoption. FIN 48 is effective for the Company s 2008 fiscal year and will result in a reduction of approximately $160 million to beginning retained earnings in fiscal year 2008.

In fiscal years 2007, 2006 and 2005, income tax benefits attributable to equity-based compensation transactions that were allocated to shareholders equity amounted to $123 million, $106 million and $64 million, respectively.

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9. *Pension and Other Benefit Programs*

The Company maintains pension plans and postretirement medical benefit plans covering most of its employees not covered by union or industry-wide plans. Employees hired after January 1, 1994 and ABC employees generally hired after January 1, 1987 are not eligible for postretirement medical benefits. With respect to its qualified defined benefit pension plans, the Company s policy is to fund, at a minimum, the amount necessary on an actuarial basis to provide for benefits in accordance with the requirements of the Employee Retirement Income Security Act of 1974. Pension benefits are generally based on years of service and/or compensation.

On September 29, 2007, the Company adopted the recognition and disclosure provisions of SFAS 158. SFAS 158 requires the 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. The incremental effect of applying SFAS 158 on individual line items to our balance sheet as of September 29, 2007 including tax effects is as follows:

	Prior to adopting SFAS 158	Effect of adopting SFAS 158	As reported under SFAS 158
Investments	$ 1,008	$ (13)	$ 995
Other non-current assets	1,857	(373)	1,484
Accounts payable and accrued liabilities	(5,926)	(23)	(5,949)
Other long-term liabilities	(3,018)	(6)	(3,024)
Deferred income taxes	(2,727)	154	(2,573)
Accumulated other comprehensive (income) / loss	(104)	261	157

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The following chart summarizes the balance sheet impact, as well as the benefit obligations, assets, funded status and assumptions associated with the pension and postretirement medical benefit plans based upon the actuarial valuations prepared as of June 30, 2007 and 2006 (the Plan Measurement Dates).

	Pension Plans		Postretirement Medical Plans	
	September 29, 2007	September 30, 2006	**September 29, 2007**	September 30, 2006
Reconciliation of funded status of the plans and the amounts included in the Company s Consolidated Balance Sheets:				
Projected benefit obligations				
Beginning obligations	**$ (4,705)**	$ (4,951)	**$ (936)**	$ (1,172)
Service cost	**(167)**	(187)	**(26)**	(34)
Interest cost	**(297)**	(256)	**(59)**	(61)
Actuarial gain / (loss)	**(92)**	548	**(19)**	308
Plan amendments and other	**(128)**			
Benefits paid	**147**	141	**29**	23
Ending obligations	**$ (5,242)**	$ (4,705)	**$ (1,011)**	$ (936)
Fair value of plans assets				
Beginning fair value	**$ 4,181**	$ 3,410	**$ 317**	$ 260
Actual return on plan assets	**726**	425	**57**	48
Contributions	**428**	507	**27**	32
Benefits paid	**(147)**	(141)	**(29)**	(23)
Expenses	**(28)**	(20)		
Ending fair value	**$ 5,160**	$ 4,181	**$ 372**	$ 317
Funded status of the plans	**$ (82)**	$ (524)	**$ (639)**	$ (619)
Unrecognized net loss	**n/a**	692	**n/a**	12
Unrecognized prior service cost (benefit)	**n/a**	18	**n/a**	(16)
Contributions after Plan Measurement Date	**4**	41	**3**	4
Net balance sheet impact	**$ (78)**	$ 227	**$ (636)**	$ (619)
Amounts recognized in the balance sheet under SFAS 158:				
Non-current assets	**$ 275**	$ n/a	**$**	$ n/a
Current liabilities	**(9)**	n/a	**(14)**	n/a
Non-current liabilities	**(344)**	n/a	**(622)**	n/a
	$ (78)	$ n/a	**$ (636)**	$ n/a
Amounts recognized in the balance sheet under prior accounting rules				
Prepaid benefit cost	**$ n/a**	$ 283	**$ n/a**	$
Accrued benefit liability	**n/a**	(253)	**n/a**	(619)
Additional minimum pension liability adjustment	**n/a**	197	**n/a**	
	$ n/a	$ 227	**$ n/a**	$ (619)

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The components of net periodic benefit cost are as follows:

	Pension Plans			Postretirement Medical Plans		
	2007	2006	2005	**2007**	2006	2005
Service costs	**$ 166**	$ 186	$ 137	**$ 22**	$ 34	$ 31
Interest costs	**297**	256	233	**59**	61	59
Expected return on plan assets	**(302)**	(250)	(223)	**(21)**	(16)	(14)
Amortization of prior year service costs	**4**	1	1	**(1)**	(1)	(1)
Recognized net actuarial loss	**47**	148	59	**2**	43	32
Special termination benefits	**5**					
Net periodic benefit cost	**$ 217**	$ 341	$ 207	**$ 61**	$ 121	$ 107
Assumptions:						
Discount rate	**6.35%**	6.40%	5.25%	**6.35%**	6.40%	5.25%
Rate of return on plan assets	**7.50%**	7.50%	7.50%	**7.50%**	7.50%	7.50%
Salary increases	**4.00%**	4.00%	3.75%	**n/a**	n/a	n/a
Year 1 increase in cost of benefits	**n/a**	n/a	n/a	**9.00%**	9.00%	10.00%
Rate of increase to which the cost of benefits is assumed to decline (the ultimate trend rate)	**n/a**	n/a	n/a	**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	**n/a**	n/a	n/a	**2015**	2012	2012

Net periodic benefit cost for the current year is based on assumptions determined at the June 30 valuation date of the prior year.

Accumulated other comprehensive loss, before tax, as of September 29, 2007 consists of the following amounts that have not yet been recognized in net periodic benefit cost:

	Pension Plans	Postretirement Medical Plans	Total
Unrecognized prior service credit / (cost)	$ (77)	$ 14	$ (63)
Unrecognized net actuarial gain / (loss)	(372)	3	(369)
Total amounts included in accumulated other comprehensive income / (loss)	(449)	17	(432)
Prepaid / (accrued) pension cost	371	(653)	(282)
Net balance sheet impact	$ (78)	$ (636)	$ (714)

Amounts included in accumulated other comprehensive loss, before tax, as of September 29, 2007 that are expected to be recognized as components of net periodic benefit cost during fiscal 2008 are:

	Pension Benefits	Other Postretirement Plans	Total
Prior service credit / (cost)	$ (12)	$ 1	$ (11)
Net actuarial gain / (loss)	(25)	(2)	(27)
Total	$ (37)	$ (1)	$ (38)

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Plan Funded Status

At September 29, 2007, the Company had pension plans that were underfunded, having accumulated benefit obligations exceeding the fair value of plan assets. The projected benefit obligation, accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $323 million, $283 million and $2 million, respectively, as of September 29, 2007 and $2.1 billion, $1.9 billion and $1.6 billion as of September 30, 2006, respectively.

The Company s total accumulated pension benefit obligations at September 29, 2007 and September 30, 2006 were $4.8 billion and $4.4 billion, respectively, of which 96.2% and 96.1%, respectively, were vested.

The accumulated postretirement medical benefit obligations and fair value of plan assets for postretirement medical plans with accumulated postretirement medical benefit obligations in excess of plan assets were $1.0 billion and $372 million, respectively, at September 29, 2007 and $936 million and $317 million, respectively, at September 30, 2006.

Plan Assets

The assets of the Company s defined benefit plans are managed on a commingled basis in a third party master trust. The investment policy and allocation of the assets in the master trust were approved by the Company s Investment and Administrative Committee, which has oversight responsibility for the Company s retirement plans. The investment policy ranges for the major asset classes are as follows:

Asset Class	Minimum	Maximum
Equity Securities	40%	60%
Debt Securities	25%	35%
Alternative Investments	10%	30%
Cash	0%	5%

Alternative investments include venture capital funds, private equity funds and real estate, among other investments.

The Company s defined benefit plans asset mix at the Plan Measurement Dates is as follows:

	June 30,	June 30,
Asset Class	2007	2006
Equity Securities	55%	54%
Debt Securities	27%	25%
Alternative Investments	13%	13%
Cash	5%	8%
Total	100%	100%

Equity securities include 2.8 million shares of Company common stock or $97 million (2% of total plan assets) and $84 million (2% of total plan assets) at September 29, 2007 and September 30, 2006, respectively.

The cash allocation exceeded the policy range limit on June 30, 2006, due to a $314 million employer contribution into the plans in June 2006, which was invested over time.

Plan Contributions

During fiscal 2007, the Company contributed $390 million and $26 million to its pension and postretirement medical plans, respectively, which included discretionary contributions above the minimum requirements for the pension plans. Based on current actuarial projections, the Company anticipates that the funded status of the pension plans will be sufficient so that the Company will not be required to make additional contributions during fiscal 2008 under the funding regulations associated with the Pension Protection Act of 2006 (PPA). However, final funding requirements for fiscal 2008 will be determined based on our January 1, 2008 funding actuarial valuation. Additionally, the Company

may also choose to make discretionary contributions above the minimum requirements. The Company anticipates contributing approximately $30 million to post retirement medical and other pension plans not subject to the PPA.

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Estimated Future Benefit Payments

The following table presents estimated future benefit payments for the next ten fiscal years:

	Pension Plans	Post Retirement Medical Plans [(1)]
2008	$ 181	$ 29
2009	198	31
2010	216	33
2011	233	36
2012	252	38
2013 2017	1,597	235

(1) Estimated future benefit payments are net of expected Medicare subsidy receipts of $53 million over the next ten fiscal years.

Assumptions

Certain actuarial assumptions, such as the discount rate, long-term rate of return on plan assets and the healthcare cost trend rate, have a significant effect on the amounts reported for net periodic benefit cost as well as the related benefit obligation amounts.

Discount Rate The assumed discount rate for pension and postretirement medical plans reflects the market rates for high-quality corporate bonds currently available. The Company s discount rate was determined by considering the average of pension yield curves constructed of a large population of high quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves.

Long-term rate of return on plan assets The long-term rate of return on plan assets represents an estimate of long-term returns on an investment portfolio consisting of a mixture of equities, fixed income and alternative investments. When determining the long-term rate of return on plan assets, the Company considers long-term rates of return on the asset classes (both historical and forecasted) in which the Company expects the pension funds to be invested. The following long-term rates of return by asset class were considered in setting the long-term rate of return on plan assets assumption:

Equity Securities	8% 10%
Debt Securities	4% 7%
Alternative Investments	8% 20%

Healthcare cost trend rate The Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates for the postretirement medical benefit plans. For the 2007 actuarial valuation, we assumed a 9.0% annual rate of increase in the per capita cost of covered healthcare claims with the rate decreasing in even increments over eight years until reaching 5.0%.

A one percentage point (ppt) change in the key assumptions would have the following effects on the projected benefit obligations as of September 29, 2007 and on cost for fiscal 2008:

	Pension and Postretirement Medical Plans			Postretirement Medical Plans	
	Discount Rate		Expected Long-Term Rate of Return On Assets	Assumed Healthcare Cost Trend Rate	
Increase/ (decrease)	Net Periodic Pension and Postretirement Medical Cost	Projected Benefit Obligations	Net Periodic Pension and Postretirement Cost	Net Periodic Postretirement Medical Cost	Accumulated Benefit Obligations
1 ppt decrease	$ 122	$ 999	$ 51	$ (25)	$ (146)

1 ppt increase	(74)	(849)	(51)	26	184

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Multi-employer Plans

The Company participates in various multi-employer pension plans under union and industry-wide agreements. In 2007, 2006 and 2005, the contributions to these plans, which are generally expensed as incurred, were $54 million, $51 million and $37 million, respectively.

Defined Contribution Plans

The Company has savings and investment plans that allow eligible employees to allocate up to 20% of their salary through payroll deductions depending on the plan in which the employee participates. The Company matches 50% of the employee s pre-tax contributions, up to plan limits. In 2007, 2006 and 2005, the costs of these plans were $42 million, $39 million and $35 million, respectively.

10. *Shareholders Equity*

As of the filing date of this report, the Board of Directors had not yet declared a dividend related to fiscal 2007. The Company paid a $637 million dividend ($0.31 per share) during the second quarter of fiscal 2007 related to fiscal 2006. The Company paid a $519 million dividend ($0.27 per share) during the second quarter of fiscal 2006 related to fiscal 2005; and paid a $490 million dividend ($0.24 per share) during the second quarter of fiscal 2005 related to fiscal 2004.

During fiscal 2007, the Company repurchased 202 million shares of Disney common stock for $6.9 billion. During fiscal 2006, the Company repurchased 243 million shares of Disney common stock for $6.9 billion. During fiscal 2005, the Company repurchased 91 million shares of Disney common stock for $2.4 billion. On May 1, 2007, the Board of Directors of the Company increased the share repurchase authorization to a total of 400 million shares. As of September 29, 2007, the Company had remaining authorization in place to repurchase approximately 323 million additional shares. The repurchase program does not have an expiration date.

The par value of the Company s outstanding common stock totaled approximately $26 million.

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

11. *Equity-Based Compensation*

Under various plans, the Company may grant stock options and other equity-based awards to executive, management, and creative personnel. The Company s approach to long-term incentive compensation contemplates awards of stock options and restricted stock units (RSUs).

Stock options are generally granted at exercise prices equal to or exceeding the market price at the date of grant. Effective in January 2003, options became exercisable ratably over a four-year period from the grant date, while options granted prior to January 2003 generally vest ratably over five years. Effective in the second quarter of 2005, options granted generally expire seven years after the grant date, while options granted prior to the second quarter of 2005 generally expire ten years after the date of grant. At the discretion of the Compensation Committee of the Company s Board of Directors, options can occasionally extend up to 15 years after date of grant. Restricted stock units generally vest 50% on each of the second and fourth anniversaries of the grant date. Certain RSUs awarded to senior executives vest based upon the achievement of performance conditions. Stock options and RSUs are forfeited by employees who terminate prior to vesting. Shares available for future option and RSU grants at September 29, 2007 totaled 54 million. The Company satisfies stock option exercises and vesting of RSUs with newly issued shares.

Each year, during the second quarter, the Company awards stock options and restricted stock units to a broad-based group of management and creative personnel (the Annual Grant). Prior to the fiscal 2006 Annual Grant, the fair value of options granted was estimated on the grant date using the Black-Scholes option pricing model. Beginning with the fiscal 2006 Annual Grant, the Company has changed to the binomial valuation model. The binomial valuation model considers certain characteristics of fair value option pricing that are not considered under the Black-Scholes model. Similar to the Black-Scholes model, the binomial valuation model takes into account variables such as volatility, dividend yield, and the risk-free interest rate. However, the binomial valuation model also considers the expected

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exercise multiple (the multiple of exercise price to grant price at which exercises are expected to occur on average) and the termination rate (the probability of a vested option being cancelled due to the termination of the option holder) in computing the value of the option. Accordingly, the Company believes that the binomial valuation model should produce a fair value that is more representative of the value of an employee option.

The weighted average expected option term assumption used by the Company for grants during fiscal 2006 (prior to the fiscal 2006 Annual Grant) and fiscal 2005 reflected the application of the simplified method set out in SEC Staff Accounting Bulletin No. 107 (SAB 107). The simplified method defines the expected term of an option as the average of the contractual term of the options and the weighted average vesting period for all option tranches.

In fiscal years 2007, 2006 and 2005, the weighted average assumptions used in the option-pricing models were as follows:

	2007 [(1)]	2006 [(1)]	2005 [(2)]
Risk-free interest rate	**4.5%**	4.3%	3.7%
Expected term (years) [(3)]	**4.61**	5.09	4.75
Expected volatility	**26%**	26%	27%
Dividend yield	**0.79%**	0.79%	0.79%
Termination rate	**7.4%**	4.0%	n/a
Exercise multiple	**1.38**	1.48	n/a

(1) Commencing with the 2006 Annual Grant, the Company utilized the binomial valuation model.

(2) The Company utilized the Black-Scholes model during fiscal 2005.

(3) The expected term assumption is included for fiscal 2005 during which we utilized the Black-Scholes model. Under the binomial model, expected term is not an input assumption.

Although the initial fair value of stock options is not adjusted after the grant date, changes in the Company s assumptions may change the 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.

Compensation expense for RSUs and stock options is recognized ratably over the vesting period. Compensation expense for RSUs is based upon the market price of the shares underlying the awards on the grant date; however, compensation expense for performance-based awards is adjusted to reflect the estimated probability of vesting.

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The impact of stock options and RSUs on income and cash flow from continuing operations for fiscal 2007, 2006 and 2005 was as follows:

	2007	2006	2005
Stock option compensation expense	**$ 213**	$ 241	$ 248
RSU compensation expense	**158**	132	122
	371	373	370
Equity-based compensation plan modification charge [1]	**48**		
Total equity-based compensation expense [2][3]	**419**	373	370
Tax impact	**(155)**	(138)	(137)
Reduction in net income	**$ 264**	$ 235	$ 233
Reduction in cash flow from continuing operating activities	**$ 116**	$ 133	$ 24
Increase in cash flow from continuing financing activities	**116**	133	24

(1) In anticipation of the ABC Radio transaction, the Company needed to determine whether employee equity-based compensation awards would be adjusted for the dilutive impact of the transaction on the employee awards. Certain of the Company s plans required such adjustments to be made on an equitable basis. All other plans permitted such adjustments to be made. In order to treat all employees consistently with respect to the ABC Radio transaction (and other similar future transactions), the Company amended the plans such that all plans require equitable adjustments for such transactions. In connection with these amendments, the Company was required to record a non-cash charge of $48 million in the first quarter of fiscal 2007 representing the estimated fair value of this modification with respect to vested equity-based employee compensation awards. The estimated fair value of the modification with respect to unvested awards remaining at September 29, 2007 is $14 million and will be expensed over the vesting period of these awards.

(2) Excludes amounts related to discontinued operations of $6 million, $9 million and $10 million in 2007, 2006 and 2005, respectively.

(3) Equity-based compensation expense is net of capitalized equity-based compensation and includes amortization of previously capitalized equity-based compensation costs. Capitalized equity-based compensation totaled $103 million, $52 million and $18 million in 2007, 2006 and 2005, respectively.

The following table summarizes information about stock option transactions (shares in millions):

	2007		2006		2005	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**212**	**$ 25.85**	212	$ 27.06	221	$ 26.50
Awards granted in Pixar acquisition			44	15.04		
Awards forfeited	**(5)**	**27.71**	(7)	28.34	(7)	25.99
Awards granted	**25**	**34.22**	24	25.33	19	27.91
Awards exercised	**(53)**	**24.52**	(56)	21.42	(18)	20.22
Awards expired/cancelled	**(2)**	**56.00**	(5)	56.91	(3)	34.83
Outstanding at end of year	**177**	**27.36**	212	25.85	212	27.06
Exercisable at end of year	**108**	**27.07**	130	27.57	142	28.47

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The following tables summarize information about stock options vested and expected to vest at September 29, 2007 (shares in millions):

Range of Exercise Prices	Number of Options	Vested Weighted Average Exercise Price	Weighted Averaged Remaining Years of Contractual Life
$ 0 $ 15	12	$ 9.00	3.9
$ 16 $ 20	11	17.83	5.9
$ 21 $ 25	30	23.36	5.0
$ 26 $ 30	27	29.16	3.5
$ 31 $ 35	16	33.44	2.0
$ 36 $ 40	7	39.04	1.8
$ 41 $ 45	3	42.21	3.0
$ 46 $365	2	116.11	2.4
	108		

Range of Exercise Prices	Number of Options [1]	Expected to Vest Weighted Average Exercise Price	Weighted Averaged Remaining Years of Contractual Life
$ 0 $ 15	4	$ 12.17	5.1
$ 16 $ 20	3	19.31	7.6
$ 21 $ 25	16	24.71	6.8
$ 26 $ 30	17	27.78	7.4
$ 31 $ 35	19	34.24	7.9
	59		

[1] Number of options expected to vest are net of estimated forfeitures.

The following table summarizes information about RSU transactions (shares in millions):

	2007		2006		2005	
	Restricted Stock Units	**Weighted Average Grant-Date Fair Value**	Restricted Stock Units	Weighted Average Grant-Date Fair Value	Restricted Stock Units	Weighted Average Grant-Date Fair Value
Unvested at beginning of year	**23**	**$ 25.74**	15	$ 26.04	9	$ 22.58
Awards granted in Pixar acquisition			1	29.09		
Granted	**12**	**34.22**	11	24.83	9	27.98
Vested	**(6)**	**26.20**	(2)	24.57	(2)	25.30
Forfeited	**(2)**	**27.78**	(2)	25.87	(1)	20.34
Unvested at end of year	**27**	**29.01**	23	25.74	15	26.04

RSUs representing 1.4 million shares, 2.2 million shares and 1.3 million shares that vest based upon the achievement of certain performance conditions were granted in 2007, 2006 and 2005, respectively. Approximately 4.2 million of the unvested RSUs as of September 29, 2007, vest upon the achievement of performance conditions.

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The weighted average grant-date fair values of options granted during 2007, 2006 and 2005 were $9.27, $7.26 and $7.71, respectively. The total intrinsic value (market value on date of exercise less exercise price) of options exercised and RSUs vested during 2007, 2006 and 2005 totaled $735 million, $506 million, and $198 million, respectively. The aggregate intrinsic values of stock options vested and expected to vest at September 29, 2007 were $948 million and $399 million, respectively.

As of September 29, 2007, there was $435 million of unrecognized compensation cost related to unvested stock options and $340 million related to unvested RSUs. That cost is expected to be recognized over a weighted-average period of 1.8 years for stock options and RSUs.

Cash received from option exercises for 2007, 2006 and 2005 was $1.3 billion, $1.1 billion and $370 million, respectively. Tax benefits realized from tax deductions associated with option exercises and RSU activity for 2007, 2006 and 2005 totaled $267 million, $180 million and $69 million, respectively.

In connection with the acquisition of Pixar on May 5, 2006, the Company converted previously issued vested and unvested Pixar stock-based awards into Disney stock-based awards consisting of 44 million stock options and 1 million RSUs. The fair value of these stock option awards was estimated using the Black-Scholes option pricing model, as the information required to use the binomial valuation model was not reasonably available. The methodology utilized to determine the assumptions in the Black-Scholes model was consistent with that used by the Company for its option-pricing models.

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12. *Detail of Certain Balance Sheet Accounts*

	September 29, 2007	September 30, 2006
Current receivables		
Accounts receivable	**$ 4,724**	$ 4,451
Other	**424**	368
Allowance for doubtful accounts	**(116)**	(112)
	$ 5,032	$ 4,707
Other current assets		
Prepaid expenses	**$ 446**	$ 624
Other	**104**	119
	$ 550	$ 743
Parks, resorts and other property, at cost		
Attractions, buildings and improvements	**$ 14,857**	$ 14,209
Leasehold improvements	**500**	497
Furniture, fixtures and equipment	**11,272**	10,746
Land improvements	**3,631**	3,391
	30,260	28,843
Accumulated depreciation	**(15,145)**	(13,781)
Projects in progress	**1,147**	913
Land	**1,171**	1,192
	$ 17,433	$ 17,167
Intangible assets		
Copyrights	**$ 357**	$ 355
Other amortizable intangible assets	**255**	134
Accumulated amortization	**(143)**	(110)
Net amortizable intangible assets	**469**	379
FCC licenses	**897**	1,400
Trademarks	**1,108**	1,108
Other indefinite lived intangible assets	**20**	20
	$ 2,494	$ 2,907
Other non-current assets		
Receivables	**$ 571**	$ 500
Pension related assets	**275**	283
Other prepaid expenses	**120**	25
Other	**518**	499
	$ 1,484	$ 1,307
Accounts payable and other accrued liabilities		
Accounts payable	**$ 3,996**	$ 4,006

Payroll and employee benefits		**1,290**		1,229
Other		**663**		682
	$	**5,949**	$	5,917
Other long-term liabilities				
Deferred revenues	**$**	**369**	$	323
Capital lease obligations		**274**		292
Program licenses and rights		**288**		224
Participation and residual liabilities		**239**		265
Pension and postretirement medical plan liabilities		**966**		872
Other		**888**		1,155
	$	**3,024**	$	3,131

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13. *Financial Instruments*

Interest Rate Risk Management

The Company is exposed to the impact of interest rate changes primarily through its borrowing activities. The Company s objective is to mitigate the impact of interest rate changes on earnings and cash flows and on the market value of its investments and borrowings. In accordance with its policy, the Company maintains its fixed rate debt expressed as a percentage of its net debt between a minimum and maximum percentage.

The Company typically uses pay-floating and pay-fixed interest rate swaps to facilitate its interest rate risk management activities. Pay-floating swaps effectively convert fixed rate medium and long-term obligations to variable rate instruments indexed to LIBOR. Pay-floating swap agreements in place at year-end expire in 1 to 15 years. Pay-fixed swaps effectively convert floating rate obligations to fixed rate instruments. The pay-fixed swaps in place at year-end expire in 1 to 9 years. As of September 29, 2007 and September 30, 2006 respectively, the Company held $157 million and $192 million notional value of pay-fixed swaps that do not qualify as hedges. The changes in market values of all swaps that do not qualify as hedges have been included in earnings.

The impact of hedge ineffectiveness was not significant for fiscal 2007, 2006 and 2005. The net amount of deferred gains in AOCI from interest rate risk management transactions was $1 million and $5 million at September 29, 2007 and September 30, 2006 respectively.

Foreign Exchange Risk Management

The Company transacts business globally and is subject to risks associated with changing foreign exchange rates. The Company s objective is to reduce earnings and cash flow fluctuations associated with foreign exchange rate changes thereby enabling management to focus attention on core business issues and challenges.

The Company enters into various contracts that change in value as foreign exchange rates change to protect the value of its existing foreign currency assets, liabilities, firm commitments and forecasted but not firmly committed foreign currency transactions. The Company uses option strategies and forward contracts to hedge forecasted transactions. In accordance with policy, the Company hedges its forecasted foreign currency transactions for periods generally not to exceed five years within an established minimum and maximum range of annual exposure. The Company uses forward contracts to hedge foreign currency assets, liabilities and firm commitments. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related forecasted transaction, asset, liability or firm commitment. The principal 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. dollars.

Mark to market gains and losses on contracts hedging forecasted foreign currency transactions are initially recorded to AOCI and are reclassified to current earnings when the hedged transactions are realized, offsetting changes in the value of the foreign currency transactions. At September 29, 2007 and September 30, 2006, the Company had pre-tax deferred gains of $114 million and $106 million, respectively, and pre-tax deferred losses of $170 million and $60 million, respectively, related to cash flow hedges on forecasted foreign currency transactions.

Deferred amounts to be recognized in earnings will change with market conditions and will be substantially offset by changes in the value of the related hedged transactions. Deferred losses recorded in AOCI for contracts that will mature in the next twelve months totaled $106 million. The Company reclassified after-tax gains of $34 million and losses of $6 million from AOCI to earnings during fiscal 2007 and 2006, respectively. These losses were offset by changes in the U.S. dollar equivalent value of the items being hedged.

During fiscal 2007 and 2006, the Company recorded the change in fair market value related to fair value hedges and the ineffectiveness related to cash flow hedges to earnings. The amounts of hedge ineffectiveness on cash flow hedges were not material for fiscal 2007, fiscal 2006 and fiscal 2005. The total impact of foreign exchange risk management activities on operating income in 2007, 2006 and 2005 were losses of $139 million, $27 million, and $168 million, respectively. The net losses from these hedges offset changes in the U.S. dollar equivalent value of the related exposures being hedged.

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Fair Value of Financial Instruments

At September 29, 2007 and September 30, 2006, the Company s financial instruments included cash, cash equivalents, investments, receivables, accounts payable, borrowings, and interest rate and foreign exchange risk management contracts.

At September 29, 2007 and September 30, 2006, the fair values of cash and cash equivalents, receivables and accounts payable approximated the carrying values. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on broker quotes or quoted market prices or interest rates for the same or similar instruments and the related carrying amounts are as follows:

	2007		2006	
Asset/(Liability)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Investments	**$ 101**	**$ 101**	$ 87	$ 87
Borrowings	**(15,172)**	**(15,594)**	(13,525)	(13,837)
Risk management contracts:				
Foreign exchange forwards	**$ (98)**	**$ (98)**	$ 49	$ 49
Foreign exchange options	**(1)**	**(1)**	1	1
Interest rate swaps	**25**	**25**	32	32
Cross-currency swaps			1	1

Credit Concentrations

The Company continually monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments and does not anticipate nonperformance by the counterparties.

The Company would not realize a material loss as of September 29, 2007 in the event of nonperformance by any single counterparty. The Company enters into transactions only with financial institution counterparties that have a credit rating of A- or better. The Company s current policy regarding agreements with financial institution counterparties is generally to require collateral in the event credit ratings fall below A- or in the event aggregate exposures exceed limits as defined by contract. In addition, the Company limits the amount of investment credit exposure with any one institution.

The Company s trade receivables and investments do not represent a significant concentration of credit risk at September 29, 2007 due to the wide variety of customers and markets into which the Company s products are sold, their dispersion across geographic areas, and the diversification of the Company s portfolio among issuers.

14. *Commitments and Contingencies*

Commitments

The Company has various contractual commitments for the purchase of broadcast rights for sports, feature films and other programming, aggregating approximately $22.8 billion, including approximately $1.1 billion for available programming as of September 29, 2007, and approximately $19.2 billion related to sports programming rights, primarily NFL, NBA, NASCAR, MLB and College Football.

The Company has entered into operating leases for various real estate and equipment needs, including retail outlets and distribution centers for consumer products, broadcast equipment, and office space for general and administrative purposes. Rental expense for the operating leases during 2007, 2006, and 2005, including common-area maintenance and contingent rentals, was $482 million, $455 million, and $482 million, respectively.

The Company also has contractual commitments under various creative talent and employment agreements including obligations to actors, producers, sports personnel, television and radio personalities, and executives.

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Contractual commitments for broadcast programming rights, future minimum lease payments under non-cancelable operating leases, and creative talent and other commitments totaled $28.6 billion at September 29, 2007, payable as follows:

	Broadcast Programming	Operating Leases	Other	Total
2008	$ 4,436	$ 327	$ 1,100	$ 5,863
2009	3,016	276	703	3,995
2010	3,041	236	459	3,736
2011	2,863	196	847	3,906
2012	3,121	167	785	4,073
Thereafter	6,310	648	82	7,040
	$ 22,787	$ 1,850	$ 3,976	$ 28,613

The Company has certain non-cancelable capital leases primarily for land and broadcast equipment, which had gross carrying values of $465 million and $466 million at September 29, 2007 and September 30, 2006, respectively. Accumulated amortization primarily for broadcast equipment under capital lease totaled $127 million and $108 million at September 29, 2007 and September 30, 2006, respectively. Future payments under these leases as of September 29, 2007 are as follows:

2008	$ 39
2009	39
2010	37
2011	38
2012	37
Thereafter	594
Total minimum obligations	$ 784
Less amount representing interest	(492)
Present value of net minimum obligations	292
Less current portion	(18)
Long-term portion	$ 274

Contractual Guarantees

The Company has guaranteed certain special assessment and water/sewer revenue bonds issued by the Celebration Community Development District and the Enterprise Community Development District (collectively, the Districts). The bond proceeds were used by the Districts to finance the construction of infrastructure improvements and the water and sewer system in the mixed-use, residential community of Celebration, Florida. As of September 29, 2007, the remaining debt service obligation guaranteed by the Company was $66 million, of which $43 million was principal. The Company is responsible to satisfy any shortfalls in debt service payments, debt service and maintenance reserve funds, and to ensure compliance with specified rate covenants. To the extent that the Company has to fund payments under its guarantees, the districts have an obligation to reimburse the Company from District revenues.

The Company has also guaranteed certain bond issuances by the Anaheim Public Authority that were used by the City of Anaheim to finance construction of infrastructure and a public parking facility adjacent to the Disneyland Resort. Revenues from sales, occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds. In the event of a debt service shortfall, the Company will be responsible to fund the shortfall. As of September 29, 2007, the remaining debt service obligation guaranteed by the Company was $386 million, of which $103 million was principal. To the extent that tax revenues exceed the debt service payments in subsequent periods, the Company would be reimbursed for any previously funded shortfalls.

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

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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.

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 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 June 23, 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. In a related development, on January 23, 2007, and on August 22, 2007, SSI initiated proceedings in the United States Patent and Trademark Office (PTO) seeking, among other things, cancellation of certain Pooh trademark registrations. On February 22, 2007, the PTO suspended the first proceeding on the grounds that the relief sought is effectively duplicative of that sought in the Fourth Amended Answer, and on October 2, 2007, the Company moved to suspend the second proceeding on the same ground.

Stephen Slesinger, Inc. v. The Walt Disney Company. In this lawsuit, filed on February 27, 1991, in the Los Angeles County Superior Court, the plaintiff claims that a Company subsidiary defrauded it and breached a 1983 licensing agreement with respect to certain Winnie the Pooh properties, by failing to account for and pay royalties on revenues earned from the sale of Winnie the Pooh movies on videocassette and from the exploitation of Winnie the Pooh merchandising rights. The plaintiff seeks damages for the licensee s alleged breaches as well as confirmation of the plaintiff s interpretation of the licensing agreement with respect to future activities. The plaintiff also seeks the right to terminate the agreement on the basis of the alleged breaches. If each of the plaintiff s claims were to be confirmed in a final judgment, damages as argued by the plaintiff could total as much as several hundred million dollars and adversely impact the value to the Company of any future exploitation of the licensed rights. On March 29, 2004, the Court granted the Company s motion for terminating sanctions against the plaintiff for a host of discovery abuses, including the withholding, alteration, and theft of documents and other information, and, on April 5, 2004, dismissed plaintiff s case with prejudice. On September 25, 2007, the California Court of Appeal affirmed the dismissal, and on November 5, 2007, plaintiff filed a petition seeking review by the California Supreme Court.

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Management believes that it is not currently possible to estimate the impact, if any, that the ultimate resolution of these matters will have on the Company s results of operations, financial position or cash flows.

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.

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QUARTERLY FINANCIAL SUMMARY

(In millions, except per share data)

(unaudited)	Q1	Q2	Q3	Q4
2007 [1][2]				
Revenues	**$ 9,581**	**$ 7,954**	**$ 9,045**	**$ 8,930**
Income from continuing operations	**1,676**	**919**	**1,196**	**883**
Net income	**1,701**	**931**	**1,178**	**877**
Earnings per share from continuing operations:				
Diluted	**$ 0.78**	**$ 0.43**	**$ 0.58**	**$ 0.44**
Basic	**0.81**	**0.45**	**0.60**	**0.46**
Earnings per share:				
Diluted	**$ 0.79**	**$ 0.44**	**$ 0.57**	**$ 0.44**
Basic	**0.83**	**0.46**	**0.59**	**0.45**
2006 [1][3][4]				
Revenues	$ 8,713	$ 7,908	$ 8,474	$ 8,652
Income from continuing operations	713	724	1,095	772
Net income	734	733	1,125	782
Earnings per share from continuing operations:				
Diluted	$ 0.36	$ 0.37	$ 0.51	$ 0.36
Basic	0.37	0.38	0.53	0.37
Earnings per share:				
Diluted	$ 0.37	$ 0.37	$ 0.53	$ 0.36
Basic	0.38	0.38	0.54	0.38

(1) During fiscal 2007, the Company concluded the spin-off of the ABC Radio business and now reports ABC Radio as discontinued operations for all periods presented (see Note 3 to the Consolidated Financial Statements for further discussion).

(2) Results for the first quarter of fiscal 2007 include gains from the sales of E! Entertainment and Us Weekly ($0.31 per diluted share) and an equity-based compensation plan modification charge ($0.01 per diluted share).

(3) Results for the third quarter of fiscal 2006 include a net benefit associated with the completion of the Pixar acquisition ($0.01 per diluted share).

(4) Results for the first quarter of fiscal 2006 include gains on sales of a Spanish cable equity investment and Discover Magazine ($0.02 per diluted share).