

WALT DISNEY CO/
Form 10-Q
May 11, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended

Commission File Number 1-11605

April 3, 2010

Incorporated in Delaware

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

500 South Buena Vista Street, Burbank, California 91521

(818) 560-1000

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

Yes No

Indicate by check mark whether the registrant 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 No

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

Large accelerated filer Accelerated filer

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

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

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Yes No

There were 1,958,559,521 shares of common stock outstanding as of May 4, 2010.

PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited; in millions, except per share data)

	Quarter Ended		Six Months Ended	
	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
Revenues	\$ 8,580	\$ 8,087	\$ 18,319	\$ 17,686
Costs and expenses	(7,068)	(6,800)	(15,393)	(15,182)
Restructuring and impairment charges	(71)	(305)	(176)	(305)
Other income	70		97	114
Net interest expense	(130)	(128)	(233)	(267)
Equity in the income of investees	154	147	243	294
Income before income taxes	1,535	1,001	2,857	2,340
Income taxes	(537)	(348)	(1,015)	(836)
Net income	998	653	1,842	1,504
Less: Net income attributable to noncontrolling interests	(45)	(40)	(45)	(46)
Net income attributable to The Walt Disney Company (Disney)	\$ 953	\$ 613	\$ 1,797	\$ 1,458
Earnings per share attributable to Disney:				
Diluted	\$ 0.48	\$ 0.33	\$ 0.93	\$ 0.78
Basic	\$ 0.49	\$ 0.33	\$ 0.94	\$ 0.79
Weighted average number of common and common equivalent shares outstanding:				
Diluted	1,973	1,868	1,938	1,870
Basic	1,940	1,855	1,903	1,854

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited; in millions, except per share data)

	April 3, 2010	October 3, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,075	\$ 3,417
Receivables	5,478	4,854
Inventories	1,225	1,271
Television costs	951	631
Deferred income taxes	1,162	1,140
Other current assets	596	576
Total current assets	12,487	11,889
Film and television costs	5,190	5,125
Investments	2,607	2,554
Parks, resorts and other property, at cost		
Attractions, buildings and equipment	32,396	32,475
Accumulated depreciation	(17,884)	(17,395)
	14,512	15,080
Projects in progress	1,664	1,350
Land	1,158	1,167
	17,334	17,597
Intangible assets, net	5,091	2,247
Goodwill	23,691	21,683
Other assets	2,360	2,022
Total assets	\$ 68,760	\$ 63,117
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 4,879	\$ 5,616
Current portion of borrowings	2,241	1,206
Unearned royalties and other advances	2,932	2,112
Total current liabilities	10,052	8,934
Borrowings	11,000	11,495
Deferred income taxes	3,085	1,819
Other long-term liabilities	5,654	5,444
Commitments and contingencies		
Disney Shareholders' equity		
Preferred stock, \$.01 par value		
Authorized 100 million shares, Issued none		
Common stock, \$.01 par value		
Authorized 3.6 billion shares, Issued 2.7 billion shares	28,100	27,038
Retained earnings	32,173	31,033
Accumulated other comprehensive loss	(1,559)	(1,644)

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	58,714	56,427
Treasury stock, at cost, 730.8 million shares at April 3, 2010 and 781.7 million shares at October 3, 2009	(21,234)	(22,693)
Total Disney Shareholders' equity	37,480	33,734
Noncontrolling interests	1,489	1,691
Total equity	38,969	35,425
Total liability and equity	\$ 68,760	\$ 63,117

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited; in millions)

	Six Months Ended	
	April 3, 2010	March 28, 2009
<i>OPERATING ACTIVITIES</i>		
Net income	\$ 1,842	\$ 1,504
Depreciation and amortization	847	802
Gains on sales of equity investments	(75)	(114)
Deferred income taxes	235	(49)
Equity in the income of investees	(243)	(294)
Cash distributions received from equity investees	202	258
Net change in film and television costs	(481)	(537)
Equity-based compensation	272	225
Impairment charges	96	203
Other	(78)	(72)
Changes in operating assets and liabilities:		
Receivables	(348)	454
Inventories	66	(74)
Other assets	58	(32)
Accounts payable and other accrued liabilities	330	(182)
Income taxes	(234)	(25)
Cash provided by operations	2,489	2,067
<i>INVESTING ACTIVITIES</i>		
Investments in parks, resorts and other property	(807)	(749)
Proceeds from sales of equity investments	115	185
Acquisitions	(2,261)	(146)
Other	(25)	(3)
Cash used in investing activities	(2,978)	(713)
<i>FINANCING ACTIVITIES</i>		
Commercial paper borrowings/(repayments), net	974	(919)
Borrowings		1,739
Reduction of borrowings	(243)	(726)
Dividends	(653)	(648)
Repurchases of common stock	(240)	(104)
Exercise of stock options and other	309	(328)
Cash provided by (used in) financing activities	147	(986)
(Decrease)/increase in cash and cash equivalents	(342)	368
Cash and cash equivalents, beginning of period	3,417	3,001
Cash and cash equivalents, end of period	\$ 3,075	\$ 3,369

THE WALT DISNEY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(unaudited; in millions)

	Quarter Ended					
	April 3, 2010		March 28, 2009			
	Disney Shareholders	Non- controlling Interests	Total Equity	Disney Shareholders	Non- controlling Interests	Total Equity
Beginning Balance	\$ 36,180	\$ 1,778	\$ 37,958	\$ 32,655	\$ 1,260	\$ 33,915
Net income	953	45	998	613	40	653
Other comprehensive income:						
Market value adjustments for hedges and investments	4		4	45		45
Pension and postretirement medical adjustments	63		63	(8)		(8)
Foreign currency translation and other	(29)	(11)	(40)	(67)	(15)	(82)
Other comprehensive income	38	(11)	27	(30)	(15)	(45)
Comprehensive income	991	34	1,025	583	25	608
Equity compensation activity	526		526	33		33
Common stock repurchases	(215)		(215)			
Distributions and other	(2)	(323)	(325)	1	(258)	(257)
Ending Balance	\$ 37,480	\$ 1,489	\$ 38,969	\$ 33,272	\$ 1,027	\$ 34,299

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (cont d)

(unaudited; in millions)

	April 3, 2010		Six Months Ended		March 28, 2009	
	Disney Shareholders	Non-controlling Interests	Total Equity	Disney Shareholders	Non-controlling Interests	Total Equity
Beginning Balance	\$ 33,734	\$ 1,691	\$ 35,425	\$ 32,323	\$ 1,344	\$ 33,667
Net income	1,797	45	1,842	1,458	46	1,504
Other comprehensive income:						
Market value adjustments for hedges and investments	20		20	136		136
Pension and postretirement medical adjustments	90		90	(9)		(9)
Foreign currency translation and other	(25)	(14)	(39)	(99)	(19)	(118)
Other comprehensive income	85	(14)	71	28	(19)	9
Comprehensive income	1,882	31	1,913	1,486	27	1,513
Equity compensation activity	870		870	148		148
Dividends	(653)		(653)	(648)		(648)
Common stock repurchases	(240)		(240)	(104)		(104)
Acquisition of Jetix					(84)	(84)
Acquisition of Marvel	1,887	90	1,977			
Adoption of new pension and postretirement medical plan measurement date (net of tax of \$37 million)				65		65
Distributions and other		(323)	(323)	2	(260)	(258)
Ending Balance	\$ 37,480	\$ 1,489	\$ 38,969	\$ 33,272	\$ 1,027	\$ 34,299

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Principles of Consolidation

These Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. We believe that we have included all normal recurring adjustments necessary for a fair statement of the results for the interim period. Operating results for the quarter and six months ended April 3, 2010 are not necessarily indicative of the results that may be expected for the year ending October 2, 2010. Certain reclassifications have been made in the prior year financial statements to conform to the current year presentation.

These financial statements should be read in conjunction with the Company's 2009 Annual Report on Form 10-K as amended on Form 8-K dated February 18, 2010.

In December 1999, DVD Financing, Inc. (DFI), a subsidiary of Disney Vacation Development, Inc. and an indirect subsidiary of the Company, completed a receivables sale transaction that established a facility that permitted DFI to sell receivables arising from the sale of vacation club memberships on a periodic basis. In connection with this facility, DFI prepares separate financial statements, although its separate assets and liabilities are also consolidated in these financial statements. DFI's ability to sell new receivables under this facility ended on December 4, 2008. (See Note 13 for further discussion of this facility)

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

2. Segment Information

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

	Quarter Ended		Six Months Ended	
	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
<i>Revenues</i> ⁽¹⁾ :				
Media Networks	\$ 3,844	\$ 3,620	\$ 8,019	\$ 7,523
Parks and Resorts	2,449	2,407	5,111	5,072
Studio Entertainment	1,536	1,435	3,471	3,380
Consumer Products	596	496	1,342	1,269
Interactive Media	155	129	376	442
	\$ 8,580	\$ 8,087	\$ 18,319	\$ 17,686
<i>Segment operating income (loss)</i> ⁽¹⁾ :				
Media Networks	\$ 1,306	\$ 1,306	\$ 2,030	\$ 1,961
Parks and Resorts	150	171	525	553
Studio Entertainment	223	13	466	200

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Consumer Products	133	97	376	362
Interactive Media	(55)	(61)	(65)	(106)
	\$ 1,757	\$ 1,526	\$ 3,332	\$ 2,970

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

- (1) Studio Entertainment segment revenues and operating income include an allocation of Consumer Products and Interactive Media revenues which is meant to reflect royalties on sales of merchandise based on certain Studio film properties. The increases/(decreases) related to these allocations on segment revenues and operating income as reported in the above table are as follows:

	Quarter Ended		Six Months Ended	
	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
Studio Entertainment	\$ 45	\$ 25	\$ 85	\$ 77
Consumer Products	(41)	(22)	(79)	(65)
Interactive Media	(4)	(3)	(6)	(12)
	\$	\$	\$	\$

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

	Quarter Ended		Six Months Ended	
	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
Segment operating income	\$ 1,757	\$ 1,526	\$ 3,332	\$ 2,970
Corporate and unallocated shared expenses	(91)	(92)	(163)	(172)
Restructuring and impairment charges	(71)	(305)	(176)	(305)
Other income	70		97	114
Net interest expense	(130)	(128)	(233)	(267)
Income before income taxes	\$ 1,535	\$ 1,001	\$ 2,857	\$ 2,340

3. Acquisitions

The Disney Stores Japan

On March 31, 2010, the Company acquired all of the outstanding shares of Retail Networks Company Limited (The Disney Stores Japan) including \$13 million in cash in exchange for a \$17 million note. In connection with the acquisition, the Company recognized a \$22 million non-cash gain from the deemed termination of the existing licensing arrangement. The gain is reported in Other income in the fiscal 2010 Condensed Consolidated Statements of Income.

Marvel

On December 31, 2009, the Company completed a cash and stock acquisition for the outstanding capital stock of Marvel Entertainment, Inc. (Marvel), a character-based entertainment company. Disney believes that this acquisition is consistent with the Company's strategic value creation through utilization of intellectual properties across Disney's multiple platforms and territories.

The acquisition purchase price totaled \$4.2 billion. In accordance with the terms of the acquisition, Marvel shareholders received \$30 per share in cash and 0.7452 Disney shares for each Marvel share they owned. In total, the Company paid \$2.4 billion in cash and distributed shares valued at \$1.9 billion (approximately 59 million shares of Disney common stock at a price of \$32.25).

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The Company is required to allocate the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over those fair values is recorded as goodwill. The Company is in the process of finalizing the valuation of the assets acquired and liabilities assumed and therefore, the fair values set forth below are subject to adjustment once the valuations are completed.

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The following table summarizes our preliminary allocation of the purchase price:

	Estimated Fair Value
Cash and cash equivalents	\$ 105
Accounts receivable and other assets	137
Film costs	304
Intangible assets	2,870
Goodwill	2,269
Total assets acquired	5,685
Accounts payable and other liabilities	(320)
Deferred income taxes	(1,033)
Total liabilities assumed	(1,353)
Noncontrolling interests	(90)
	\$ 4,242

Intangible assets primarily consist of character-based intellectual property with an estimated useful life of approximately 40 years.

The goodwill reflects the value to Disney from leveraging Marvel intellectual property across our distribution channels, taking advantage of Disney's established global reach. The goodwill recorded as part of this acquisition is not amortizable for tax purposes.

Jetix Europe

In December 2008, the Company acquired an additional 26% interest in Jetix Europe N.V., a publicly traded pan-European kids' entertainment company, for approximately \$354 million (bringing our total ownership interest to over 99%). The Company intends to acquire the remaining outstanding shares through statutory buy-out proceedings.

UTV

On May 9, 2008, the Company acquired a 24% interest (bringing its undiluted interest to 37%) in UTV Software Communications Limited (UTV), a media company headquartered and publicly traded in India, for approximately \$197 million. In accordance with Indian securities regulations, the Company was required to make an open tender offer to purchase up to an additional 23% of UTV's publicly traded voting shares for a price equivalent to the May 9th, 2008 Indian rupee purchase price. In November 2008, the Company completed the open offer and acquired an incremental 23% of UTV's voting shares for approximately \$138 million bringing its undiluted interest to 60%. Due to the change in the exchange rate between the US dollar and the Indian rupee from May to November, the US dollar price per share was lower in November than in May. UTV's founder has a four-year option which expires in November 2012 to buy all or a portion of the shares acquired by the Company during the open-offer period at a price no less than the Company's open-offer price. If the trading price upon exercise of the option exceeds the price paid by the Company, then the option price is capped at the Company's open-offer price plus a 10% annual return. The Company does not have the right to vote the shares subject to the option until the expiration of the option and accordingly the Company's ownership interest in voting shares is 48%. In addition to the acquisition of UTV, on August 5, 2008, the Company invested \$28 million in a UTV subsidiary, UTV Global Broadcasting Limited (along with UTV, the UTV Group). The Company's investment in the UTV Group is accounted for under the equity method.

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

In fiscal 2009, the Company recorded non-cash impairment charges totaling \$65 million, based on the Company's internal valuation of the UTV business, which was estimated using a discounted cash flow model. The Company's carrying value of its investment in the UTV Group of \$294 million continues to exceed the current trading value, and, accordingly, the Company will continue to monitor its investment in the UTV Group.

In January 2010, UTV issued additional stock in exchange for the outstanding noncontrolling interest of one of its subsidiaries diluting the Company's direct interest in UTV to 50% (39% voting interest) while increasing the indirect interest in the subsidiary. In addition, UTV announced that it is considering raising additional capital which could consist of equity shares of UTV stock, debentures or foreign currency convertible bonds. If UTV issued additional shares, depending upon the price of the issuance, an incremental impairment of our investment in the UTV Group could be required.

Goodwill

The changes in the carrying amount of goodwill for the six months ended April 3, 2010 are as follows:

	Media Networks	Parks and Resorts	Studio Entertainment	Consumer Products	Interactive Media	Total
Goodwill	\$ 15,744	\$ 172	\$ 4,737	\$ 422	\$ 637	\$ 21,712
Accumulated Impairments					(29)	(29)
Balance at Oct. 3, 2009	15,744	172	4,737	422	608	21,683
Acquisitions ⁽¹⁾			528	1,499	252	2,279
Other, net ⁽²⁾	(5)		(266)			(271)
Balance at Apr. 3, 2010	\$ 15,739	\$ 172	\$ 4,999	\$ 1,921	\$ 860	\$ 23,691

⁽¹⁾ During the six months ended April 3, 2010, the Company completed the acquisition of Marvel and recorded \$2,269 million of goodwill. See discussion above on the Marvel acquisition.

⁽²⁾ The Company is pursuing the sale of a majority of the assets and liabilities of the Miramax business (Miramax). The Miramax assets and liabilities along with \$256 million of allocable goodwill have been classified as held for sale and reported in "Other Assets" in the fiscal 2010 Condensed Consolidated Balance Sheet.

Intangibles

The Company's intangible assets are as follows:

	April 3, 2010	October 3, 2009
Copyrights and other character intangibles	\$ 3,113	\$ 358
Other amortizable intangible assets	297	296
Accumulated amortization	(294)	(249)
Net amortizable intangible assets	3,116	405

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FCC licenses	737	713
Trademarks	1,218	1,109
Other indefinite lived intangible assets	20	20
Total intangible assets	\$ 5,091	\$ 2,247

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Amortization expense was \$42 million and \$26 million for the six months ended April 3, 2010 and March 28, 2009, respectively. As a result of the acquisition of Marvel, intangible assets increased by \$2.9 billion. The Company expects its aggregate annual amortization expense for existing amortizable intangible assets for fiscal years 2010 through 2014 to be as follows:

2010	\$ 105
2011	119
2012	116
2013	107
2014	105

Amortizable intangible assets are generally amortized on a straight-line basis over periods up to 40 years. The costs to periodically renew our intangible assets are expensed as incurred. The Company has determined that there are currently no legal, competitive, economic or other factors that materially limit the useful life of our FCC licenses and trademarks.

4. Dispositions

On January 27, 2010, the Company sold its investment in a pay television service in Central Europe for \$78 million, resulting in a pre-tax gain of \$48 million reported in Other income in the Fiscal 2010 Condensed Consolidated Statements of Income.

On November 25, 2009, the Company sold its investment in a television service in Europe for \$37 million, resulting in a pre-tax gain of \$27 million reported in Other income in the Fiscal 2010 Condensed Consolidated Statements of Income.

On December 22, 2008, the Company sold its investment in two pay television services in Latin America, for approximately \$185 million, resulting in a pre-tax gain of \$114 million reported in Other income in the Fiscal 2009 Condensed Consolidated Statements of Income.

5. Borrowings

During the six months ended April 3, 2010, the Company's borrowing activity was as follows:

	October 3, 2009	Additions	Payments	Other Activity	April 3, 2010
Commercial paper borrowings	\$	\$ 974	\$	\$	\$ 974
U.S. medium-term notes	7,618			2	7,620
European medium-term notes	347		(88)	(8)	251
Other foreign currency denominated debt	904			(4)	900
Film financing	350		(93)	18	275
Other	614			(32)	582
Euro Disney borrowings ⁽¹⁾	2,344		(62)	(140)	2,142
Hong Kong Disneyland borrowings	524			(27)	497

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Total	\$ 12,701	\$ 974	\$ (243)	\$ (191)	\$ 13,241
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(1) The other activity is primarily the impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Euro.

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

6. Euro Disney and Hong Kong Disneyland

The Company has a 51% effective ownership interest in the operations of Euro Disney and a 47% ownership interest in the operations of Hong Kong Disneyland, both of which are consolidated in the Company's financial statements.

The following table presents a condensed consolidating balance sheet for the Company as of April 3, 2010, 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	\$ 2,548	\$ 527	\$ 3,075
Other current assets	9,204	208	9,412
Total current assets	11,752	735	12,487
Investments	3,557	(950)	2,607
Fixed assets	13,104	4,230	17,334
Other assets	36,281	51	36,332
Total assets	\$ 64,694	\$ 4,066	\$ 68,760
Current portion of borrowings	\$ 2,118	\$ 123	\$ 2,241
Other current liabilities	7,289	522	7,811
Total current liabilities	9,407	645	10,052
Borrowings	8,484	2,516	11,000
Deferred income taxes and other long-term liabilities	8,575	164	8,739
Equity	38,228	741	38,969
Total liabilities and equity	\$ 64,694	\$ 4,066	\$ 68,760

The following table presents summarized income statement information of the Company for the six months ended April 3, 2010, reflecting the impact of consolidating the income statements of Euro Disney and Hong Kong Disneyland.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Revenues	\$ 17,392	\$ 927	\$ 18,319
Cost and expenses	(14,379)	(1,014)	(15,393)

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Restructuring and impairment charges	(176)		(176)
Other income	97		97
Net interest expense	(175)	(58)	(233)
Equity in the income of investees	168	75	243
Income before income taxes	2,927	(70)	2,857
Income taxes	(1,010)	(5)	(1,015)
Net income	\$ 1,917	\$ (75)	\$ 1,842

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The following table presents a condensed consolidating cash flow statement of the Company for the six months ended April 3, 2010, 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 operations	\$ 2,455	\$ 34	\$ 2,489
Investments in parks, resorts and other property	(722)	(85)	(807)
Other investing activities	(2,205)	34	(2,171)
Cash used by financing activities	209	(62)	147
Decrease in cash and cash equivalents	(263)	(79)	(342)
Cash and cash equivalents, beginning of period	2,811	606	3,417
Cash and cash equivalents, end of period	\$ 2,548	\$ 527	\$ 3,075

7. Pension and Other Benefit Programs

The components of net periodic benefit cost are as follows:

	Pension Plans				Postretirement Medical Plans			
	Quarter Ended		Six Months Ended		Quarter Ended		Six Months Ended	
	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
Service cost	\$ 66	\$ 41	\$ 132	\$ 83	\$ 6	\$ 4	\$ 11	\$ 8
Interest cost	99	91	198	181	18	18	35	36
Expected return on plan assets	(103)	(93)	(207)	(186)	(7)	(7)	(13)	(13)
Amortization of prior year service costs	4	4	7	7	(1)		(1)	(1)
Recognized net actuarial loss	38	(2)	77	(4)	1	(2)	3	(4)
Net periodic benefit cost	\$ 104	\$ 41	\$ 207	\$ 81	\$ 17	\$ 13	\$ 35	\$ 26

During the six months ended April 3, 2010, the Company did not make any material contributions to its pension and postretirement medical plans. The Company expects pension and post-retirement medical plan contributions in fiscal 2010 to range from \$350 million to \$450 million. Final minimum funding requirements for fiscal 2010 will be determined based on our January 1, 2010 funding actuarial valuation which will be available later in fiscal 2010.

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

8. *Earnings Per Share*

Diluted earnings per share amounts are based upon the weighted average number of common and common equivalent shares outstanding during the period and are calculated using the treasury stock method for equity-based compensation awards. Options excluded from the diluted earnings per share calculation, as they were anti-dilutive, were 30 million and 166 million shares for the quarters ended April 3, 2010 and March 28, 2009, respectively, and 52 million and 152 million for the six months ended April 3, 2010 and March 28, 2009, respectively. A reconciliation of the weighted average number of common and common equivalent shares outstanding is as follows:

	Quarter Ended		Six Months Ended	
	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
Shares (in millions):				
Weighted average number of common shares outstanding (basic)	1,940	1,855	1,903	1,854
Weighted average dilutive impact of equity-based compensation awards	33	13	35	16
Weighted average number of common and common equivalent shares outstanding (diluted)	1,973	1,868	1,938	1,870

9. *Equity*

The Company declared a \$653 million dividend (\$0.35 per share) on December 2, 2009 related to fiscal 2009 for shareholders of record on December 14, 2009, which was paid on January 19, 2010. The Company paid a \$648 million dividend (\$0.35 per share) during the second quarter of fiscal 2009 related to fiscal 2008.

During the six months ended April 3, 2010, the Company repurchased 8 million shares of its common stock for approximately \$240 million. As of April 3, 2010, the Company had remaining authorization in place to repurchase approximately 171 million additional shares. The repurchase program does not have an expiration date.

The Company received proceeds of \$748 million from the exercise of 32 million employee stock options during the first six months of fiscal 2010.

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

	April 3, 2010	October 3, 2009
Market value adjustments for investments and hedges	\$ 38	\$ 18
Foreign currency translation and other	80	105
Unrecognized pension and postretirement medical expense	(1,677)	(1,767)

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Accumulated other comprehensive income (loss) ⁽¹⁾	\$ (1,559)	\$ (1,644)
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⁽¹⁾ Accumulated other comprehensive income (loss) and components of other comprehensive income (loss) are recorded net of tax using a 37% estimated tax rate

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

10. Equity-Based Compensation

The amount of compensation expense related to stock options and restricted stock units (RSUs) is as follows:

	Quarter Ended		Six Months Ended	
	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
Stock options	\$ 55	\$ 51	\$ 122	\$ 113
RSUs	82	60	150	112
Total equity-based compensation expense	\$ 137	\$ 111	\$ 272	\$ 225

Unrecognized compensation cost related to unvested stock options and RSUs totaled approximately \$315 million and \$661 million, respectively, as of April 3, 2010.

In January 2010, the Company made stock compensation grants, which included its regular annual grant, consisting of 11.5 million stock options and 13.4 million RSUs, of which 0.4 million RSUs included market and/or performance conditions.

The weighted average grant date fair values of options issued during the six months ended April 3, 2010, and March 28, 2009, were \$9.42 and \$7.52, respectively.

11. Commitments and Contingencies*Legal Matters*

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

Contractual Guarantees

The Company has guaranteed 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 April 3, 2010, the remaining debt service obligation guaranteed by the Company was \$370 million, of which \$94 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 the Anaheim bonds.

ESPN STAR Sports, a joint venture in which ESPN owns a 50% equity interest, has an agreement for global programming rights to International Cricket Council events from 2007 through 2015. Under the terms of the agreement, ESPN and the other joint-venture partner have jointly guaranteed the programming rights obligation of approximately \$0.9 billion over the remaining term of the agreement.

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

Accounts Receivable Risk

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

Income Taxes

During the quarter the Company settled certain tax matters with state and federal taxing authorities. As a result of these settlements, the Company reduced its unrecognized tax benefits by \$87 million.

During the quarter the Company recorded a \$72 million charge related to the enactment of health care reform legislation in March 2010. Under this legislation the Company's deductions for retiree prescription drug benefits will be reduced by the amount of Medicare Part D drug subsidies received beginning in fiscal year 2014. Under applicable accounting rules, the Company is required to reduce its existing deferred tax asset, which was established for the future deductibility of retiree prescription drug benefit costs, to reflect the lost deductions. The reduction must be recorded as a charge to earnings in the period the legislation is enacted.

In the next twelve months, it is reasonably possible that our unrecognized tax benefits could change due to payments for or resolution of open tax matters for post-2002 years. These resolutions and payments would reduce our unrecognized tax benefits by \$109 million.

12. New Accounting Pronouncements

Revenue Arrangements with Multiple Deliverables

In October 2009, the Financial Accounting Standards Board (FASB) issued guidance on revenue arrangements with multiple deliverables effective for the Company's 2011 fiscal year. The guidance revises the criteria for separating, measuring, and allocating arrangement consideration to each deliverable in a multiple element arrangement. The guidance requires companies to allocate revenue using the relative selling price of each deliverable, which must be estimated if the Company does not have a history of selling the deliverable on a stand-alone basis or third-party evidence of selling price. The Company is assessing the potential effect of this guidance on its financial statements.

Variable Interest Entities

In June 2009, the FASB issued guidance to revise the approach to determine when a variable interest entity (VIE) should be consolidated. The new consolidation model for VIEs considers whether an entity has the power to direct the activities that most significantly impact the VIE's economic performance and shares in the significant risks and rewards of the entity. The guidance on VIEs requires companies to continually reassess VIEs to determine if consolidation is appropriate and provide additional disclosures. The guidance is effective for the Company's 2011 fiscal year. The Company is assessing the potential effect this guidance will have on its financial statements.

Collaborative Arrangements

In December 2007, the FASB issued guidance that defines collaborative arrangements and establishes accounting and reporting requirements for such arrangements. A collaborative arrangement is a contractual arrangement that involves a joint operating activity, for example an agreement to co-produce and distribute a motion picture with another studio. The Company adopted the provisions of this collaborative arrangement guidance at the beginning of fiscal year 2010. The adoption did not have a material impact on the Company's financial statements.

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Business Combinations

In December 2007, the FASB issued guidance that establishes principles and requirements for determining how a company recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including noncontrolling interests, contingent consideration, and certain acquired contingencies. The guidance on business combinations also requires acquisition-related transaction expenses and restructuring costs be expensed as incurred rather than capitalized. The Company adopted the provisions of this business combination guidance and applied the guidance prospectively beginning fiscal year 2010.

Noncontrolling Interests

In December 2007, the FASB issued guidance on the accounting and reporting for a noncontrolling interest in a subsidiary which requires that noncontrolling interests be reported as a separate component of shareholders' equity and that net income attributable to the noncontrolling interests and net income attributable to the shareholders of the Company be presented separately in the consolidated statement of income. The Company adopted the provisions of this noncontrolling interest guidance at the beginning of fiscal year 2010.

13. Fair Value Measurements

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants. Assets and liabilities carried at fair value are classified in the following categories:

Level 1 Quoted prices for identical instruments in active markets

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

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

The Company's assets and liabilities measured at fair value on a recurring basis as of April 3, 2010 are summarized in the following table:

	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ 39	\$ 46	\$ 2	\$ 87
Derivatives ⁽¹⁾				
Interest rate		152		152
Foreign exchange		371		371
Residual Interests			53	53
Liabilities				
Derivatives ⁽¹⁾				
Foreign exchange		(214)		(214)

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Other derivatives		(17)		(17)
Other			(8)	(8)
Total	\$ 39	\$ 338	\$ 47	\$ 424

(1) The Company has a master netting arrangement by counterparty with respect to certain derivative contracts. Contracts in a liability position totaling \$160 million have been netted against contracts in an asset position in the April 3, 2010 Condensed Consolidated Balance Sheet

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The fair value of Level 2 investments is primarily determined by reference to market prices based on recent trading activity and other relevant information including pricing for similar securities as determined by third-party pricing services.

The fair values of Level 2 derivatives, which consist of interest rate and foreign currency hedges, are primarily determined based on the present value of future cash flows using internal models that use observable inputs, such as interest rates, yield curves and foreign currency exchange rates. Counterparty credit risk, which is mitigated by master netting agreements and collateral posting arrangements with certain counterparties, did not have a material impact on derivative fair value estimates.

Level 3 residual interests consist of our residual interests in securitized vacation ownership mortgage receivables and are valued using a discounted cash flow model that considers estimated interest rates, discount rates, prepayment, and defaults. There were no material changes in the residual interests in the first six months of fiscal 2010.

Transfers of Financial Assets

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

The Company continues to service the sold receivables and has a residual interest in those receivables. As of April 3, 2010, the outstanding principal amount for sold mortgage receivables was \$352 million, and the carrying value of the Company's residual interest, which is recorded in other long-term assets, was \$53 million.

The Company repurchases defaulted and certain delinquent mortgage receivables at their outstanding balance. The Company did not make material repurchases in the six months ended April 3, 2010 or March 28, 2009. The Company generally has been able to sell the repurchased vacation ownership units for amounts that exceed the amounts at which they were repurchased.

The Company also provides credit support for up to 70% of the outstanding balance of the sold mortgage receivables which the mortgage receivable acquirer may draw on in the event of losses under the facility. The Company maintains a reserve for estimated credit losses related to these receivables.

Fair Value of Financial Instruments

In addition to the financial instruments listed above, the Company's financial instruments also include cash, cash equivalents, receivables, accounts payable and borrowings.

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:

Asset/(Liability)	April 3, 2010		October 3, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	\$ 87	\$ 87	\$ 78	\$ 78
Borrowings	(13,241)	(13,177)	(12,701)	(12,643)
Derivatives	292	292	252	252

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

14. *Derivative Instruments*

The Company manages its exposure to various risks relating to its ongoing business operations according to a risk management policy. The primary risks managed with derivative instruments are interest rate risk and foreign exchange risk.

The following table summarizes the fair value of the Company's derivative positions as of April 3, 2010:

	Current Assets	Other Assets	Other Accrued Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 132	\$ 75	\$ (137)	\$ (29)
Interest rate	1	151		(2)
Derivatives not designated as hedges				
Foreign exchange	80	84	(33)	(15)
Interest rate				(15)
Gross fair value of derivatives	213	310	(170)	(61)
Counterparty netting	(116)	(44)	118	42
Total Derivatives ⁽¹⁾	\$ 97	\$ 266	\$ (52)	\$ (19)

The following table summarizes the fair value of the Company's derivative positions as of October 3, 2009:

	Current Assets	Other Assets	Other Accrued Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 84	\$ 111	\$ (115)	\$ (55)
Interest rate	4	186		
Derivatives not designated as hedges				
Foreign exchange	37	127	(70)	(37)
Interest rate				(18)
Other derivative			(2)	
Gross fair value of derivatives	125	424	(187)	(110)
Counterparty netting	(98)	(72)	103	67
Total Derivatives ⁽¹⁾	\$ 27	\$ 352	\$ (84)	\$ (43)

⁽¹⁾ Refer to Note 13 for further information on derivative fair values and counterparty netting.

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 targets its fixed-rate debt 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 management activities.

The Company designates pay-floating interest rate swaps as fair value hedges of fixed-rate borrowings effectively converting fixed-rate borrowings to variable rate borrowings indexed to LIBOR. As of April 3, 2010 and October 3, 2009, the total notional amount of the Company's pay-floating interest rate swaps was \$1.5 billion and \$1.6 billion, respectively. The following table summarizes adjustments related to fair value hedges included in net interest expense in the Consolidated Statements of Income.

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Quarter Ended		Six Months Ended	
	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
Gain (loss) on interest rate swaps	\$ 3	\$ (32)	\$ (40)	\$ 145
Gain (loss) on hedged borrowings	(3)	32	40	(145)

The Company may designate pay-fixed interest rate swaps as cash flow hedges of interest payments on floating-rate borrowings. Pay-fixed swaps effectively convert floating-rate borrowings to fixed-rate borrowings. The unrealized gain or losses from these cash flow hedges are deferred in accumulated other comprehensive income (AOCI) and recognized in interest expense as the interest payments occur. The Company did not have pay-fixed interest rate swaps that were designated as cash flow hedges of interest payments at April 3, 2010 nor at October 3, 2009.

Foreign Exchange Risk Management

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

The Company enters into option and forward contracts that change in value as foreign currency 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. 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 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 into U.S. dollar denominated borrowings.

The Company designates foreign exchange forward and option contracts as cash flow hedges of firmly committed and forecasted foreign currency transactions. As of April 3, 2010 and October 3, 2009, the notional amount of the Company's net foreign exchange cash flow hedges was \$2.6 billion and \$2.8 billion, respectively. Mark to market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of the foreign currency transactions. Gains and losses recognized related to ineffectiveness for the six months ended April 3, 2010 and March 28, 2009 were not material. The following table summarizes adjustments to AOCI for foreign exchange cash flow hedges.

	Quarter Ended		Six Months Ended	
	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
Gain (loss) recorded in AOCI	\$ (2)	\$ 133	\$ (7)	\$ 340
Reclassification of (gains) losses from AOCI into revenues and costs and expenses	6	(71)	34	(133)
Net change in AOCI	\$ 4	\$ 62	\$ 27	\$ 207

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Foreign exchange risk management contracts with respect to foreign currency assets and liabilities are not designated as hedges and do not qualify for hedge accounting. The notional amount of these foreign exchange contracts at April 3, 2010 and October 3, 2009 was \$2.5 billion and \$2.1 billion, respectively. For the six months ended April 3, 2010, the impact to net income from these foreign exchange contracts was not material.

Risk Management Derivatives Not Designated as Hedges

The Company enters into certain other risk management contracts that are not designated as hedges and do not qualify for hedge accounting. These contracts, which include pay fixed interest rate swaps and commodity swap contracts, are intended to offset economic exposures of the Company and are carried at market value with any changes in value recorded in earnings.

The notional amount of these contracts at April 3, 2010 and October 3, 2009 was \$239 million and \$253 million, respectively. For the six months ended April 3, 2010, the impact to net income from other risk management contracts was not material.

Contingent Features

The Company's derivative financial instruments may require the Company to post collateral in the event that a net liability position with a counterparty exceeds limits defined by contract and varying with Disney's credit rating. If the Company's credit ratings were to fall below investment grade, certain counterparties would have the right to terminate our derivative contracts, which could lead to a net payment to or from the Company for the aggregate net value by counterparty of our derivative contracts. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position by counterparty on April 3, 2010 and October 3, 2009 was not material.

15. Restructuring and Impairment Charges

The Company recorded \$176 million of restructuring and impairment charges in the current six months related to organizational and cost structure initiatives primarily at our Studio Entertainment and Media Networks segments. Impairment charges of \$96 million, of which \$57 million were recorded in the current quarter, consisted of write-offs of capitalized costs primarily related to abandoned film projects and the closure of a studio production facility. Restructuring charges of \$80 million, of which \$14 million were recorded in the current quarter, were primarily severance and related costs.

In the prior-year six months, the Company recorded \$305 million of restructuring and impairment charges which included non-cash impairment charges of \$203 million and restructuring costs of \$102 million. The most significant of the impairment charges were \$108 million related to radio FCC licenses and \$46 million related to our investment in UTV Group. The restructuring charges consisted of severance and other related costs as a result of various organizational and cost structure initiatives across our businesses, roughly half of which related to the Parks and Resorts segment. All of the charges were recorded in the second quarter of the prior year.

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

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

ORGANIZATION OF INFORMATION

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

Overview

Seasonality

Business Segment Results

Quarter Results

Six-Month Results

Other Financial Information

Financial Condition

Commitments and Contingencies

Other Matters

Market Risk

OVERVIEW

Our summary consolidated results are presented below:

	Quarter Ended			Six Months Ended		
	April 3, 2010	March 28, 2009	% Change Better/ (Worse)	April 3, 2010	March 28, 2009	% Change Better/ (Worse)
(in millions, except per share data)						
Revenues	\$ 8,580	\$ 8,087	6 %	\$ 18,319	\$ 17,686	4 %
Costs and expenses	(7,068)	(6,800)	(4) %	(15,393)	(15,182)	(1) %
Restructuring and impairment charges	(71)	(305)	77 %	(176)	(305)	42 %
Other income	70		nm	97	114	(15) %
Net interest expense	(130)	(128)	(2) %	(233)	(267)	13 %
Equity in the income of investees	154	147	5 %	243	294	(17) %
Income before income taxes	1,535	1,001	53 %	2,857	2,340	22 %
Income taxes	(537)	(348)	(54) %	(1,015)	(836)	(21) %
Net income	998	653	53 %	1,842	1,504	22 %
Less: Net income attributable to noncontrolling interests	(45)	(40)	(13) %	(45)	(46)	2 %

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Net income attributable to Disney	\$ 953	\$ 613	55 %	\$ 1,797	\$ 1,458	23 %
Diluted earnings per share	\$ 0.48	\$ 0.33	45 %	\$ 0.93	\$ 0.78	19 %

Quarter Results

Diluted earnings per share (EPS) increased 45% for the quarter driven by improved operating results and an aggregate \$0.10 per share net year over year favorable impact from lower restructuring and impairment charges and higher other income as discussed in the following paragraph. These benefits to EPS were partially offset by higher average shares driven by the acquisition of Marvel. Improved operating results reflected the strong performance of *Alice in Wonderland* in worldwide theatrical markets, the benefit of contractual rate increases and subscriber growth on fees (Affiliate Fees) from Multi-channel Video Service Providers (MVSP) primarily at ESPN, increased guest spending at our domestic parks and resorts and increased licensing revenues at Consumer Products. These increases were partially offset by higher programming and production costs at ESPN, higher broadcast production cost amortization and programming costs, and decreased attendance at our domestic parks.

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

The current quarter included restructuring and impairment charges, a gain on the sale of an investment in a pay television service in Central Europe and an accounting gain related to the acquisition of the Disney Stores in Japan, which together had no net impact on EPS. The prior-year quarter included restructuring and impairment charges which had a \$0.10 negative impact on EPS.

Six-Month Results

Diluted EPS increased 19% for the six months driven by improved operating results and an aggregate \$0.05 per share net year over year favorable impact from lower restructuring and impairment charges and other income as discussed in the following paragraph. These benefits to EPS were partially offset by higher average shares driven by the acquisition of Marvel. Improved operating results reflected higher Affiliate Fees primarily at ESPN, the strong performance of *Alice in Wonderland* in worldwide theatrical markets, lower distribution and marketing at domestic home entertainment and lower bad debt expense at Media Networks. These increases were partially offset by higher programming and production costs at ESPN and higher broadcast production cost amortization and programming costs.

The current six months included restructuring and impairment charges, gains on the sales of investments in pay television services in Europe and an accounting gain related to the acquisition of the Disney Stores in Japan, which together had a \$0.02 negative impact on EPS. The prior year six months included restructuring and impairment charges and a gain on the sale of an investment in two pay television services in Latin America which together had a \$0.07 negative impact on EPS.

SEASONALITY

The Company's businesses are subject to the effects of seasonality. Consequently, the operating results for the quarter and six months ended April 3, 2010 for each business segment, and for the Company as a whole, are not necessarily indicative of results to be expected for the full year.

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

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

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

Consumer Products revenues are influenced by seasonal consumer purchasing behavior, which generally results in increased revenues during the Company's first fiscal quarter, and by the timing and performance of theatrical releases and cable programming broadcasts.

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

Interactive Media revenues fluctuate due to the timing and performance of video game releases which are determined by several factors, including theatrical releases and cable programming broadcasts, competition and the timing of holiday periods. Revenues from certain of our internet and mobile operations are subject to similar seasonal trends.

BUSINESS SEGMENT RESULTS

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

(in millions)	Quarter Ended			Six Months Ended		
	April 3, 2010	March 28, 2009	%Change Better/ (Worse)	April 3, 2010	March 28, 2009	%Change Better/ (Worse)
<i>Revenues:</i>						
Media Networks	\$ 3,844	\$ 3,620	6 %	\$ 8,019	\$ 7,523	7 %
Parks and Resorts	2,449	2,407	2 %	5,111	5,072	1 %
Studio Entertainment	1,536	1,435	7 %	3,471	3,380	3 %
Consumer Products	596	496	20 %	1,342	1,269	6 %
Interactive Media	155	129	20 %	376	442	(15) %
	\$ 8,580	\$ 8,087	6 %	\$ 18,319	\$ 17,686	4 %
<i>Segment operating income (loss):</i>						
Media Networks	\$ 1,306	\$ 1,306	%	\$ 2,030	\$ 1,961	4 %
Parks and Resorts	150	171	(12) %	525	553	(5) %
Studio Entertainment	223	13	>100 %	466	200	>100 %
Consumer Products	133	97	37 %	376	362	4 %
Interactive Media	(55)	(61)	10 %	(65)	(106)	39 %
	\$ 1,757	\$ 1,526	15 %	\$ 3,332	\$ 2,970	12 %

The following table reconciles segment operating income to income before income taxes:

(in millions)	Quarter Ended			Six Months Ended		
	April 3, 2010	March 28, 2009	%Change Better/ (Worse)	April 3, 2010	March 28, 2009	%Change Better/ (Worse)
Segment operating income	\$ 1,757	\$ 1,526	15 %	\$ 3,332	\$ 2,970	12 %
Corporate and unallocated shared expenses	(91)	(92)	1 %	(163)	(172)	5 %
Restructuring and impairment charges	(71)	(305)	77 %	(176)	(305)	42 %
Other income	70		nm	97	114	(15) %
Net interest expense	(130)	(128)	(2) %	(233)	(267)	13 %
Income before income taxes	\$ 1,535	\$ 1,001	53 %	\$ 2,857	\$ 2,340	22 %

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

Depreciation expense is as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)	Six Months Ended		% Change Better/ (Worse)
	April 3, 2010	March 28, 2009		April 3, 2010	March 28, 2009	
Media Networks						
Cable Networks	\$ 27	\$ 32	16 %	\$ 58	\$ 56	(4) %
Broadcasting	25	22	(14) %	48	44	(9) %
Total Media Networks	52	54	4 %	106	100	(6) %
Parks and Resorts						
Domestic	198	201	1 %	409	406	(1) %
International	83	77	(8) %	171	156	(10) %
Total Parks and Resorts	281	278	(1) %	580	562	(3) %
Studio Entertainment	14	12	(17) %	28	24	(17) %
Consumer Products	8	7	(14) %	14	13	(8) %
Interactive Media	6	10	40 %	13	13	%
Corporate	33	32	(3) %	64	64	%
Total depreciation expense	\$ 394	\$ 393	%	\$ 805	\$ 776	(4) %

Media Networks

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

(in millions)	Quarter Ended		% Change Better/ (Worse)	Six Months Ended		% Change Better/ (Worse)
	April 3, 2010	March 28, 2009		April 3, 2010	March 28, 2009	
Revenues:						
Cable Networks	\$ 2,412	\$ 2,204	9 %	\$ 5,066	\$ 4,656	9 %
Broadcasting	1,432	1,416	1 %	2,953	2,867	3 %
	\$ 3,844	\$ 3,620	6 %	\$ 8,019	\$ 7,523	7 %
Segment operating income:						
Cable Networks	\$ 1,183	\$ 1,144	3 %	\$ 1,727	\$ 1,661	4 %
Broadcasting	123	162	(24) %	303	300	1 %
	\$ 1,306	\$ 1,306	%	\$ 2,030	\$ 1,961	4 %

Revenues

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Media Networks revenues increased 6%, or \$224 million, to \$3.8 billion, consisting of a 9% increase, or \$208 million, at the Cable Networks and a 1% increase, or \$16 million, at Broadcasting.

Increased Cable Networks revenues were primarily due to growth of \$170 million from Affiliate Fees and \$33 million from advertising revenues. The increase in Affiliate Fees was primarily due to an increase at ESPN and, to a lesser extent, at the worldwide Disney Channels. The increase at ESPN was due to higher contractual rates and subscriber growth, which was driven by the launch of a new network in the United Kingdom. The increase at the worldwide Disney Channels reflected higher contractual rates and subscriber growth. Higher advertising revenue was driven by an increase at ESPN due to higher sold inventory, partially offset by lower ratings and, to a lesser extent, at the worldwide Disney Channels.

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

Increased Broadcasting revenues were primarily due to higher advertising revenues at the owned television stations and higher third party network license fees for *Criminal Minds*, partially offset by lower primetime and news advertising revenues at the ABC Television Network. Decreased primetime advertising revenues at the ABC Television Network reflected lower ratings, partially offset by higher rates and sold inventory.

Costs and Expenses

Costs and expenses, which consist primarily of programming rights costs, production costs, participation costs, distribution and marketing expenses and general and administrative costs, increased 9%, or \$232 million, to \$2.7 billion, consisting of a 15% increase, or \$176 million, at the Cable Networks and a 4% increase, or \$56 million, at Broadcasting. The increase at Cable Networks was driven by higher rights costs at ESPN due to programming costs for the new network in the United Kingdom and increased contractual costs for college basketball and NBA programming as well as higher programming costs and sales and distribution expenses at the worldwide Disney Channels. The increase at Broadcasting reflected higher production cost amortization related to sales of ABC Studios productions and an increase in primetime programming costs at the ABC Television Network, partially offset by lower bad debt expense driven by recoveries of previously reserved syndication customer receivables.

Segment Operating Income

Segment operating income was unchanged from the prior year at \$1.3 billion reflecting an increase of \$39 million at the Cable Networks offset by a decrease of \$39 million at Broadcasting. The increase at the Cable Networks was primarily due to growth at ESPN. The decrease at Broadcasting was primarily due to decreased advertising revenue at the ABC Television Network, higher production cost amortization related to sales of ABC Studios productions and higher primetime programming costs, partially offset by higher advertising revenue at the owned television stations and lower bad debt expense.

Restructuring and impairment charges

The Company recorded charges totaling \$10 million and \$208 million for the current quarter and prior-year quarter, respectively. The charges in the prior-year quarter were primarily due to \$108 million of radio FCC license impairments and \$46 million of impairment related to our investment in UTV Group. The charges were reported in *Restructuring and impairment charges* in the Consolidated Statements of Income.

Parks and Resorts

Revenues

Parks and Resorts revenues increased 2%, or \$42 million, to \$2.4 billion due to increases of \$19 million at our domestic operations and \$23 million at our international operations.

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

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

	East Coast Quarter Ended		West Coast Quarter Ended		Total Domestic Quarter Ended	
	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
Parks						
<i>(Increase/decrease)</i>						
Attendance	(6) %	(1) %	%	2 %	(4) %	%
Per Capita Guest Spending	5 %	(4) %	5 %	(10) %	5 %	(6) %
Hotels ⁽¹⁾						
Occupancy	81 %	89 %	67 %	69 %	79 %	87 %
Available Room Nights (in thousands)	2,195	2,134	221	200	2,416	2,334
Per Room Guest Spending	\$ 218	\$ 199	\$ 296	\$ 320	\$ 224	\$ 207

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

At our domestic operations, increased revenues reflected higher guest spending partially offset by decreased attendance and occupied room nights at our parks and resorts and higher promotional activity at Disney Cruise Line. Higher guest spending was primarily due to higher average ticket prices. Decreased attendance in part reflected an unfavorable net impact due to a shift in the timing of the New Year's and Easter Holiday periods relative to our fiscal periods.

Increased revenues at our international operations reflected the favorable impact of foreign currency translation as a result of the weakening of the U.S. dollar against the Euro and increased attendance and hotel occupancy at Hong Kong Disneyland Resort, partially offset by lower attendance and hotel occupancy at Disneyland Paris.

Costs and Expenses

Costs and expenses, which consist primarily of labor, depreciation, costs of merchandise, food and beverage sold, marketing and sales expense, repairs and maintenance and entertainment, increased 3%, or \$63 million, to \$2.3 billion. Higher costs were driven by increases at Disneyland Paris, the domestic parks and resorts and Disney Cruise Line. The increase at Disneyland Paris was due to the unfavorable impact of foreign currency translation as a result of the weakening of the U.S. dollar against the Euro. The increase at our domestic parks and resorts reflected labor and other cost inflation and higher pension and postretirement medical costs, partially offset by lower volume-related costs and savings from cost mitigation activities. The increase at Disney Cruise Line was due to higher fuel costs.

Segment Operating Income

Segment operating income decreased 12% to \$150 million primarily due to a decline at Disney Cruise Line.

Restructuring and impairment charges

The Company recorded charges totaling \$52 million in the prior-year quarter for severance and related costs which were reported in Restructuring and impairment charges in the Consolidated Statements of Income.

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

Studio Entertainment

Revenues

Revenues for the quarter increased 7%, or \$101 million, to \$1.5 billion primarily due to an increase of \$179 million in worldwide theatrical distribution partially offset by a decrease of \$82 million in worldwide home entertainment.

The revenue growth in worldwide theatrical distribution reflected the strong performance of *Alice in Wonderland* in the current quarter compared to the prior-year quarter, which included *Bedtime Stories* in domestic and international markets and *Bolt* in international markets.

The decrease in worldwide home entertainment was primarily due to a decline in unit sales of new releases domestically and, to a lesser extent, lower net effective sale prices in international markets. These decreases were partially offset by lower returns on catalog titles. Current quarter domestic titles included *Princess and the Frog*, *Old Dogs* and *Surrogates* while the prior-year quarter included *Bolt*, *Beverly Hills Chihuahua* and *High School Musical 3: Senior Year*.

Costs and Expenses

Costs and expenses, which consist primarily of production cost amortization, distribution and marketing expenses, product costs and participation costs, decreased 8%, or \$109 million, primarily due to lower distribution and marketing expenses in worldwide home entertainment driven by cost reduction initiatives and lower domestic unit sales.

Segment Operating Income

Segment operating income increased \$210 million to \$223 million due to increases in worldwide theatrical distribution.

Restructuring and impairment charges

The Company recorded charges totaling \$55 million in the current quarter and \$2 million in the prior-year quarter. The current quarter charges were primarily related to the closure of a production facility and are reported in Restructuring and impairment charges in the Consolidated Statements of Income.

Consumer Products

Revenues

Revenues for the quarter increased 20%, or \$100 million, to \$596 million, driven by increases of \$47 million at Publishing, \$40 million at Merchandise Licensing, and \$19 million at our retail business.

The increase at Publishing was driven by sales of Marvel comics and books and *Percy Jackson* titles. Merchandise Licensing revenue growth was driven by the strong performance of *Toy Story* and Marvel merchandise. Higher revenues at our retail business were driven by increased comparable store sales at the Disney Stores North America.

Costs and Expenses

Costs and expenses, which consist primarily of cost of sales, salaries and benefits, marketing, and occupancy, increased 16%, or \$64 million, primarily due to higher cost of sales at Publishing due to Marvel and intangible asset amortization resulting from the acquisition of Marvel.

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

Operating Income

Segment operating income increased 37%, or \$36 million, to \$133 million, primarily due to higher results at Merchandise Licensing, Publishing and at our retail business.

Restructuring and impairment charges

The Company recorded charges totaling \$2 million in the current quarter and \$8 million in the prior-year quarter for severance and related costs which were reported in Restructuring and impairment charges in the Consolidated Statements of Income.

Interactive Media

Revenues

Interactive Media revenues for the quarter increased 20%, or \$26 million, to \$155 million primarily due to an increase of \$20 million at Disney Online. The revenue growth at Disney Online was driven by increased Club Penguin subscription revenues. Revenues at Disney Interactive Studios were comparable to the prior-year quarter as higher unit sales were offset by lower net effective pricing due to higher sales mix of catalog titles.

Costs and Expenses

Costs and expenses, which consist primarily of video game and internet product development costs, cost of sales, distribution and marketing expenses, general and administrative costs, and technology infrastructure costs, increased 9%, or \$17 million, to \$210 million.

Higher costs and expenses were primarily due to higher product development and sales and marketing costs at Disney Online, partially offset by decreased video game inventory costs.

Operating Loss

Segment operating loss decreased 10% to \$55 million due to higher Club Penguin subscription revenues and lower video game cost of sales, partially offset by higher internet product development and sales and marketing costs.

Restructuring and impairment charges

The Company recorded charges totaling \$29 million in the prior-year quarter primarily for goodwill impairment which were reported in Restructuring and impairment charges in the Consolidated Statements of Income.

BUSINESS SEGMENT RESULTS Six Month Results

Media Networks

Revenues

Media Networks revenues increased 7%, or \$496 million, to \$8.0 billion, consisting of a 9% increase, or \$410 million, at the Cable Networks and a 3% increase, or \$86 million, at Broadcasting.

Increased Cable Networks revenues were primarily due to growth of \$339 million from Affiliate Fees and \$77 million from advertising revenues. The increase in Affiliate Fees was primarily due to increases at ESPN resulting from higher contractual rates and subscriber growth, including growth from the launch of a new network in the United Kingdom and, to a lesser extent, at the worldwide Disney Channels due to rate increases domestically and subscriber growth internationally. Higher advertising revenue was due to an increase at ESPN driven by higher sold

inventory, partially offset by lower rates.

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

Increased Broadcasting revenues were primarily due to higher revenues from ABC Studios productions driven by increased international sales led by *Ugly Betty* and *Ghost Whisperer* and higher third party network license fees for *Criminal Minds*, partially offset by decrease advertising revenue. Lower advertising revenue reflected lower primetime advertising revenues at the ABC Television Network, partially offset by higher sports advertising revenues from the college Bowl Championship Series (BCS) national championship game, which was not broadcast by ABC in the prior year, and an increase at the owned television stations.

Costs and Expenses

Costs and expenses increased 7%, or \$386 million, to \$6.2 billion, consisting of a 9% increase, or \$305 million, at the Cable Networks and a 3% increase, or \$81 million, at Broadcasting. The increase at Cable Networks was driven by higher rights and production costs at ESPN due to programming costs for the new network in the United Kingdom and increased contractual costs for college basketball, college football, NFL and NBA programming and higher programming costs at the worldwide Disney Channel. The increase at Broadcasting reflected higher production cost amortization driven by increased sales of ABC Studios productions and an increase in programming costs at the ABC Television Network, including costs for the BCS national championship game. These increases were partially offset by the absence of a bad debt charge which was recorded in the prior year in connection with the bankruptcy of a syndication customer.

Segment Operating Income

Segment operating income increased 4% to \$2.0 billion due to increases of \$66 million at Cable Networks and \$3 million at Broadcasting. The increase at the Cable Networks was primarily due to growth at ESPN. The increase at Broadcasting was primarily due the absence of a bad debt charge which was recorded in the prior year in connection with the bankruptcy of a syndication customer and higher advertising revenue at the owned television stations, partially offset by decreased primetime advertising revenue at the ABC Television Network.

Restructuring and impairment charges

The Company recorded charges totaling \$44 million and \$208 million for the current and prior year six-month periods, respectively. The charges in the current six-month period related to severance and related costs, while the charges in the prior-year six-month period were primarily due to \$108 million of radio FCC license impairments and \$46 million of impairment related to our investment in UTV Group. These charges were reported in Restructuring and impairment charges in the Consolidated Statements of Income.

Parks and Resorts

Revenues

Parks and Resorts revenues increased 1%, or \$39 million, to \$5.1 billion due to increases of \$17 million at our domestic operations and \$22 million at our international operations.

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

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

	East Coast Six Months Ended		West Coast Six Months Ended		Total Domestic Six Months Ended	
	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
Parks						
(Increase/decrease)						
Attendance	(1) %	(3) %	10 %	(2) %	3 %	(3) %
Per Capita Guest Spending	%	(2) %	1 %	(7) %	%	(3) %
Hotels ⁽¹⁾						
Occupancy	81 %	87 %	72 %	77 %	80 %	86 %
Available Room Nights (in thousands)	4,363	4,245	439	399	4,802	4,644
Per Room Guest Spending	\$ 221	\$ 209	\$ 303	\$ 327	\$ 228	\$ 218

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

At our domestic operations, increased revenues reflected higher attendance and guest spending at our parks and resorts, partially offset by decreased sales of ownership interests at Disney Vacation Club, decreased occupied room nights at our resorts and higher promotional activity at Disney Cruise Line. Higher guest spending was primarily due to higher average ticket prices and daily hotel room rates, partially offset by lower food, beverage and merchandise spending.

Increased revenues at our international operations reflected the favorable impact of foreign currency translation as a result of the weakening of the U.S. dollar against the Euro, partially offset by decreased attendance and occupied room nights at Disneyland Paris.

Costs and Expenses

Costs and expenses increased 1%, or \$67 million, to \$4.6 billion. Higher costs were driven by increases at Disneyland Paris and the domestic parks and resorts, partially offset by a decrease at Disney Vacation Club. The increase at Disneyland Paris was due to the unfavorable impact of foreign currency translation as a result of the weakening of the U.S. dollar against the Euro. The increase at our domestic parks and resorts reflected labor and other cost inflation and higher pension and postretirement medical costs, partially offset by savings from cost mitigation activities and lower volume-related expenses. The decrease at Disney Vacation Club reflected lower cost of vacation ownership interests due to decreased sales.

Segment Operating Income

Segment operating income decreased 5% to \$525 million driven by a decrease at Disneyland Paris.

Restructuring and impairment charges

The Company recorded charges totaling \$52 million in the prior-year six-month period for severance and related costs which were reported in Restructuring and impairment charges in the Consolidated Statements of Income.

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

Studio Entertainment

Revenues

Revenues increased 3%, or \$91 million, to \$3.5 billion driven by an increase of \$281 million in worldwide theatrical distribution, partially offset by a decrease of \$155 million in worldwide home entertainment.

The revenue growth in worldwide theatrical distribution reflected the strong performance of *Alice in Wonderland* in the current period. Other significant current period titles included *A Christmas Carol* and *Princess and the Frog* while the prior-year period included *Bolt* and *High School Musical 3: Senior Year*.

The decrease in worldwide home entertainment was primarily due to lower net effective sales prices and decreased television series DVD unit sales internationally and a decline in unit sales of new releases domestically. Key current period titles included *Up*, *Snow White Diamond Release* and *Tinker Bell And The Lost Treasure* while the prior-year period included *WALL-E*, *The Chronicles of Narnia: Prince Caspian* and *Tinker Bell*.

Costs and Expenses

Costs and expenses decreased 6%, or \$175 million, primarily due to a decrease in worldwide home entertainment partially offset by an increase in international theatrical distribution.

Lower costs and expenses in worldwide home entertainment were primarily due to decreased distribution and marketing expenses resulting from cost reduction initiatives and lower unit sales in the domestic market. The increase in international theatrical distribution was due to higher amortization and marketing expenses driven by more titles in wide release in the current period.

Segment Operating Income

Segment operating income increased \$266 million to \$466 million due to higher results in domestic home entertainment and worldwide theatrical distribution.

Restructuring and impairment charges

The Company recorded charges totaling \$122 million for the current six months and \$2 million in the prior year six-month period. The current-year six month charges were primarily related to the write-off of capitalized costs related to abandoned film projects, the closure of a production facility and, severance and related costs which are reported in *Restructuring and impairment charges* in the Consolidated Statements of Income.

Consumer Products

Revenues

Revenues for the six months increased 6%, or \$73 million, to \$1.3 billion, primarily due to increases of \$38 million at Publishing driven by sales of Marvel comics and books and \$36 million at our retail business driven by higher comparable store sales at the Disney Stores North America.

Merchandise Licensing revenues were comparable to the prior-year period as the strong performance of *Toy Story* merchandise and revenues from Marvel properties were offset by lower performance of *High School Musical* and *Hannah Montana* merchandise.

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

Costs and Expenses

Costs and expenses increased 7%, or \$59 million primarily due to higher cost of sales at Publishing due to Marvel, and an increase at our international retail operations driven by unfavorable foreign currency impacts.

Segment Operating Income

Segment operating income increased 4%, or \$14 million, to \$376 million, primarily due to an increase at The Disney Stores North America.

Restructuring and impairment charges

The Company recorded charges totaling \$2 million in the current six months and \$8 million in the prior-year six-month period for severance and related costs which were reported in Restructuring and impairment charges in the Consolidated Statements of Income.

Interactive Media

Revenues

Revenues for the six months decreased 15%, or \$66 million, to \$376 million primarily due to a decrease of \$99 million at Disney Interactive Studios partially offset by an increase of \$31 million at Disney Online.

The decrease at Disney Interactive Studios was primarily due to lower unit sales of self-published video games reflecting the strong performance of *High School Musical 3* and *Sing It* in the prior-year period. The revenue growth at Disney Online was driven by higher subscription revenues at Club Penguin and increased advertising sales.

Costs and Expenses

Costs and expenses decreased 20%, or \$110 million, to \$441 million driven by a decrease at Disney Interactive Studios partially offset by higher development costs at Disney Online.

The decrease at Disney Interactive Studios was primarily due to lower costs of sales driven by the decline in video game unit sales, lower inventory costs and reduced marketing expenses.

Operating Loss

Segment operating loss decreased 39% to \$65 million due to improvements at Disney Interactive Studios and Disney Online.

Restructuring and impairment charges

The Company recorded charges totaling \$29 million in the prior-year six-month period primarily for goodwill impairment which was reported in Restructuring and impairment charges in the Consolidated Statements of Income.

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

OTHER FINANCIAL INFORMATION**Corporate and Unallocated Shared Expenses**

Corporate and unallocated shared expenses are as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)	Six Months Ended		% Change Better/ (Worse)
	April 3, 2010	March 28, 2009		April 3, 2010	March 28, 2009	
Corporate and unallocated shared expenses	\$ 91	\$ 92	1 %	\$ 163	\$ 172	5 %
Net Interest Expense						

Net interest expense is as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)	Six Months Ended		% Change Better/ (Worse)
	April 3, 2010	March 28, 2009		April 3, 2010	March 28, 2009	
Interest expense	\$ (147)	\$ (150)	2 %	\$ (265)	\$ (318)	17 %
Interest and investment income	17	22	(23) %	32	51	(37) %
Net interest expense	\$ (130)	\$ (128)	(2) %	\$ (233)	\$ (267)	13 %

The decrease in interest expense for the quarter and six months was primarily due to lower effective interest rates. For the quarter, the decrease in interest expense was partially offset by expense related to the early redemption of a film financing borrowing.

The decrease in interest and investment income for the quarter and six months was primarily due to lower effective interest rates.

Income Taxes

The effective income tax rate is as follows:

Effective Income Tax Rate	Quarter Ended		Change Better/ (Worse)	Six Months Ended		Change Better/ (Worse)
	April 3, 2010	March 28, 2009		April 3, 2010	March 28, 2009	
	35.0 %	34.8 %	(0.2) ppt	35.5 %	35.7 %	0.2 ppt

The effective income tax rate for the current-year quarter and six months was comparable to the rate for the respective prior-year periods. The current-year periods were impacted by the favorable resolution of certain prior-year income tax matters, largely offset by a \$72 million charge related to the enactment of health care reform legislation in March 2010. Under this legislation the Company's deductions for retiree prescription drug benefits will be reduced by the amount of Medicare Part D drug subsidies received beginning in fiscal year 2014. Under applicable accounting rules, the Company is required to reduce its existing deferred tax asset, which was established for the future deductibility of retiree prescription drug benefit costs, to reflect the lost deductions. The reduction must be recorded as a charge to earnings in the period the legislation is enacted.

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

FINANCIAL CONDITION

The change in cash and cash equivalents is as follows:

(in millions)	Six Months Ended		Change Better/(Worse)
	April 3, 2010	March 28, 2009	
Cash provided by operations	\$ 2,489	\$ 2,067	\$ 422
Cash used in investing activities	(2,978)	(713)	(2,265)
Cash provided by (used by) financing activities	147	(986)	1,133
(Decrease)/increase in cash and cash equivalents	\$ (342)	\$ 368	\$ (710)

Operating Activities

The increase in cash provided by operations was driven by higher segment operating results.

Film and Television Costs

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

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

The Company's film and television production and programming activity for the six months ended April 3, 2010 and March 28, 2009 are as follows:

(in millions)	Six Months Ended	
	April 3, 2010	March 28, 2009
Beginning balances:		
Production and programming assets	\$ 5,756	\$ 5,935
Programming liabilities	(1,040)	(1,108)
	4,716	4,827
Spending:		
Film and television production	1,796	1,807
Broadcast programming	2,639	2,246
	4,435	4,053
Amortization:		
Film and television production	(1,684)	(1,576)
Broadcast programming	(2,270)	(1,940)
	(3,954)	(3,516)
Change in film and television production and programming costs	481	537
Other non-cash activity	62	(44)
Ending balances:		
Production and programming assets	6,141	6,374
Programming liabilities	(882)	(1,054)
	\$ 5,259	\$ 5,320

Investing Activities

Cash used by investing activities during the six months ended April 3, 2010 of \$3.0 billion included \$2.3 billion for the cash portion of the Marvel Entertainment, Inc. acquisition (see Note 3 to the Condensed Consolidated Financial Statements for further details) and \$807 million of investments in parks, resorts and other property, partially offset by proceeds totaling \$115 million from the sales of investments in pay television services in Europe.

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

During the six months ended April 3, 2010 and March 28, 2009, investment in parks, resorts and other properties were as follows:

(in millions)	Six Months Ended	
	April 3, 2010	March 28, 2009
Media Networks		
Cable Networks	\$ 31	\$ 51
Broadcasting	29	64
Total Media Networks	60	115
Parks and Resorts		
Domestic	559	457
International	85	46
Total Parks and Resorts	644	503
Studio Entertainment	38	83
Consumer Products	24	13
Interactive Media	7	10
Corporate	34	25
Total investment in parks, resorts and other property	\$ 807	\$ 749

The increase in capital expenditures for the six months reflected the expansion at Disney's California Adventure and Hong Kong Disneyland, the construction of a Disney Vacation Resort in Hawaii and higher construction progress payments on two new cruise ships, partially offset by the construction of broadcast and film production facilities in the prior-year six month period.

Financing Activities

Cash provided by financing activities during the six months ended April 3, 2010 of \$147 million reflected proceeds from stock option exercises and net borrowings, partially offset by dividend payments and repurchases of common stock. The change in cash provided by/used in financing activities from the prior-year six-month period was driven by higher proceeds from stock option exercises and net borrowings and the purchase in the prior-year six-month period of additional interests in Jetix Europe N.V. which was included in "Other financing activities" in the Consolidated Statement of Cash Flows.

During the six months ended April 3, 2010, the Company's borrowing activity was as follows:

	October 3, 2009	Additions	Payments	Other Activity	April 3, 2010
Commercial paper borrowings	\$	\$ 974	\$	\$	\$ 974
U.S. medium-term notes	7,618			2	7,620
European medium-term notes	347		(88)	(8)	251
Other foreign currency denominated debt	904			(4)	900
Film financing	350		(93)	18	275

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Other	614			(32)	582
Euro Disney borrowings ⁽¹⁾	2,344		(62)	(140)	2,142
Hong Kong Disneyland borrowings	524			(27)	497
Total	\$ 12,701	\$ 974	\$ (243)	\$ (191)	\$ 13,241

⁽¹⁾ The other activity is primarily the impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Euro.

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

The Company's bank facilities as of April 3, 2010 were as follows:

(in millions)	Committed Capacity	Capacity Used	Unused Capacity
Bank facilities expiring February 2011	\$ 2,225	\$ 235	\$ 1,990
Bank facilities expiring February 2013	2,250		2,250
Total	\$ 4,475	\$ 235	\$ 4,240

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 0.18% to 4.50%. As of April 3, 2010, the Company had not borrowed under these bank facilities. The Company also has the ability to issue up to \$800 million of letters of credit under the facility expiring in February 2011, which if utilized, reduces available borrowings under this facility. As of April 3, 2010, \$235 million of letters of credit had been issued under this facility.

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

On December 2, 2009, the Company declared a \$653 million dividend (\$0.35 per share) related to fiscal 2009 for shareholders of record on December 14, 2009, which was paid on January 19, 2010. On December 3, 2008, the Company declared a \$648 million dividend (\$0.35 per share) related to fiscal 2008 for shareholders of record on December 15, 2008, which was paid on January 20, 2009.

During the six months ended April 3, 2010, the Company repurchased 8 million shares of its common stock for approximately \$240 million. As of April 3, 2010, the Company had remaining authorization in place to repurchase approximately 171 million additional shares. The repurchase program does not have an expiration date.

We believe that the Company's financial condition is strong and that its cash balances, other liquid assets, operating cash flows, access to debt and equity capital markets and borrowing capacity, taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects. However, the Company's operating cash flow and access to the capital markets can be impacted by macroeconomic factors outside of its control. In addition to macroeconomic factors, the Company's borrowing costs can be impacted by short and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on the Company's performance as measured by certain credit metrics such as interest coverage and leverage ratios. As of April 3, 2010, Moody's Investors Service's long and short-term debt ratings for the Company were A2 and P-1, respectively, with stable outlook; Standard & Poor's long and short-term debt ratings for the Company were A and A-1, respectively, with negative outlook; and Fitch's long and short-term debt ratings for the Company were A and F-1, respectively, with stable outlook. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on April 3, 2010, by a significant margin. The Company's bank facilities also specifically exclude certain entities, such as Euro Disney and Hong Kong Disneyland, from any representations, covenants or events of default.

Euro Disney has annual covenants under its debt agreements that limit its investment and financing activities and require it to meet certain financial performance covenants. Euro Disney was in compliance with these covenants for fiscal 2009.

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

COMMITMENTS AND CONTINGENCIES

Legal Matters

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

Guarantees

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

Tax Matters

As disclosed in Note 10 to the Consolidated Financial Statements in the 2009 Annual Report on Form 10-K as amended on Form 8-K dated February 18, 2010, the Company has exposure for certain tax matters.

Contractual Commitments

Refer to Note 15 in the Consolidated Financial Statements in the 2009 Annual Report on Form 10-K as amended on Form 8-K dated February 18, 2010 for information regarding the Company's contractual commitments.

OTHER MATTERS

Accounting Policies and Estimates

We believe that the application of the following accounting policies, which are important to our financial position and results of operations, require significant judgments and estimates on the part of management. For a summary of our significant accounting policies, including the accounting policies discussed below, see Note 2 to the Consolidated Financial Statements in the 2009 Annual Report on Form 10-K as amended on Form 8-K dated February 18, 2010.

Film and Television Revenues and Costs

We expense film and television production, participation and residual costs over the applicable product life cycle based upon the ratio of the current period's revenues to the estimated remaining total revenues (Ultimate Revenues) for each production. If our estimate of Ultimate Revenues decreases, amortization of film and television costs may be accelerated. Conversely, if estimates of Ultimate Revenues increase, film and television cost amortization may be slowed. For film productions, Ultimate Revenues include revenues from all sources that will be earned within ten years from the date of the initial theatrical release. For television series, we include revenues that will be earned within ten years from delivery of the first episode, or if still in production, five years from 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 popularity of competing films at the time of release and 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 number and quality of competing home video products as well as the manner in which retailers market and price our products.

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

With respect to television series or other television productions intended for broadcast, the most sensitive factor affecting estimates of Ultimate Revenues is the program's rating and the strength of the advertising market. 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. A significant decline in the advertising market would also negatively impact our estimates.

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 during the applicable seasons based on the estimated relative value of each year in the arrangement. The estimated values of each year are based on our projection of revenues over the contract period which include advertising revenue and an allocation of affiliate revenue. If the annual contractual payments related to each season approximate each season's relative value, we expense the related contractual payment during the applicable season. If planned usage patterns or estimated relative values by year were to change significantly, amortization of our sports rights costs may be accelerated or slowed.

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

Revenue Recognition

The Company has revenue recognition policies for its various operating segments that are appropriate to the circumstances of each business. See Note 2 to the Consolidated Financial Statements in the 2009 Annual Report on Form 10-K as amended on Form 8-K dated February 18, 2010 for a summary of these revenue recognition policies.

We reduce 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.

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

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, which is derived from historical usage patterns. If actual usage is different than our estimated usage, revenues may not be recognized in the periods the related services are rendered. In addition, a change in usage patterns would impact the timing of revenue recognition.

Pension and Postretirement Medical Plan Actuarial Assumptions

The Company's pension and postretirement medical benefit obligations and related costs are calculated using a number of actuarial assumptions. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement which we evaluate annually. Refer to the 2009 Annual Report on Form 10-K as amended on Form 8-K dated February 18, 2010 for estimated impacts of changes in these assumptions. Other assumptions include the healthcare cost trend rate and employee demographic factors such as retirement patterns, mortality, turnover and rate of compensation increase.

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

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

Goodwill, Intangible Assets and Investments

The Company is required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and between annual tests if current events or circumstances require an interim impairment assessment. Goodwill is allocated to various reporting units, which are generally an operating segment or one reporting level below the operating segment. The Company compares the fair value of each reporting unit to its carrying amount 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. We apply what we believe to be the most appropriate valuation methodology for each of our reporting units. The discounted cash flow analyses are sensitive to our estimates of future revenue growth and margins for these businesses. We include in the projected cash flows an estimate of the revenue we believe the reporting unit would receive if the intellectual property developed by the reporting unit that is being used by other reporting units was licensed to an unrelated third party at its fair market value. These amounts are not necessarily the same as those included in segment operating results. We believe our estimates of fair value are consistent with how a marketplace participant would value our reporting units.

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

In times of adverse economic conditions in the global economy, the Company's long-term cash flow projections are subject to a greater degree of uncertainty than usual. If we had established different reporting units or utilized different valuation methodologies or assumptions, the impairment test results could differ, and we could be required to record impairment charges. Because of the way the accounting rules work, a relatively modest reduction in our estimate of the fair value of our Broadcasting reporting unit could result in a significant goodwill impairment charge.

The Company is required 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 the potential impairment for these investments, we consider these factors, as well as the forecasted financial performance of our investees and market values, where available. If these forecasts are not met or market values indicate an other-than-temporary decline in value, impairment charges may be required.

Allowance for Doubtful Accounts

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

Contingencies and Litigation

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

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

Income Tax Audits

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

Stock Option Compensation Expense

Compensation expense for stock options is estimated on the date of grant using a binomial valuation model. The weighted average assumptions used in the binomial valuation model during the six months ended April 3, 2010 were 32% for the expected volatility, 1.4 for the expected exercise multiple (the multiple of exercise price to grant price at which exercises are expected to occur on average) and 3% for the expected termination rate. Although the initial fair value of stock options is not adjusted after the grant date, changes in the Company's assumptions may change the estimated fair value of and therefore, the expense related to future stock option grants. The assumptions that cause the greatest variation in fair value in the binomial valuation model are the assumed volatility and expected exercise multiple. Increases or decreases in either the assumed volatility or expected exercise multiple will cause the binomial option value to increase or decrease, respectively.

The volatility assumption considers both historical and implied volatility and may be impacted by the Company's performance as well as changes in economic and market conditions. The expected exercise multiple may be influenced by the Company's future stock performance, stock price volatility and employee turnover rate. Refer to the 2009 Annual Report on Form 10-K as amended on Form 8-K dated February 18, 2010 for estimated impacts of changes in these assumptions.

New Accounting Pronouncements

See Note 12 to the Condensed Consolidated Financial Statements for information regarding new accounting pronouncements.

MARKET RISK

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

Policies and Procedures

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

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

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

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

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

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

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

Item 4. Controls and Procedures

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

Based on their evaluation as of April 3, 2010, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

There have been no changes in our internal controls over financial reporting during the second quarter of fiscal 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements made by or on behalf of the Company. We may from time to time make written or oral statements that are forward-looking, including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to our shareholders. All forward-looking statements are made on the basis of management's views and assumptions regarding future events and business performance as of the time the statements are made and the Company does not undertake any obligation to update its disclosure relating to forward looking matters. Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments or asset acquisitions or dispositions), as well as from developments beyond the Company's control, including: changes in domestic and global economic conditions, competitive conditions and consumer preferences; adverse weather conditions or natural disasters; health concerns; international, political or military developments; and technological developments. Such developments may affect travel and leisure businesses generally and may, among other things, affect the performance of the Company's theatrical and home entertainment releases, the advertising market for broadcast and cable television programming, expenses of providing medical and pension benefits, demand for our products and performance of some or all company businesses either directly or through their impact on those who distribute our products. Additional factors are discussed in the 2009 Annual Report on Form 10-K under the Item 1A, Risk Factors.

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

The following table provides information about Company purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended April 3, 2010:

Period		Total Number of Shares Purchased ⁽¹⁾	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
January 3, 2010	February 3, 2010	508,920	\$ 30.98		178 million
February 4, 2009	March 3, 2010	3,890,021	30.84	3,775,900	174 million
March 4, 2010	April 3, 2010	3,024,406	33.67	2,930,200	171 million
Total		7,423,347	32.00	6,706,100	171 million

⁽¹⁾ 717,247 shares were purchased on the open market to provide shares to participants in the Walt Disney Investment Plan (WDIP) and Employee Stock Purchase Plan (ESPP). These purchases were not made pursuant to a publicly announced repurchase plan or program.

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

PART II. OTHER INFORMATION (continued)

ITEM 6. Exhibits

See Index of Exhibits.

SIGNATURE

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

THE WALT DISNEY COMPANY
(Registrant)

By: /s/ JAMES A. RASULO
James A. Rasulo,

Senior Executive Vice President and

Chief Financial Officer

May 11, 2010

Burbank, California

INDEX OF EXHIBITS

Number and Description of Exhibit	Document Incorporated by Reference from a Previous Filing or Filed
(Numbers Coincide with Item 601 of Regulation S-K)	Herewith, as Indicated below
3.1 Restated Certificate of Incorporation	Exhibit 3.1 to the Current Report on Form 8-K of the Company filed March 16, 2010
3.2 Bylaws	Exhibit 3.2 to the Current Report on Form 8-K of the Company filed March 16, 2010
10.1 Three-Year Credit Agreement dated as of February 22, 2010.	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed February 25, 2010
10.2 Amended and Restated 2005 Stock Incentive Plan	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed March 16, 2010
31(a) Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31(b) Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32(a) Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*	Furnished
32(b) Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*	Furnished
101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended April 3, 2010 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, (iv) the Condensed Consolidated Statement of Equity and (v) related notes, tagged as blocks of text	Furnished

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