

WALT DISNEY CO/  
Form 10-Q  
May 06, 2014

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  
March 29, 2014

Commission File Number 1-11605

Incorporated in Delaware

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

500 South Buena Vista Street, Burbank, California 91521  
(818) 560-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant 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). Yes  No

There were 1,731,844,061 shares of common stock outstanding as of April 30, 2014.

## 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	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Revenues	\$11,649	\$10,554	\$23,958	\$21,895
Costs and expenses	(8,668 )	(8,359 )	(18,312 )	(17,608 )
Restructuring and impairment charges	(48 )	(61 )	(67 )	(61 )
Other income/(expense), net	(37 )	10	(31 )	(92 )
Interest income/(expense), net	62	(54 )	111	(126 )
Equity in the income of investees	217	185	456	295
Income before income taxes	3,175	2,275	6,115	4,303
Income taxes	(1,119 )	(654 )	(2,155 )	(1,244 )
Net income	2,056	1,621	3,960	3,059
Less: Net income attributable to noncontrolling interests	(139 )	(108 )	(203 )	(164 )
Net income attributable to The Walt Disney Company (Disney)	\$1,917	\$1,513	\$3,757	\$2,895
Earnings per share attributable to Disney:				
Diluted	\$1.08	\$0.83	\$2.11	\$1.60
Basic	\$1.10	\$0.84	\$2.14	\$1.62
Weighted average number of common and common equivalent shares outstanding:				
Diluted	1,770	1,825	1,777	1,813
Basic	1,750	1,804	1,756	1,791
Dividends declared per share	\$—	\$—	\$0.86	\$0.75

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (unaudited; in millions)

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Net income	\$2,056	\$1,621	\$3,960	\$3,059
Other comprehensive income/(loss), net of tax:				
Market value adjustments for investments	(36 )	5	(55 )	22
Market value adjustments for hedges	(64 )	111	(33 )	170
Pension and postretirement medical plan adjustments	39	67	64	140
Foreign currency translation and other	(25 )	(21 )	(11 )	(19 )
Other comprehensive income/(loss)	(86 )	162	(35 )	313
Comprehensive income	1,970	1,783	3,925	3,372
Less: Net income attributable to noncontrolling interests	(139 )	(108 )	(203 )	(164 )
Less: Other comprehensive (income)/loss attributable to noncontrolling interests	24	(2 )	16	(15 )
Comprehensive income attributable to Disney	\$1,855	\$1,673	\$3,738	\$3,193
See Notes to Condensed Consolidated Financial Statements				

THE WALT DISNEY COMPANY  
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited; in millions, except per share data)

	March 29, 2014	September 28, 2013
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$4,078	\$3,931
Receivables	7,588	6,967
Inventories	1,343	1,487
Television costs and advances	937	634
Deferred income taxes	478	485
Other current assets	622	605
Total current assets	15,046	14,109
Film and television costs	5,067	4,783
Investments	2,750	2,849
Parks, resorts and other property		
Attractions, buildings and equipment	41,759	41,192
Accumulated depreciation	(23,294)	(22,459)
	18,465	18,733
Projects in progress	3,030	2,476
Land	1,186	1,171
	22,681	22,380
Intangible assets, net	7,262	7,370
Goodwill	27,350	27,324
Other assets	2,424	2,426
Total assets	\$82,580	\$81,241
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Accounts payable and other accrued liabilities	\$6,581	\$6,803
Current portion of borrowings	4,695	1,512
Unearned royalties and other advances	3,886	3,389
Total current liabilities	15,162	11,704
Borrowings	10,909	12,776
Deferred income taxes	4,228	4,050
Other long-term liabilities	4,641	4,561
Commitments and contingencies (Note 11)		
Equity		
Preferred stock, \$.01 par value	—	—
Authorized – 100 million shares, Issued – none		
Common stock, \$.01 par value	33,942	33,440
Authorized – 4.6 billion shares, Issued – 2.8 billion shares		
Retained earnings	49,989	47,758
Accumulated other comprehensive loss	(1,206)	(1,187)
	82,725	80,011
Treasury stock, at cost, 1.1 billion shares at March 29, 2014 and 1.0 billion shares at September 28, 2013	(37,836)	(34,582)
Total Disney Shareholders' equity	44,889	45,429

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Noncontrolling interests	2,751	2,721
Total equity	47,640	48,150
Total liabilities and equity	\$82,580	\$81,241

See Notes to Condensed Consolidated Financial Statements

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THE WALT DISNEY COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (unaudited; in millions)

	Six Months Ended	
	March 29, 2014	March 30, 2013
<b>OPERATING ACTIVITIES</b>		
Net income	\$3,960	\$3,059
Depreciation and amortization	1,141	1,064
Gains on sales of investments and dispositions	(280)	(245)
Deferred income taxes	176	(247)
Equity in the income of investees	(456)	(295)
Cash distributions received from equity investees	361	367
Net change in film and television costs and advances	(663)	(571)
Equity-based compensation	208	208
Other	(29)	119
Changes in operating assets and liabilities:		
Receivables	(469)	(76)
Inventories	134	137
Other assets	(31)	(1)
Accounts payable and other accrued liabilities	(282)	17
Income taxes	(31)	(232)
Cash provided by operations	3,739	3,304
<b>INVESTING ACTIVITIES</b>		
Investments in parks, resorts and other property	(1,359)	(1,119)
Sales of investments/proceeds from dispositions	366	350
Acquisitions	(13)	(2,310)
Other	(5)	89
Cash used in investing activities	(1,011)	(2,990)
<b>FINANCING ACTIVITIES</b>		
Commercial paper borrowings/(repayments), net	2,316	(245)
Borrowings	138	3,878
Reduction of borrowings	(1,084)	(788)
Dividends	(1,508)	(1,324)
Repurchases of common stock	(3,254)	(1,894)
Proceeds from exercise of stock options	295	354
Other	659	329
Cash (used in)/provided by financing activities	(2,438)	310
Impact of exchange rates on cash and cash equivalents	(143)	(59)
Increase in cash and cash equivalents	147	565
Cash and cash equivalents, beginning of period	3,931	3,387
Cash and cash equivalents, end of period	\$4,078	\$3,952
See Notes to Condensed Consolidated Financial Statements		



THE WALT DISNEY COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF EQUITY  
 (unaudited; in millions)

	Quarter Ended March 29, 2014			March 30, 2013		
	Disney Shareholders	Non- controlling Interests	Total Equity	Disney Shareholders	Non- controlling Interests	Total Equity
Beginning balance	\$44,324	\$2,972	\$47,296	\$41,016	\$2,354	\$43,370
Comprehensive income	1,855	115	1,970	1,673	110	1,783
Equity compensation activity	246	—	246	248	—	248
Common stock repurchases	(1,536 )	—	(1,536 )	(850 )	—	(850 )
Acquisition of Lucasfilm	—	—	—	2	—	2
Contributions	—	261	261	—	110	110
Distributions and other	—	(597 )	(597 )	—	(519 )	(519 )
Ending balance	\$44,889	\$2,751	\$47,640	\$42,089	\$2,055	\$44,144

See Notes to Condensed Consolidated Financial Statements



THE WALT DISNEY COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF EQUITY  
 (unaudited; in millions)

	Six Months Ended March 29, 2014			March 30, 2013		
	Disney Shareholders	Non- controlling Interests	Total Equity	Disney Shareholders	Non- controlling Interests	Total Equity
Beginning balance	\$45,429	\$2,721	\$48,150	\$39,759	\$2,199	\$41,958
Comprehensive income	3,738	187	3,925	3,193	179	3,372
Equity compensation activity	484	—	484	500	—	500
Dividends	(1,508 )	—	(1,508 )	(1,324 )	—	(1,324 )
Common stock repurchases	(3,254 )	—	(3,254 )	(1,894 )	—	(1,894 )
Acquisition of Lucasfilm	—	—	—	1,855	6	1,861
Contributions	—	441	441	—	181	181
Distributions and other	—	(598 )	(598 )	—	(510 )	(510 )
Ending balance	\$44,889	\$2,751	\$47,640	\$42,089	\$2,055	\$44,144

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 presentation of the results for the interim period. Operating results for the quarter and six months ended March 29, 2014 are not necessarily indicative of the results that may be expected for the year ending September 27, 2014. 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 2013 Annual Report on Form 10-K. The Company enters into relationships or investments with other entities in which it does not have majority ownership. In certain instances, the entity in which the Company has a relationship or investment may be a variable interest entity (VIE). A VIE is consolidated in the financial statements if the Company has the power to direct activities that most significantly impact the economic performance of the VIE and has the obligation to absorb losses (as defined by ASC 810-10-25-38) or the right to receive benefits from the VIE that could potentially be significant to the VIE. Disneyland Paris, Hong Kong Disneyland Resort (HKDL) and Shanghai Disney Resort (collectively the International Theme Parks) are VIEs. Company subsidiaries (the Management Companies) have management agreements with the International Theme Parks, which provide the Management Companies, subject to certain protective rights of joint venture partners, with the ability to direct the day-to-day operating activities and the development of business strategies that we believe most significantly impact the economic performance of the International Theme Parks. In addition, the Management Companies receive management fees under these arrangements that we believe could be significant to the International Theme Parks. Therefore, although the Company has less than a 50% direct ownership interest in the International Theme Parks, the Company has consolidated the International Theme Parks in its financial statements.

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

### 2. Segment Information

The operating segments reported below are the segments of the Company for which separate financial information is available and for which segment results are evaluated regularly by the Chief Executive Officer in deciding how to allocate resources and in assessing performance. The Company reports the performance of its operating segments including equity in the income of investees. Equity in the income of investees included in segment operating results is as follows:

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Media Networks				
Cable Networks	\$223	\$195	\$480	\$372
Broadcasting	(6 )	(10 )	(24 )	(23 )
Equity in the income of investees included in segment operating income	\$217	\$185	\$456	\$349

During the six months ended March 30, 2013, the Company recorded a \$55 million charge for our share of expense related to an equity redemption at Hulu LLC (Hulu Equity Redemption). This charge is recorded in "Equity in the

income of investees" in the Condensed Consolidated Statements of Income but has been excluded from segment operating income. See Note 3 for further discussion of the transaction.

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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	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Revenues <sup>(1)</sup> :				
Media Networks	\$5,134	\$4,957	\$10,424	\$10,058
Parks and Resorts	3,562	3,302	7,159	6,693
Studio Entertainment	1,800	1,338	3,693	2,883
Consumer Products	885	763	2,011	1,776
Interactive	268	194	671	485
	\$11,649	\$10,554	\$23,958	\$21,895
Segment operating income (loss) <sup>(1)</sup> :				
Media Networks	\$2,133	\$1,862	\$3,588	\$3,076
Parks and Resorts	457	383	1,128	960
Studio Entertainment	475	118	884	352
Consumer Products	274	200	704	546
Interactive	14	(54)	69	(45)
	\$3,353	\$2,509	\$6,373	\$4,889

<sup>(1)</sup> Studio Entertainment segment revenues and operating income include an allocation of Consumer Products revenues, which is meant to reflect royalties on sales of merchandise based on certain 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	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Studio Entertainment	\$58	\$48	\$121	\$103
Consumer Products	(58)	(48)	(121)	(103)
	\$—	\$—	\$—	\$—

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

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Segment operating income	\$3,353	\$2,509	\$6,373	\$4,889
Corporate and unallocated shared expenses	(155)	(129)	(271)	(252)
Restructuring and impairment charges	(48)	(61)	(67)	(61)
Other income/(expense), net	(37)	10	(31)	(92)
Interest income/(expense), net	62	(54)	111	(126)
Hulu Equity Redemption	—	—	—	(55)
Income before income taxes	\$3,175	\$2,275	\$6,115	\$4,303

### 3. Acquisitions

#### Maker Studios

In March 2014, the Company entered into an agreement to acquire all the outstanding shares of Maker Studios, Inc. (Maker), a leading network of online video content on YouTube. Maker shareholders will receive total consideration of approximately \$500 million and may receive an earn-out of up to \$450 million if Maker achieves certain

performance targets for calendar years 2014 and 2015. A portion of the consideration will be recognized as compensation expense in the Company's Condensed Consolidated Statements of Income. The transaction is subject to customary closing conditions and is expected to close in the third quarter of fiscal 2014.

THE WALT DISNEY COMPANY  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (unaudited; tabular dollars in millions, except for per share data)

#### Lucasfilm

On December 21, 2012, the Company acquired Lucasfilm Ltd. LLC (Lucasfilm), a privately held entertainment company. This acquisition will allow Disney to utilize Lucasfilm's content across our multiple platforms, businesses and markets, which we believe will generate growth as well as significant long-term value.

Under the terms of the merger agreement, Disney issued 37.1 million shares and made a cash payment of \$2.2 billion. Based on the \$50.00 per share closing price of Disney shares on December 21, 2012, the transaction had a value of \$4.1 billion.

The following table summarizes our allocation of the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed. The excess of the purchase price over those fair values and the related deferred taxes was allocated to goodwill, which is not deductible for tax purposes.

(in billions)	Estimated Fair Value
Intangible assets	\$2.6
Goodwill	2.3
Deferred income tax liability	(0.8 )
	\$4.1

Intangible assets primarily consist of intellectual property based on the Star Wars franchise with an estimated useful life of approximately 40 years. The goodwill reflects the value to Disney from leveraging Lucasfilm intellectual property across our distribution channels, taking advantage of Disney's established global reach.

#### Hulu

On October 5, 2012, Hulu LLC (Hulu) redeemed Providence Equity Partners' 10% equity interest in Hulu for \$200 million, increasing the Company's ownership interest in Hulu from 29% to 32%. In connection with the transaction, Hulu incurred a charge of approximately \$174 million primarily related to employee equity-based compensation and borrowed \$338 million under a five-year term loan, which was guaranteed by the Company and the other partners. The Company's share of the charge totaled \$55 million and was recorded in equity in the income of investees in the first quarter of fiscal 2013.

In July 2013, Fox Entertainment Group, NBCUniversal and the Company agreed to provide Hulu with \$750 million in cash to fund Hulu's operations and investments for future growth, of which the Company's share is \$257 million. To date, the Company has contributed \$134 million, increasing its ownership to 33%, and will continue to guarantee its share of Hulu's \$338 million term loan.

The Company accounts for its interest in Hulu as an equity method investment.

#### Goodwill

The changes in the carrying amount of goodwill for the six months ended March 29, 2014 are as follows:

	Media Networks	Parks and Resorts	Studio Entertainment	Consumer Products	Interactive	Total
Balance at September 28, 2013	\$16,071	\$253	\$6,591	\$2,942	\$1,467	\$27,324
Acquisitions	—	—	—	—	—	—
Dispositions	—	—	—	—	—	—
Other, net <sup>(1)</sup>	44	23	53	22	(116 )	26
Balance at March 29, 2014	\$16,115	\$276	\$6,644	\$2,964	\$1,351	\$27,350

(1) Includes the reallocation of \$120 million of goodwill from the Interactive segment to other operating segments as a result of restructuring the Interactive segment.  
The carrying amount of goodwill at March 29, 2014 and September 28, 2013 includes accumulated impairments of \$29 million at Interactive.

THE WALT DISNEY COMPANY  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (unaudited; tabular dollars in millions, except for per share data)

## 4. Dispositions and Other Income/(Expense)

Other income/(expense) includes the following:

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Venezuela foreign currency loss	\$(143 )	\$—	\$(143 )	\$—
Gain on sale of property	77	—	77	—
Celador litigation charge	—	—	—	(321 )
Gain on sale of equity interest in ESPN STAR Sports	—	—	—	219
Other <sup>(1)</sup>	29	10	35	10
Other income/(expense), net	\$(37 )	\$10	\$(31 )	\$(92 )

<sup>(1)</sup> Includes income of \$29 million representing a portion of a settlement of an affiliate contract dispute in the current year.

#### Venezuela foreign currency loss

The Company has operations in Venezuela, including film and television distribution and merchandise licensing and has net monetary assets of approximately 1.0 billion Venezuelan bolivares (BsF), which primarily consist of cash. The Venezuelan government (Government) has foreign currency exchange controls, which centralize the purchase and sale of all foreign currency at an official rate determined by the Government, currently 6.3 BsF per U.S. dollar. Although the Company has historically been unable to repatriate its cash at the official rate, we have translated our net monetary assets at the official rate through December 28, 2013. In January 2014, the Government announced that currency arising from certain transactions could be exchanged at an alternative rate (SICAD 1), which fluctuates based on Government-run auctions. The last SICAD 1 auction rate prior to March 29, 2014 was 10.8 BsF per U.S. dollar. The ability to convert currency in the SICAD 1 market is dependent on market factors and Government discretion, and the Company does not believe it can successfully convert material amounts of currency at this rate. In March 2014, the Government launched a new currency exchange market (SICAD 2), which allowed entities to submit a daily application to exchange foreign currency with financial institutions that are registered with the Venezuelan central bank. Foreign currency exchange rates under SICAD 2 fluctuate daily, and the rate on March 29, 2014 was 50.9 BsF per U.S. dollar. The ability to convert in the SICAD 2 market is also dependent on market factors including the availability of U.S. dollars. Although a small portion of the Company's cash may be eligible to be exchanged at SICAD 1, the majority is only eligible for exchange at SICAD 2. Accordingly, the Company has translated its BsF denominated net monetary assets at the SICAD 2 rate resulting in a loss of \$143 million.

#### Celador litigation charge

In connection with the Company's litigation with Celador International Ltd., the Company recorded a \$321 million charge in the first quarter of fiscal 2013.

#### ESPN STAR Sports

On November 7, 2012, the Company sold its 50% equity interest in ESPN STAR Sports (ESS) to the joint venture partner of ESS for \$335 million resulting in a gain of \$219 million (\$125 million after tax and allocation to noncontrolling interest).





THE WALT DISNEY COMPANY  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (unaudited; tabular dollars in millions, except for per share data)

## 5. Borrowings

During the six months ended March 29, 2014, the Company's borrowing activity was as follows:

	September 28, 2013	Additions	Payments	Other Activity <sup>(1)</sup>	March 29, 2014
Commercial paper borrowings	\$—	\$2,316	\$—	\$—	\$2,316
U.S. medium-term notes	13,155	—	(1,000	) 5	12,160
European medium-term notes and other foreign currency denominated borrowings	509	138	(79	) (14	) 554
HKDL borrowings	275	—	(12	) (7	) 256
Other	349	—	(12	) (19	) 318
Total	\$14,288	\$2,454	\$(1,103	) \$(35	) \$15,604

<sup>(1)</sup> Primarily market value adjustments for debt with qualifying hedges and foreign currency translation adjustments. The Company has bank facilities with a syndicate of lenders to support commercial paper borrowings. The following is a summary of the bank facilities at March 29, 2014:

	Committed Capacity	Capacity Used	Unused Capacity
Facility expiring March 2015	\$1,500	\$—	\$1,500
Facility expiring June 2017	2,250	—	2,250
Facility expiring March 2019	2,250	—	2,250
Total	\$6,000	\$—	\$6,000

On March 14, 2014, the Company refinanced bank facilities scheduled to expire in March 2014 and February 2015. The facilities now expire in March 2015 and March 2019, respectively. All of the above bank facilities allow for borrowings at LIBOR-based rates plus a spread depending on the credit default swap spread applicable to the Company's debt, subject to a cap and floor that vary with the Company's debt rating assigned by Moody's Investors Service and Standard and Poor's. The spread above LIBOR can range from 0.23% to 1.63%. The Company also has the ability to issue up to \$800 million of letters of credit under the facility expiring in March 2019, which if utilized, reduces available borrowings under this facility. The facilities contain only one financial covenant, relating to interest coverage, which the Company met on March 29, 2014 by a significant margin, and specifically exclude certain entities, including the International Theme Parks, from any representations, covenants, or events of default.

## Interest income/(expense)

Interest and investment income and interest expense are reported net in the Condensed Consolidated Statements of Income and consist of the following (net of capitalized interest):

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Interest expense	\$(67	) \$(83	) \$(148	) \$(175
Interest and investment income	129	29	259	49
Interest income/(expense), net	\$62	\$(54	) \$111	\$(126

Interest and investment income includes gains and losses on the sale of available-for-sale and non-publicly traded cost method investments, investment impairments and interest earned on cash and cash equivalents and certain receivables. During the quarter and six months ended March 29, 2014, net gains on available-for-sale investments totaled \$92 million and \$151 million, respectively. During the six months ended March 29, 2014, net gains on non-publicly traded

cost method investments totaled \$46 million. There were no gains on non-publicly traded cost method investments during the quarter ended March 29, 2014 and gains in the quarter and six months ended March 30, 2013 were not material.

THE WALT DISNEY COMPANY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited; tabular dollars in millions, except for per share data)

### 6. International Theme Park Investments

The Company has a 51% effective ownership interest in the operations of Disneyland Paris, a 48% ownership interest in the operations of HKDL and a 43% ownership interest in the operations of Shanghai Disney Resort, all of which are VIEs consolidated in the Company's financial statements. See Note 1 for the Company's policy on consolidating VIEs. The following tables present summarized balance sheet information for the Company as of March 29, 2014 and September 28, 2013, reflecting the impact of consolidating the International Theme Parks balance sheets.

	As of March 29, 2014		
	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash and cash equivalents	\$3,205	\$873	\$4,078
Other current assets	10,692	276	10,968
Total current assets	13,897	1,149	15,046
Investments/Advances	6,715	(3,965 )	2,750
Parks, resorts and other property	16,917	5,764	22,681
Other assets	42,063	40	42,103
Total assets	\$79,592	\$2,988	\$82,580
Current portion of borrowings	\$4,691	\$4	\$4,695
Other current liabilities	9,897	570	10,467
Total current liabilities	14,588	574	15,162
Borrowings	10,657	252	10,909
Deferred income taxes and other long-term liabilities	8,705	164	8,869
Equity	45,642	1,998	47,640
Total liabilities and equity	\$79,592	\$2,988	\$82,580
	As of September 28, 2013		
	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash and cash equivalents	\$3,325	\$606	\$3,931
Other current assets	9,896	282	10,178
Total current assets	13,221	888	14,109
Investments/Advances	6,415	(3,566 )	2,849
Parks, resorts and other property	17,117	5,263	22,380
Other assets	41,879	24	41,903
Total assets	\$78,632	\$2,609	\$81,241
Current portion of borrowings	\$1,512	\$—	\$1,512
Other current liabilities	9,622	570	10,192
Total current liabilities	11,134	570	11,704
Borrowings	12,501	275	12,776
Deferred income taxes and other long-term liabilities	8,466	145	8,611
Equity	46,531	1,619	48,150

Total liabilities and equity	\$78,632	\$2,609	\$81,241
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The following table presents summarized income statement information of the Company for the six months ended March 29, 2014, reflecting the impact of consolidating the International Theme Parks income statements.

	Before International Theme Parks Consolidation <sup>(1)</sup>	International Theme Parks and Adjustments	Total
Revenues	\$22,923	\$1,035	\$23,958
Cost and expenses	(17,204 )	(1,108 )	(18,312 )
Restructuring and impairment charges	(67 )	—	(67 )
Other income/(expense), net	(31 )	—	(31 )
Interest income/(expense), net	131	(20 )	111
Equity in the income of investees	410	46	456
Income before income taxes	6,162	(47 )	6,115
Income taxes	(2,155 )	—	(2,155 )
Net income	\$4,007	\$(47 )	\$3,960

These amounts include the International Theme Parks under the equity method of accounting. As such, royalty and management fee income from these operations is included in Revenues and our share of their net income/(loss) is included in Equity in the income of investees. There were \$39 million of royalties and management fees recognized for the six months ended March 29, 2014.

The following table presents summarized cash flow statement information of the Company for the six months ended March 29, 2014, reflecting the impact of consolidating the International Theme Parks cash flow statements.

	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash provided by operations	\$3,725	\$14	\$3,739
Investments in parks, resorts and other property	(708 )	(651 )	(1,359 )
Cash (used in)/provided by other investing activities	(117 )	465	348
Cash (used in)/provided by financing activities	(2,879 )	441	(2,438 )
Impact of exchange rates on cash and cash equivalents	(141 )	(2 )	(143 )
Change in cash and cash equivalents	(120 )	267	147
Cash and cash equivalents, beginning of period	3,325	606	3,931
Cash and cash equivalents, end of period	\$3,205	\$873	\$4,078

#### Disneyland Paris

The Company has provided Disneyland Paris €1.7 billion (\$2.3 billion) of intercompany loans and a line of credit totaling €250 million (\$344 million). The balance outstanding under the line of credit was €100 million (\$137 million) at March 29, 2014.

#### Hong Kong Disneyland Resort

In July 2009, the Company entered into a capital realignment and expansion plan for HKDL with the Government of the Hong Kong Special Administrative Region (HKSAR), HKDL's majority shareholder. The expansion cost approximately \$0.5 billion, was completed in 2013 and was financed equally by the Company and HKSAR. As a result the Company's equity interest in HKDL increased from 43% to 48%.

In addition, HKSAR holds a right to receive additional shares over time if HKDL exceeds certain return on asset performance targets. The amount of additional shares HKSAR can receive varies to the extent certain performance targets are exceeded but is capped on both an annual and cumulative basis. Based on the number of shares currently outstanding, these additional shares could decrease the Company's equity interest to no less than 38% over a period no shorter than 18 years. HKDL may begin to exceed the performance targets in fiscal 2014, in which case HKSAR would be entitled to receive

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additional equity interests beginning in 2015. The maximum additional interest which HKSAR can receive in 2015 would reduce the Company's equity interest by approximately 1 percentage point.

In February 2014, HKDL announced a plan to build a third hotel at the resort expected to open in fiscal 2017 at a cost of approximately \$550 million, subject to HKSAR Legislative Council approval. In connection with the construction of the hotel, the Company will provide approximately \$219 million of equity contributions and HKSAR will convert an equal amount of its outstanding loan to HKDL into equity. Additionally, the Company and HKSAR will provide shareholder loans of up to approximately \$149 million and \$104 million, respectively. The loans will mature on dates from fiscal 2022 through fiscal 2025 and bear interest at a rate of three month HIBOR plus 2%.

#### Shanghai Disney Resort

In fiscal 2011, the Company and Shanghai Shendi (Group) Co., Ltd. (Shendi) received Chinese central government approval of an agreement to build and operate a Disney Resort (Shanghai Disney Resort) in the Pudong district of Shanghai for a planned investment of approximately 29 billion yuan (\$4.7 billion). Shanghai Disney Resort is owned by a joint venture in which Shendi owns 57% and the Company owns 43%. An additional joint venture, in which the Company has a 70% interest and Shendi a 30% interest, is responsible for creating, constructing and operating Shanghai Disney Resort. Construction on the project, which includes a theme park, two hotels and a retail, dining and entertainment area, began in April 2011, and the resort is currently targeted to open by the end of calendar 2015.

In March 2014, the Company and Shendi received Chinese central government approval of an agreement to increase the planned investment by approximately 5 billion yuan (\$0.8 billion), primarily to fund additional attractions, entertainment and other offerings to increase capacity at the theme park. The total investment in Shanghai Disney Resort will be funded in accordance with each partner's ownership percentage, with approximately 67% from equity contributions and 33% from shareholder loans.

#### 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	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Service costs	\$71	\$86	\$142	\$172	\$2	\$5	\$5	\$9
Interest costs	122	108	244	217	17	16	33	33
Expected return on plan assets	(162)	(150)	(323)	(301)	(9)	(7)	(18)	(15)
Amortization of prior-year service costs	3	3	7	5	(1)	—	(1)	(1)
Recognized net actuarial loss/(gain)	37	104	73	208	(2)	10	(4)	20
Net periodic benefit cost	\$71	\$151	\$143	\$301	\$7	\$24	\$15	\$46

During the six months ended March 29, 2014, the Company did not make any material contributions to its pension and postretirement medical plans. The Company expects total pension and postretirement medical plan contributions in fiscal 2014 of approximately \$275 million to \$325 million. Final minimum pension plan funding requirements for fiscal 2014 will be determined based on our January 1, 2014 funding actuarial valuation, which will be available in the fourth quarter of fiscal 2014.





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### 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 (Awards). A reconciliation of the weighted average number of common and common equivalent shares outstanding and Awards excluded from the diluted earnings per share calculation, as they were anti-dilutive, are as follows:

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Shares (in millions):				
Weighted average number of common and common equivalent shares outstanding (basic)	1,750	1,804	1,756	1,791
Weighted average dilutive impact of Awards	20	21	21	22
Weighted average number of common and common equivalent shares outstanding (diluted)	1,770	1,825	1,777	1,813
Awards excluded from diluted earnings per share	6	9	8	5

### 9. Equity

On December 4, 2013, the Company declared a \$0.86 per share dividend (\$1.5 billion) related to fiscal 2013 for shareholders of record on December 16, 2013, which was paid on January 16, 2014. The Company paid a \$0.75 per share dividend (\$1.3 billion) during the first quarter of fiscal 2013 related to fiscal 2012.

During the six months ended March 29, 2014, the Company repurchased 45 million shares of its common stock for \$3.3 billion. As of March 29, 2014, the Company had remaining authorization in place to repurchase 116 million additional shares. The repurchase program does not have an expiration date.

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The following table summarizes the changes in each component of accumulated other comprehensive income (loss) (AOCI) including our proportional share of equity method investee amounts, net of 37% estimated tax:

	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
	Investments, net	Cash Flow Hedges			
Balance at Dec. 28, 2013	\$76	\$114	\$(1,246)	\$(88)	\$(1,144)
Quarter Ended March 29, 2014:					
Unrealized gains (losses) arising during the period	22	(43)	15	(1)	(7)
Reclassifications of net (gains) losses to net income	(58)	(21)	24	—	(55)
Balance at March 29, 2014	\$40	\$50	\$(1,207)	\$(89)	\$(1,206)
Balance at Dec. 29, 2012	\$20	\$7	\$(3,161)	\$6	\$(3,128)
Quarter Ended March 30, 2013:					
Unrealized gains (losses) arising during the period	12	120	(6)	(23)	103
Reclassifications of net (gains) losses to net income	(7)	(9)	73	—	57
Balance at March 30, 2013	\$25	\$118	\$(3,094)	\$(17)	\$(2,968)
Balance at Sept. 28, 2013	\$95	\$83	\$(1,271)	\$(94)	\$(1,187)
Six Months Ended March 29, 2014:					
Unrealized gains (losses) arising during the period	40	(2)	15	5	58
Reclassifications of net (gains) losses to net income	(95)	(31)	49	—	(77)
Balance at March 29, 2014	\$40	\$50	\$(1,207)	\$(89)	\$(1,206)
Balance at Sept. 29, 2012	\$3	\$(52)	\$(3,234)	\$17	\$(3,266)
Six Months Ended March 30, 2013:					
Unrealized gains (losses) arising during the period	29	185	(6)	(40)	168
Reclassifications of net (gains) losses to net income	(7)	(15)	146	6	130
Balance at March 30, 2013	\$25	\$118	\$(3,094)	\$(17)	\$(2,968)

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Details about AOCI components reclassified to net income are as follows:

Gains/(losses) in net income:	Affected line item in the Condensed Consolidated Statements of Income:	Quarter Ended		Six Months Ended	
		March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Investments, net	Interest income/(expense), net	\$92	\$11	\$151	\$11
Estimated tax	Income taxes	(34 )	(4 )	(56 )	(4 )
		58	7	95	7
Cash flow hedges	Primarily revenue	33	14	49	24
Estimated tax	Income taxes	(12 )	(5 )	(18 )	(9 )
		21	9	31	15
Pension and postretirement medical expense	Primarily included in the computation of net periodic benefit cost (see Note 7)	(38 )	(115 )	(78 )	(231 )
Estimated tax	Income taxes	14	42	29	85
		(24 )	(73 )	(49 )	(146 )
Foreign currency translation and other	Other income/(expense), net	—	—	—	(10 )
Estimated tax	Income taxes	—	—	—	4
		—	—	—	(6 )
Total reclassifications for the period		\$55	\$(57 )	\$77	\$(130 )

At March 29, 2014, the Company held available-for-sale investments in net unrecognized gain positions totaling \$64 million and no investments in significant unrecognized loss positions. At September 28, 2013, the Company held available-for-sale investments in net unrecognized gain positions totaling \$156 million and no investments in significant unrecognized loss positions.

#### 10. Equity-Based Compensation

Compensation expense related to stock options, stock appreciation rights and restricted stock units (RSUs) is as follows:

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Stock options/rights <sup>(1)</sup>	\$26	\$28	\$51	\$53
RSUs	86	84	160	160
Total equity-based compensation expense <sup>(2)</sup>	\$112	\$112	\$211	\$213
Equity-based compensation expense capitalized during the period	\$15	\$15	\$29	\$29

<sup>(1)</sup> Includes stock appreciation rights.

<sup>(2)</sup> Equity-based compensation expense is net of capitalized equity-based compensation and excludes amortization of previously capitalized equity-based compensation costs. During the quarter and six months ended March 29, 2014,

amortization of previously capitalized equity-based compensation totaled \$14 million and \$27 million, respectively. During the quarter and six months ended March 30, 2013, amortization of previously capitalized equity-based compensation totaled \$13 million and \$37 million, respectively.

Unrecognized compensation cost related to unvested stock options/rights and RSUs totaled approximately \$190 million and \$648 million, respectively, as of March 29, 2014.

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The weighted average grant date fair values of options issued during the six months ended March 29, 2014 and March 30, 2013 were \$19.16 and \$12.37, respectively.

During the six months ended March 29, 2014, the Company made equity compensation grants consisting of 5.6 million stock options and 5.1 million RSUs, of which 0.3 million RSUs included market and/or performance conditions.

## 11. Commitments and Contingencies

### Legal Matters

Beef Products, Inc. v. American Broadcasting Companies, Inc. On September 13, 2012, plaintiffs filed an action in South Dakota state court against certain subsidiaries and employees of the Company and others, asserting claims for defamation arising from alleged false statements and implications, statutory and common law product disparagement, and tortious interference with existing and prospective business relationships. The claims arise out of ABC News reports published in March and April 2012 that discussed the subject of labeling requirements for production processes related to a product one plaintiff produces that is added to ground beef before sale to consumers. Plaintiffs seek actual and consequential damages in excess of \$400 million, statutory damages (including treble damages) pursuant to South Dakota's Agricultural Food Products Disparagement Act, and punitive damages. On July 9, 2013, the Company moved in state court to dismiss all claims and on March 27, 2014, the state court dismissed certain common law disparagement counts as preempted by South Dakota's produce disparagement statute, but denied the motion on the remaining claims. On April 23, 2014, the Company petitioned the South Dakota Supreme Court to allow a discretionary appeal seeking reversal of the state court's order permitting the remaining common law disparagement claims to proceed and also seeking reversal of its decision to allow certain claims to proceed as defamation claims. At this time, the Company is not able to predict the ultimate outcome of this matter, nor can it estimate the range of possible loss.

The Company, together with, in some instances, certain of its directors and officers, is a defendant or codefendant in various other legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses.

Management does not believe that the Company has incurred a probable, material loss by reason of any of the above 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 March 29, 2014, the remaining debt service obligation guaranteed by the Company was \$339 million, of which \$72 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 these bonds.

### Long-Term Receivables and the Allowance for Credit Losses

The Company has accounts receivable with original maturities greater than one year related to the sale of television program rights within the Media Networks segment and vacation ownership units within the Parks and Resorts segment. Allowances for credit losses are established against these receivables as necessary.

The Company estimates the allowance for credit losses related to receivables from the sale of television programs based upon a number of factors, including historical experience and the financial condition of individual companies with which we do business. The balance of television program sales receivables recorded in other non-current assets, net of an immaterial allowance for credit losses, was \$0.9 billion as of March 29, 2014. The activity in the current period related to the allowance for credit losses was not material.

The Company estimates the allowance for credit losses related to receivables from sales of its vacation ownership units based primarily on historical collection experience. Estimates of uncollectible amounts also consider the economic environment and the age of receivables. The balance of mortgage receivables recorded in other non-current assets, net of a related allowance for credit losses of approximately 5%, was approximately \$0.7 billion as of March 29, 2014. The activity in the current period related to the allowance for credit losses was not material.

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#### Income Taxes

During the six months ended March 29, 2014, the Company decreased its gross unrecognized tax benefits by \$197 million to \$923 million. The majority of the decrease was a reclassification to deferred tax liabilities.

In the next twelve months, it is reasonably possible that our unrecognized tax benefits could change due to resolutions of open tax matters. These resolutions would reduce our unrecognized tax benefits by approximately \$186 million, of which \$51 million would reduce our income tax expense and effective tax rate if recognized.

#### 12. 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 and is classified in the following three categories:

Level 1 - Quoted prices for identical instruments in active markets

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

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

The Company's assets and liabilities measured at fair value are summarized in the following tables by fair value measurement Level:

	Fair Value Measurement at March 29, 2014			Total
	Level 1	Level 2	Level 3	
Assets				
Investments	\$106	\$—	\$—	\$106
Derivatives <sup>(1)</sup>				
Interest rate	—	146	—	146
Foreign exchange	—	276	—	276
Liabilities				
Derivatives <sup>(1)</sup>				
Interest rate	—	(85	) —	(85 )
Foreign exchange	—	(275	) —	(275 )
Total recorded at fair value	\$106	\$62	\$—	\$168
Fair value of borrowings	\$—	\$15,044	\$928	\$15,972



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	Fair Value Measurement at September 28, 2013			Total
	Level 1	Level 2	Level 3	
Assets				
Investments	\$305	\$—	\$—	\$305
Derivatives <sup>(1)</sup>				
Interest rate	—	170	—	170
Foreign exchange	—	267	—	267
Liabilities				
Derivatives <sup>(1)</sup>				
Interest rate	—	(94 )	—	(94 )
Foreign exchange	—	(201 )	—	(201 )
Total recorded at fair value	\$305	\$142	\$—	\$447
Fair value of borrowings	\$—	\$13,630	\$914	\$14,544

The Company has master netting arrangements by counterparty with respect to certain derivative contracts.

- (1) Contracts in a liability position totaling \$211 million and \$171 million have been netted against contracts in an asset position in the Condensed Consolidated Balance Sheets at March 29, 2014 and September 28, 2013, respectively.

The fair values of Level 2 derivatives are primarily determined by internal discounted cash flow 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 2 borrowings, which include commercial paper and U.S. medium-term notes, are valued based on quoted prices for similar instruments in active markets.

Level 3 borrowings, which include HKDL borrowings and other foreign currency denominated borrowings, are generally valued based on historical market transactions, prevailing market interest rates and the Company's current borrowing cost and credit risk.

The Company's financial instruments also include cash, cash equivalents, receivables and accounts payable. The carrying values of these financial instruments approximate the fair values.

### 13. 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 Company's derivative positions measured at fair value are summarized in the following tables:

	As of March 29, 2014			
	Current Assets	Other Assets	Other Accrued Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$140	\$116	\$(97 )	\$(41 )
Interest rate	—	146	(85 )	—
Derivatives not designated as hedges				
Foreign exchange	20	—	(84 )	(53 )
Gross fair value of derivatives	160	262	(266 )	(94 )
Counterparty netting	(148 )	(63 )	167	44

Total derivatives <sup>(1)</sup>	\$12	\$199	\$(99	)	\$(50	)
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	As of September 28, 2013			
	Current Assets	Other Assets	Other Accrued Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 146	\$ 106	\$(68 )	\$(24 )
Interest rate	—	170	(94 )	—
Derivatives not designated as hedges				
Foreign exchange	15	—	(82 )	(27 )
Gross fair value of derivatives	161	276	(244 )	(51 )
Counterparty netting	(137 )	(34 )	143	28
Total derivatives <sup>(1)</sup>	\$ 24	\$ 242	\$(101 )	\$(23 )

<sup>(1)</sup> Refer to Note 12 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 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 both March 29, 2014 and September 28, 2013, the total notional amount of the Company's pay-floating interest rate swaps was \$5.6 billion. The following table summarizes adjustments related to fair value hedges included in "Interest income/(expense), net" in the Condensed Consolidated Statements of Income.

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Gain (loss) on interest rate swaps	\$ 15	\$(38 )	\$(16 )	\$(64 )
Gain (loss) on hedged borrowings	(15 )	38	16	64

In addition, during the quarter and six months ended March 29, 2014, the Company realized net benefits of \$22 million and \$44 million, respectively, in net interest expense related to the pay-floating interest rate swaps. During the quarter and six months ended March 30, 2013, the Company realized net benefits of \$21 million and \$38 million, respectively, in net interest expense related to the pay-floating interest rate swaps.

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 gains or losses from these cash flow hedges are deferred in 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 March 29, 2014 or at September 28, 2013.

#### 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 four 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,

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liability or firm commitment. The principal currencies hedged are the euro, Japanese yen, Canadian dollar and British pound. 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 March 29, 2014 and September 28, 2013, the notional amounts of the Company's net foreign exchange cash flow hedges were \$5.1 billion and \$4.3 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 March 29, 2014 and March 30, 2013 were not material. Net deferred gains recorded in AOCI for contracts that will mature in the next twelve months totaled \$29 million.

Foreign exchange risk management contracts with respect to foreign currency denominated assets and liabilities are not designated as hedges and do not qualify for hedge accounting. The notional amounts of these foreign exchange contracts at March 29, 2014 and September 28, 2013 were \$4.8 billion and \$4.3 billion, respectively. The following table summarizes the net foreign exchange gains or losses recognized on foreign currency denominated assets and liabilities and the offsetting net foreign exchange gains or losses on the related foreign exchange contracts for the quarters and six months ended March 29, 2014 and March 30, 2013 by the corresponding line item in which they are recorded in the Condensed Consolidated Statements of Income.

	Costs and Expenses				Interest Income/(Expense), net			
	Quarter Ended		Six Months Ended		Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Net gains (losses) on foreign currency denominated assets and liabilities	\$(5 )	\$(145 )	\$4	\$(107 )	\$6	\$71	\$18	\$153
Net gains (losses) on foreign exchange risk management contracts not designated as hedges	(22 )	142	(44 )	94	(11 )	(67 )	(21 )	(151 )
Net gains (losses)	\$(27 )	\$(3 )	\$(40 )	\$(13 )	\$(5 )	\$4	\$(3 )	\$2

In addition to the amounts in this table, the Company recorded a \$143 million foreign currency translation loss on net monetary assets denominated in Venezuelan BsF in the second quarter of fiscal 2014 that is reported in "Other income/(expense), net" (see Note 4 to the Condensed Consolidated Financial Statements).

#### Commodity Price Risk Management

The Company is subject to the volatility of commodities prices and the Company designates certain commodity forward contracts as cash flow hedges of forecasted commodity purchases. 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 commodity purchases. The fair value of the commodity hedging contracts at March 29, 2014 and September 28, 2013 were not material. The related gains or losses recognized in earnings were not material for the six months ended March 29, 2014 and March 30, 2013.

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Risk Management – Other 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 certain 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 fair value of these contracts at March 29, 2014 and September 28, 2013 were not material. The related gains or losses recognized in earnings were not material for the six months ended March 29, 2014 and March 30, 2013.

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 that vary with the Company's credit rating. If the Company's credit ratings were to fall below investment grade, such counterparties would also 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 values of derivative instruments with credit-risk-related contingent features in a net liability position by counterparty were \$149 million and \$124 million on March 29, 2014 and September 28, 2013, respectively. The Company had posted collateral of \$69 million and \$54 million related to these derivative contracts at March 29, 2014 and September 28, 2013, respectively.

14. Restructuring and Impairment Charges

The Company recorded \$48 million and \$67 million of restructuring and impairment charges in the current quarter and six-month period, respectively, driven by severance costs related to organizational and cost structure initiatives across various of our businesses. The Company recorded \$61 million of restructuring charges in the prior-year six-month period, which was recorded in the prior-year second quarter, for severance and contract termination costs.

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

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

ORGANIZATION OF INFORMATION

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

Overview

Seasonality

Business Segment Results

Other Financial Information

Financial Condition

Commitments and Contingencies

Other Matters

Market Risk

OVERVIEW

Our summary consolidated results are presented below:

(in millions, except per share data)	Quarter Ended		% Change		Six Months Ended		% Change	
	March 29, 2014	March 30, 2013	Better/ (Worse)		March 29, 2014	March 30, 2013	Better/ (Worse)	
Revenues	\$11,649	\$10,554	10	%	\$23,958	\$21,895	9	%
Costs and expenses	(8,668 )	(8,359 )	(4)	%	(18,312 )	(17,608 )	(4)	%
Restructuring and impairment charges	(48 )	(61 )	21	%	(67 )	(61 )	(10)	%
Other income/(expense), net	(37 )	10	nm		(31 )	(92 )	66	%
Interest income/(expense), net	62	(54 )	nm		111	(126 )	nm	
Equity in the income of investees	217	185	17	%	456	295	55	%
Income before income taxes	3,175	2,275	40	%	6,115	4,303	42	%
Income taxes	(1,119 )	(654 )	(71)	%	(2,155 )	(1,244 )	(73)	%
Net income	2,056	1,621	27	%	3,960	3,059	29	%
Less: Net income attributable to noncontrolling interests	(139 )	(108 )	(29)	%	(203 )	(164 )	(24)	%
Net income attributable to Disney	\$1,917	\$1,513	27	%	\$3,757	\$2,895	30	%
Diluted earnings per share attributable to Disney	\$1.08	\$0.83	30	%	\$2.11	\$1.60	32	%

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

## Quarter Results

Diluted earnings per share (EPS) for the quarter increased 30% from \$0.83 to \$1.08 driven by higher operating results at all of our segments and investment gains. Results were also impacted by certain items discussed below. The increase in segment operating results was led by Studio Entertainment, which benefited from the strong domestic home entertainment and international theatrical performance of Frozen. Operating income growth at Media Networks was due to higher fees from Multi-channel Video Distributors or MVPDs (Affiliate Fees) and higher income from equity investees, partially offset by lower advertising revenue. Higher operating income at Parks and Resorts was due to higher average guest spending at Walt Disney World Resort and higher attendance at Disneyland Resort, partially offset by higher costs driven by the ongoing rollout of MyMagic+. Consumer Products growth was driven by higher merchandise licensing revenues. The increase at Interactive reflected the continued success of Disney Infinity, which was released in the fourth quarter of the prior year.

Diluted EPS for the current quarter was also impacted by the following:

• A \$143 million loss from foreign currency translation of net monetary assets denominated in Venezuelan currency (see Note 4 of the Condensed Consolidated Financial Statements)

• Restructuring and impairment charges totaling \$48 million

• A \$77 million gain on the sale of property

• Income of \$29 million representing a portion of a settlement of an affiliate contract dispute

Diluted EPS for the prior-year quarter was impacted by the following:

• Favorable tax adjustments totaling \$102 million related to pre-tax earnings of prior years

• Restructuring charges totaling \$61 million

A summary of the impact of these items on EPS for the quarter is as follows:

(in millions, except per share data)	Pre-Tax Income/(Loss)	Tax Benefit/(Expense)	After-Tax Income/(Loss)	EPS Favorable/(Adverse) <sup>(1)</sup>
Quarter Ended March 29, 2014:				
Venezuela foreign currency translation loss <sup>(2)</sup>	\$(143)	) \$ 53	\$ (90)	) \$ (0.05)
Restructuring and impairment charges	(48)	) 17	(31)	) (0.02)
Gain on sale of property <sup>(2)</sup>	77	(28)	) 49	0.03
Settlement income <sup>(2)</sup>	29	(11)	) 18	0.01
Total current quarter	\$(85)	) \$ 31	\$ (54)	) \$ (0.03)

## Quarter ended March 30, 2013:

Favorable tax adjustments related to pre-tax earnings in prior years	\$—	\$ 102	\$ 102	\$ 0.06
Restructuring and impairment charges	(61)	) 22	(39)	) (0.02)
Other <sup>(2)</sup>	10	(3)	) 7	—
Total prior-year quarter	\$(51)	) \$ 121	\$ 70	\$ 0.04

<sup>(1)</sup> EPS is net of the noncontrolling interest share, where applicable. Total may not equal the sum of the column due to rounding.

<sup>(2)</sup> Recorded in "Other income/(expense), net" in the Condensed Consolidated Statements of Income.



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

## Six-Month Results

Diluted EPS for the six-month period increased 32% from \$1.60 to \$2.11 due to improved operating performance at all of our operating segments led by Studio Entertainment and Media Networks and investment gains. Results were also impacted by certain items discussed below. Studio Entertainment benefited from strong worldwide theatrical and domestic home entertainment performance of Frozen. Operating income growth at Media Networks was due to higher affiliate fees at ESPN, the domestic Disney Channel and Broadcasting and higher income from equity investees. Parks and Resorts growth was due to higher average guest spending, attendance and occupancy at the domestic parks and resorts, partially offset by higher costs driven by MyMagic+. The increase at Consumer Products was driven by merchandise licensing due to the strength of Disney Channel properties, a full period of Lucasfilm and higher sales at our retail business. Interactive reflected the success of Disney Infinity.

Diluted EPS for the current six-month period was also impacted by the following:

▲ Venezuelan foreign currency loss of \$143 million

■ Restructuring and impairment charges totaling \$67 million

▲ \$77 million gain on the sale of property

■ Income of \$29 million representing a portion of a settlement of an affiliate contract dispute

Diluted EPS for the prior-year six-month period was impacted by following:

● Favorable tax adjustments totaling \$166 million related to pre-tax earnings of prior years and an increase in the amount of prior-year foreign earnings considered to be indefinitely reinvested outside of the United States

▲ \$219 million gain on the sale of our 50% interest in ESPN STAR Sports (ESS)

▲ \$321 million charge related to the Celador litigation

● A \$55 million charge for our share of expense at our Hulu joint venture related to an equity redemption transaction (Hulu Equity Redemption)

■ Restructuring charges totaling \$61 million

A summary of the impact of these items on EPS for the six months is as follows:

(in millions, except per share data)	Pre-Tax Income/(Loss)	Tax Benefit/(Expense)	After-Tax Income/(Loss)	EPS Favorable/(Adverse) <sup>(1)</sup>
Six Months Ended March 29, 2014:				
Venezuela foreign currency translation loss <sup>(2)</sup>	\$(143 )	\$ 53	\$(90 )	\$ (0.05 )
Restructuring and impairment charges	(67 )	21	(46 )	(0.03 )
Gain on sale of property <sup>(2)</sup>	77	(28 )	49	0.03
Settlement income <sup>(2)</sup>	29	(11 )	18	0.01
Other <sup>(2)</sup>	6	(2 )	4	—
Total current six-month period	\$(98 )	\$ 33	\$(65 )	\$ (0.04 )

## Six Months Ended March 30, 2013:

Favorable tax adjustments related to pre-tax earnings in prior years	\$—	\$ 166	\$166	\$ 0.10
Gain on sale of interest in ESS <sup>(2)</sup>	219	(64 )	155	0.07
Celador litigation charge <sup>(2)</sup>	(321 )	119	(202 )	(0.11 )
Hulu Equity Redemption <sup>(3)</sup>	(55 )	20	(35 )	(0.02 )
Restructuring charges	(61 )	22	(39 )	(0.02 )
Other <sup>(2)</sup>	10	(3 )	7	—
Total prior-year six-month period	\$(208 )	\$ 260	\$52	\$ 0.02

(1) EPS is net of the noncontrolling interest share, where applicable. Total may not equal the sum of the column due to rounding.

(2) Recorded in "Other income/(expense), net" in the Condensed Consolidated Statements of Income.

- (3) See Note 3 of the Condensed Consolidated Financial Statements for discussion of the Hulu Equity Redemption Charge.

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

### SEASONALITY

The Company's businesses are subject to the effects of seasonality. Consequently, the operating results for the six months ended March 29, 2014 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.

Interactive 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 on which the games are based, 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		% Change		Six Months Ended		% Change	
	March 29, 2014	March 30, 2013	Better/ (Worse)		March 29, 2014	March 30, 2013	Better/ (Worse)	
Revenues:								
Media Networks	\$5,134	\$4,957	4	%	\$10,424	\$10,058	4	%
Parks and Resorts	3,562	3,302	8	%	7,159	6,693	7	%
Studio Entertainment	1,800	1,338	35	%	3,693	2,883	28	%
Consumer Products	885	763	16	%	2,011	1,776	13	%
Interactive	268	194	38	%	671	485	38	%
	\$11,649	\$10,554	10	%	\$23,958	\$21,895	9	%
Segment operating income (loss):								
Media Networks	\$2,133	\$1,862	15	%	\$3,588	\$3,076	17	%
Parks and Resorts	457	383	19	%	1,128	960	18	%
Studio Entertainment	475	118	>100	%	884	352	>100	%
Consumer Products	274	200	37	%	704	546	29	%
Interactive	14	(54)	) nm		69	(45)	) nm	
	\$3,353	\$2,509	34	%	\$6,373	\$4,889	30	%



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

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

(in millions)	Quarter Ended		% Change Better/ (Worse)	Six Months Ended		% Change Better/ (Worse)		
	March 29, 2014	March 30, 2013		March 29, 2014	March 30, 2013			
Segment operating income	\$3,353	\$2,509	34	%	\$6,373	\$4,889	30	%
Corporate and unallocated shared expenses	(155)	(129)	(20)	%	(271)	(252)	(8)	%
Restructuring and impairment charges	(48)	(61)	21	%	(67)	(61)	(10)	%
Other income/(expense), net	(37)	10	nm		(31)	(92)	66	%
Interest income/(expense), net	62	(54)	nm		111	(126)	nm	
Hulu Equity Redemption charge	—	—	nm		—	(55)	nm	
Income before income taxes	\$3,175	\$2,275	40	%	\$6,115	\$4,303	42	%

Depreciation expense is as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)	Six Months Ended		% Change Better/ (Worse)		
	March 29, 2014	March 30, 2013		March 29, 2014	March 30, 2013			
Media Networks								
Cable Networks	\$35	\$36	3	%	\$68	\$68	—	%
Broadcasting	24	25	4	%	47	49	4	%
Total Media Networks	59	61	3	%	115	117	2	%
Parks and Resorts								
Domestic	282	266	(6)	%	561	521	(8)	%
International	87	81	(7)	%	173	161	(7)	%
Total Parks and Resorts	369	347	(6)	%	734	682	(8)	%
Studio Entertainment	13	15	13	%	25	24	(4)	%
Consumer Products	21	14	(50)	%	33	28	(18)	%
Interactive	3	5	40	%	4	10	60	%
Corporate	58	54	(7)	%	116	108	(7)	%
Total depreciation expense	\$523	\$496	(5)	%	\$1,027	\$969	(6)	%

Amortization of intangible assets is as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)	Six Months Ended		% Change Better/ (Worse)		
	March 29, 2014	March 30, 2013		March 29, 2014	March 30, 2013			
Media Networks	\$3	\$2	(50)	%	\$5	\$7	29	%
Parks and Resorts	—	1	nm		1	1	—	%
Studio Entertainment	25	19	(32)	%	48	34	(41)	%
Consumer Products	26	25	(4)	%	54	41	(32)	%
Interactive	3	7	57	%	6	12	50	%
Total amortization of intangible assets	\$57	\$54	(6)	%	\$114	\$95	(20)	%



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

## Media Networks

Operating results for the Media Networks segment are as follows:

(in millions)	Quarter Ended March 29, 2014	March 30, 2013	% Change Better/ (Worse)	
Revenues				
Affiliate Fees	\$2,671	\$2,442	9	%
Advertising	1,804	1,891	(5)	%
Other	659	624	6	%
Total revenues	5,134	4,957	4	%
Operating expenses	(2,523)	(2,514)	—	%
Selling, general, administrative and other	(633)	(703)	10	%
Depreciation and amortization	(62)	(63)	2	%
Equity in the income of investees	217	185	17	%
Operating Income	\$2,133	\$1,862	15	%

## Revenues

The 9% increase in Affiliate Fee revenue was primarily due to increases of 7% from higher contractual rates at ESPN and, to a lesser extent, the domestic Disney Channels and Broadcasting, 3% from a reduction in revenue deferrals at ESPN as a result of changes in contractual provisions related to annual programming commitments and 1% from other contractual impacts reflecting recognition of prior payments upon settlement of a dispute, partially offset by a change in methodology for determining fees for certain commercial subscribers. These increases were partially offset by a decrease of 2% due to the sale of our ESPN UK business in the fourth quarter of the prior year.

The 5% decrease in advertising revenues was due to decreases of \$40 million at Cable Networks, from \$902 million to \$862 million, and \$47 million at Broadcasting, from \$989 million to \$942 million. The decrease at Cable Networks was primarily due to a 4% decrease from fewer units delivered, a 2% decrease due to lower ratings and a 1% decrease due to the absence of SOAPnet, partially offset by a 5% increase due to higher rates. The decrease in advertising revenues at Broadcasting reflected a 7% decrease due to lower primetime ratings, partially offset by a 3% increase from higher primetime rates.

The increase in other revenue includes higher program sales led by Criminal Minds.

## Costs and Expenses

Operating expenses include programming and production costs, which increased \$19 million from \$2,125 million to \$2,144 million. At Cable Networks, programming and production costs were flat as a decrease due to the sale of ESPN UK was offset by higher programming and production costs at ABC Family and the domestic Disney Channels and contractual rate increases at ESPN. The increase at ABC Family and the domestic Disney Channels was driven by more hours of original programming due to the timing of new season premieres at ABC Family. At Broadcasting, programming and production costs increased \$19 million due to a contractual rate increase for Modern Family and increased production cost amortization driven by higher program sales, partially offset by lower program write-offs. Selling, general, administrative and other costs decreased by \$70 million from \$703 million to \$633 million driven by lower marketing and labor costs. Marketing costs declined at ESPN and the ABC Television Network. The decrease at ESPN reflects the absence of costs related to the ESPN UK business. Lower labor costs were driven by lower pension and postretirement medical costs.

## Equity in the Income of Investees

Income from equity investees increased \$32 million from \$185 million to \$217 million driven by A&E Television Network (AETN) due to higher advertising and affiliate revenues, partially offset by higher programming costs.

## Segment Operating Income

Segment operating income increased 15%, or \$271 million, to \$2,133 million due to increases at ESPN, the domestic Disney Channels and AETN.





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

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

(in millions)	Quarter Ended		% Change	
	March 29, 2014	March 30, 2013	Better/ (Worse)	
Revenues				
Cable Networks	\$3,633	\$3,458	5	%
Broadcasting	1,501	1,499	—	%
	\$5,134	\$4,957	4	%
Segment operating income				
Cable Networks	\$1,974	\$1,724	15	%
Broadcasting	159	138	15	%
	\$2,133	\$1,862	15	%

Other income/(expense), net

The Company recorded a \$100 million loss related to Cable Networks in the current quarter resulting from the foreign currency translation of net monetary assets denominated in Venezuelan currency, which was reported in "Other income/(expense), net" in the Condensed Consolidated Statements of Income.

## Parks and Resorts

Operating results for the Parks and Resorts segment are as follows:

(in millions)	Quarter Ended		% Change	
	March 29, 2014	March 30, 2013	Better/ (Worse)	
Revenues				
Domestic	\$2,990	\$2,759	8	%
International	572	543	5	%
Total revenues	3,562	3,302	8	%
Operating expenses	(2,248)	(2,069)	(9)	%
Selling, general, administrative and other	(488)	(502)	3	%
Depreciation and amortization	(369)	(348)	(6)	%
Operating Income	\$457	\$383	19	%

## Revenues

Parks and Resorts revenues increased 8%, or \$260 million, to \$3.6 billion due to an increase of \$231 million at our domestic operations and an increase of \$29 million at our international operations. Results include an unfavorable impact due to a shift in the timing of the Easter holiday relative to our fiscal periods.

Revenue growth of 8% at our domestic operations reflected a 4% increase from higher volumes and a 3% increase from higher average guest spending. Higher volumes were primarily due to increased theme park attendance at Disneyland Resort and higher occupied room nights at Walt Disney World Resort and Disneyland Resort. Guest spending growth was primarily due to higher average ticket prices for admissions at Walt Disney World Resort and for sailings at our cruise line and increased food, beverage and merchandise spending at Walt Disney World Resort. Revenue growth of 5% at our international operations reflected a 2% increase from higher average guest spending, a 2% increase from higher Tokyo Disney Resort royalties and a 1% increase due to the impact of foreign currency translation. Guest spending growth was driven by Hong Kong Disneyland Resort, primarily due to higher average ticket prices and merchandise, food and beverage spending. The increase at Hong Kong Disneyland Resort was partially offset by decreased guest spending at Disneyland Paris, which was driven by lower average ticket prices and food and beverage spending. Volumes at our international operations were comparable to the prior-year quarter, as increased attendance at Hong Kong Disneyland Resort was offset by lower attendance at Disneyland Paris.



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

The following table presents supplemental park and hotel statistics:

	Domestic Quarter Ended		International <sup>(2)</sup> Quarter Ended		Total Quarter Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
<b>Parks</b>						
Increase/(decrease)						
Attendance	3	% 8	% —	% 6	% 3	% 8
Per Capita Guest Spending <sup>4</sup>	4	% 10	% 5	% 6	% 5	% 10
<b>Hotels <sup>(1)</sup></b>						
Occupancy	86	% 80	% 75	% 76	% 84	% 79
Available Room Nights (in thousands)	2,625	2,645	609	609	3,234	3,254
Per Room Guest Spending	\$275	\$268	\$261	\$262	\$272	\$267

(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.

Per capita guest spending and per room guest spending exclude the impact of foreign currency translation. The euro <sup>(2)</sup>to U.S. dollar weighted average foreign currency exchange rate was \$1.37 and \$1.32 for the quarters ended March 29, 2014 and March 30, 2013 respectively.

**Costs and Expenses**

Operating expenses include operating labor, which increased by \$17 million from \$1,015 million to \$1,032 million and cost of sales, which increased \$33 million from \$301 million to \$334 million. The increase in operating labor was due to inflation, new guest offerings, principally MyMagic+, and higher volumes, partially offset by lower pension and postretirement medical costs. The increase in cost of sales was due to higher volumes. Other operating expenses, which include costs associated with investments in system infrastructure, maintenance, utilities and property taxes, increased driven by the continued roll out of MyMagic+.

The decrease in selling, general, administrative and other costs was due to development costs for MyMagic+ in the prior-year quarter. In the current quarter, costs for MyMagic+ are included in operating expenses as MyMagic+ has been made available to guests.

The increase in depreciation and amortization was due to MyMagic+.

**Segment Operating Income**

Segment operating income increased 19%, or \$74 million, to \$457 million due to growth at our domestic parks and resorts.

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

## Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Quarter Ended		% Change	
	March 29, 2014	March 30, 2013	Better/ (Worse)	
Revenues				
Theatrical distribution	\$467	\$346	35	%
Home entertainment	624	427	46	%
Television and SVOD distribution and other	709	565	25	%
Total revenues	1,800	1,338	35	%
Operating expenses	(669)	(671)	—	%
Selling, general, administrative and other	(618)	(515)	(20)	%
Depreciation and amortization	(38)	(34)	(12)	%
Operating Income	\$475	\$118	>100	%

## Revenues

The increase in theatrical distribution revenue reflected the performance of Frozen, Need For Speed and Saving Mr. Banks in the current quarter compared to Oz The Great And Powerful and Wreck-It Ralph in the prior-year quarter. Higher home entertainment revenue reflected a 37% increase from higher unit sales of new releases reflecting the performance of Frozen in the current quarter compared to Wreck-It Ralph in the prior-year quarter. Additionally, the current quarter included Marvel's Thor: The Dark World while the prior-year quarter had no comparable Marvel title. The increase in television and subscription video on demand (TV/SVOD) distribution and other revenue was driven by an increase in worldwide TV/SVOD sales reflecting more titles being available and higher music and stage play revenues. Significant TV/SVOD titles in the current quarter included Monsters University, Marvel's Iron Man 3 and Marvel's Captain America: The First Avenger compared to Marvel's The Avengers in the prior-year quarter.

## Costs and Expenses

Operating expenses included a decrease of \$10 million in film cost amortization from \$365 million to \$355 million driven by a lower theatrical film cost amortization rate for Frozen compared to titles in the prior-year quarter. This decrease was partially offset by the impact of higher revenue driven by higher home entertainment unit sales. Operating expenses also include cost of goods sold and distribution costs, which increased \$8 million from \$306 million to \$314 million. The increase in costs of goods sold and distribution costs was due to an increase in stage play and music distribution costs driven by higher sales. Home entertainment costs of goods sold and distribution costs were comparable to the prior-year quarter as lower average per unit costs due to cost savings initiatives were offset by an increase due to higher units sold.

Selling, general, administrative and other costs increased \$103 million from \$515 million to \$618 million due to higher theatrical marketing expenses driven by more titles in wide release and higher spend on future releases.

## Segment Operating Income

Segment operating income increased \$357 million to \$475 million due to an increase in home entertainment, theatrical distribution and, to a lesser extent, an increase in TV/SVOD distribution.

## Restructuring and impairment charges and Other income/(expense), net

The Company recorded restructuring charges of \$1 million and \$12 million related to Studio Entertainment in the current and prior-year quarters, respectively. The prior-year charges were due to severance costs from organizational and cost structure initiatives. These charges were reported in "Restructuring and impairment charges" in the Condensed Consolidated Statements of Income. The Company recorded a \$31 million loss related to Studio Entertainment in the current quarter resulting from the foreign currency translation of net monetary assets denominated in Venezuelan currency, which was reported in "Other income/(expense), net" in the Condensed Consolidated Statements of Income.



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

## Consumer Products

Operating results for the Consumer Products segment are as follows:

(in millions)	Quarter Ended		% Change	
	March 29, 2014	March 30, 2013	Better/ (Worse)	
Revenues				
Licensing and publishing	\$572	\$498	15	%
Retail and other	313	265	18	%
Total revenues	885	763	16	%
Operating expenses	(383 )	(346 )	(11)	%
Selling, general, administrative and other	(181 )	(178 )	(2)	%
Depreciation and amortization	(47 )	(39 )	(21)	%
Operating Income	\$274	\$200	37	%

## Revenues

The 15% increase in licensing and publishing revenue was due to an increase from merchandise licensing driven by performance of Disney Channel, Mickey and Minnie and Planes merchandise and lower acquisition accounting impacts, which reduced revenue recognition in the prior-year quarter.

Retail and other revenue increased 18% due to an increase at our retail business, resulting from comparable store sales growth in Japan, North America and Europe, a new wholesale distribution business in North America, and higher online sales in North America and Europe. These increases were partially offset by an unfavorable impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Japanese yen.

## Costs and Expenses

Operating expenses included an increase of \$24 million in cost of goods sold, from \$128 million to \$152 million, due to higher sales at our retail business. Operating expenses also include labor, distribution and occupancy costs, which increased driven by higher sales at our retail business.

## Segment Operating Income

Segment operating income increased 37% to \$274 million due to increases at our merchandise licensing and retail businesses.

## Other income/(expense), net

The Company recorded a \$16 million loss related to Consumer Products in the current quarter resulting from the foreign currency translation of net monetary assets denominated in Venezuelan currency, which was reported in "Other income/(expense), net" in the Condensed Consolidated Statements of Income.

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

## Interactive

Operating results for the Interactive segment are as follows:

(in millions)	Quarter Ended		% Change	
	March 29, 2014	March 30, 2013	Better/ (Worse)	
Revenues				
Game sales and subscriptions	\$ 198	\$ 137	45	%
Advertising and other	70	57	23	%
Total revenues	268	194	38	%
Operating expenses	(149	) (132	) (13)	%
Selling, general, administrative and other	(99	) (104	) 5	%
Depreciation and amortization	(6	) (12	) 50	%
Operating Income (Loss)	\$ 14	\$(54	) nm	

## Revenues

Game sales and subscriptions revenues grew \$61 million from \$137 million to \$198 million due to higher self-published console games revenues resulting from the continued success of Disney Infinity compared to no new releases in the prior-year quarter.

Higher advertising and other revenue was due to growth at our Japan mobile business driven by higher licensing fees from game sales, subscribers and sales of handsets.

## Costs and Expenses

Operating expenses reflected a \$23 million increase in cost of sales from \$55 million to \$78 million and a \$6 million decrease in product development from \$77 million to \$71 million. The higher cost of sales was due to Disney Infinity sales volume.

## Segment Operating Income (Loss)

Segment operating results improved from a loss of \$54 million to income of \$14 million primarily due to the success of Disney Infinity and growth at our Japan mobile business.

## Restructuring and impairment charges

The Company recorded restructuring charges of \$35 million and \$6 million related to Interactive in the current and prior-year quarters, respectively, primarily for severance costs from organizational and cost structure initiatives. These charges were reported in "Restructuring and impairment charges" in the Condensed Consolidated Statements of Income.

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

## BUSINESS SEGMENT RESULTS - Six Month Results

## Media Networks

Operating results for the Media Networks segment are as follows:

(in millions)	Six Months Ended		% Change	
	March 29, 2014	March 30, 2013	Better/ (Worse)	
Revenues				
Affiliate Fees	\$5,055	\$4,702	8	%
Advertising	4,137	4,148	—	%
Other	1,232	1,208	2	%
Total revenues	10,424	10,058	4	%
Operating expenses	(5,960)	(5,860)	(2)	%
Selling, general, administrative and other	(1,212)	(1,347)	10	%
Depreciation and amortization	(120)	(124)	3	%
Equity in the income of investees	456	349	31	%
Operating Income	\$3,588	\$3,076	17	%

## Revenues

The 8% increase in Affiliate Fee revenue was due to an increase of 8% from higher contractual rates at ESPN and, to a lesser extent, the domestic Disney Channels and Broadcasting, and 2% from a reduction in revenue deferrals at ESPN as a result of changes in contractual provisions related to annual programming commitments. These increases were partially offset by a decrease of 3% due to the sale of our ESPN UK business in the fourth quarter of the prior year. Advertising revenues were relatively flat as an increase of \$48 million at Cable Networks, from \$2,041 million to \$2,089 million, was more than offset by a decrease of \$59 million at Broadcasting, from \$2,107 million to \$2,048 million. The increase at Cable Networks was due to a 6% increase driven by higher rates, partially offset by a 3% decrease due to lower ratings. The decrease in advertising revenues at Broadcasting was due to a 6% decrease due to lower primetime ratings and a 2% decrease resulting from a decline at the owned television stations, partially offset by a 4% increase from higher primetime rates.

Other revenue increased \$24 million from \$1,208 million to \$1,232 million due to Lucasfilm driven by an SVOD sale and a full period of home entertainment revenues.

## Costs and Expenses

Operating expenses include programming and production costs, which increased \$109 million from \$5,088 million to \$5,197 million. At Cable Networks, programming and production costs increased \$13 million due to contractual rate increases at ESPN and an increase in programming and production costs at ABC Family and the domestic Disney Channels, partially offset by lower costs as a result of the sale of our ESPN UK business. The increase at ABC Family and the domestic Disney Channels was driven by higher cost acquired programming and more hours of original programming due to the timing of new season premieres at ABC Family. At Broadcasting, programming and production costs increased \$96 million due to a contractual rate increase for Modern Family and higher program write-offs.

Selling, general, administrative and other costs decreased by \$135 million from \$1,347 million to \$1,212 million driven by lower marketing and labor costs. Marketing costs declined at the ABC Television Network and ESPN. The decrease at ESPN reflects the absence of costs related to the ESPN UK business. Lower labor costs were driven by lower pension and postretirement medical costs.

## Equity in the Income of Investees

Income from equity investees increased \$107 million from \$349 million to \$456 million primarily primarily due to an increase at AETN driven by higher advertising and affiliate revenues and lower programming and marketing costs. Additionally, in the first quarter of the prior year, the Company recognized an equity loss from its investment in ESS.



The Company sold its interest in ESS during the first quarter of the prior year and, accordingly, the current quarter includes no equity income or loss from ESS.

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

## Segment Operating Income

Segment operating income increased 17%, or \$512 million, to \$3,588 million due to increases at ESPN, AETN and the domestic Disney Channels, partially offset by a decrease at the ABC Television Network.

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

(in millions)	Six Months Ended		% Change	
	March 29, 2014	March 30, 2013	Better/ (Worse)	
Revenues				
Cable Networks	\$7,392	\$6,996	6	%
Broadcasting	3,032	3,062	(1)	%
	\$10,424	\$10,058	4	%
Segment operating income				
Cable Networks	\$3,251	\$2,676	21	%
Broadcasting	337	400	(16)	%
	\$3,588	\$3,076	17	%

## Restructuring and impairment charges and Other income/(expense), net

The Company recorded restructuring and impairment charges of \$15 million and \$3 million related to Media Networks in the current and prior-year six-month periods, respectively. The current six-month period charges were due to an investment impairment and contract termination costs. These charges were reported in "Restructuring and impairment charges" in the Condensed Consolidated Statements of Income. The Company recorded a \$100 million loss related to Cable Networks in the current six-month period resulting from the foreign currency translation of net monetary assets denominated in Venezuelan currency, which was reported in "Other income/(expense), net" in the Condensed Consolidated Statements of Income.

## Parks and Resorts

Operating results for the Parks and Resorts segment are as follows:

(in millions)	Six Months Ended		% Change	
	March 29, 2014	March 30, 2013	Better/ (Worse)	
Revenues				
Domestic	\$5,912	\$5,491	8	%
International	1,247	1,202	4	%
Total revenues	7,159	6,693	7	%
Operating expenses	(4,400)	(4,122)	(7)	%
Selling, general, administrative and other	(896)	(928)	3	%
Depreciation and amortization	(735)	(683)	(8)	%
Operating Income	\$1,128	\$960	18	%
Revenues				

Parks and Resorts revenues increased 7%, or \$466 million, to \$7.2 billion due to an increase of \$421 million at our domestic operations and an increase of \$45 million at our international operations. Results include an unfavorable impact due to a shift in the timing of the Easter holiday relative to our fiscal periods.

Revenue growth of 8% at our domestic operations reflected increases of 4% from higher average guest spending and 2% from volumes. The increase in guest spending was due to higher average ticket prices for admissions at our theme parks and for sailings at our cruise line and increased food, beverage and merchandise spending. Higher volumes were due to attendance growth and higher occupied room nights.

Revenue growth of 4% at our international operations reflected a 3% increase from higher average guest spending, a 2% increase from higher Tokyo Disney Resort royalties and a 1% increase from foreign currency translation, partially offset by a

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

2% decrease from lower volumes. Guest spending growth was due to higher merchandise, food and beverage spending, average ticket prices and average daily hotel room rates. Lower volumes were due to decreases in attendance and occupied room nights at Disneyland Paris, partially offset by attendance growth at Hong Kong Disneyland Resort.

The following table presents supplemental park and hotel statistics:

	Domestic		International <sup>(2)</sup>		Total	
	Six Months Ended		Six Months Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
<b>Parks</b>						
Increase/(decrease)						
Attendance	2	% 6	(1)	% 2	% 1	% 5
Per Capita Guest Spending	6	% 8	5	% 4	% 6	% 8
<b>Hotels <sup>(1)</sup></b>						
Occupancy	83	% 80	76	% 80	% 82	% 80
Available Room Nights (in thousands)	5,243	5,265	1,230	1,230	6,473	6,495
Per Room Guest Spending	\$276	\$267	\$290	\$278	\$279	\$269

(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.

Per capita guest spending and per room guest spending exclude the impact of foreign currency translation. The euro (2) to U.S. dollar weighted average foreign currency exchange rate was \$1.37 and \$1.31 for the six months ended March 29, 2014 and March 30, 2013.

#### Costs and Expenses

Operating expenses include operating labor, which increased by \$32 million from \$2,032 million to \$2,064 million, and cost of sales, which increased \$44 million from \$636 million to \$680 million. The increase in operating labor was primarily due to inflation, new guest offerings, principally MyMagic+, and higher volumes, partially offset by lower pension and postretirement medical costs. The increase in cost of sales was due to higher volumes. Other operating expenses, which include costs associated with investments in system infrastructure, maintenance, utilities and property taxes, increased driven by the continued roll out of MyMagic+.

The decrease in selling, general, administrative and other costs was due to development costs for MyMagic+ in the prior-year six-month period. In the current six-month period, costs for MyMagic+ are included in operating expenses as MyMagic+ has been made available to guests.

The increase in depreciation and amortization was due to MyMagic+.

#### Segment Operating Income

Segment operating income increased 18%, or \$168 million, to \$1.1 billion due to growth at our domestic parks and resorts.

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

## Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Six Months Ended		% Change	
	March 29, 2014	March 30, 2013	Better/ (Worse)	
Revenues				
Theatrical distribution	\$1,093	\$650	68	%
Home entertainment	1,240	1,104	12	%
TV/SVOD distribution and other	1,360	1,129	20	%
Total revenues	3,693	2,883	28	%
Operating expenses	(1,453 )	(1,388 )	(5)	%
Selling, general, administrative and other	(1,283 )	(1,085 )	(18)	%
Depreciation and amortization	(73 )	(58 )	(26)	%
Operating Income	\$884	\$352	>100	%

## Revenues

The increase in theatrical distribution revenue reflected the performance of Frozen and Marvel's Thor: The Dark World in the current period compared to Wreck-It Ralph and Oz The Great And Powerful in the prior-year period. Higher home entertainment revenue reflected an 11% increase driven by higher unit sales of new releases reflecting the performance of Frozen and Monsters University in the current period compared to Brave and Wreck-It Ralph in the prior-year period. Additionally, the current period included two Marvel titles, Thor: The Dark World and Iron Man 3, compared to one Marvel title, The Avengers, in the prior-year period.

The increase in TV/SVOD distribution and other revenue was driven by an increase in international television sales reflecting more titles being available, a full period of revenue related to Lucasfilm's special effects business and higher music distribution revenues reflecting the success of Frozen.

## Costs and Expenses

Operating expenses include an increase of \$60 million in film cost amortization, from \$760 million to \$820 million, due to increased revenues, partially offset by a lower film cost amortization rate for Frozen compared to titles in the prior-year period. Operating expenses also include cost of goods sold and distribution costs, which increased \$5 million, from \$628 million to \$633 million. The increase was driven by a full period of costs related to Lucasfilm's special effects business, partially offset by a decrease at home entertainment. Lower home entertainment cost of goods sold and distribution costs were due to lower average per unit costs as a result of cost saving initiatives, partially offset by an increase in units sold.

Selling, general, administrative and other costs increased \$198 million from \$1,085 million to \$1,283 million due to higher theatrical marketing expenses driven by more titles in wide release and higher spend on future releases.

The increase in depreciation and amortization was primarily due to a full period of intangible asset amortization resulting from the acquisition of Lucasfilm.

## Segment Operating Income

Segment operating income increased \$532 million to \$884 million due to increases in theatrical distribution, home entertainment and, to a lesser extent, international TV/SVOD distribution.

## Restructuring and impairment charges and Other income/(expense), net

The Company recorded restructuring charges of \$5 million and \$12 million related to Studio Entertainment in the current and prior-year six-month periods, respectively, for severance costs from organizational and cost structure initiatives. These charges were reported in "Restructuring and impairment charges" in the Condensed Consolidated Statements of Income. The Company recorded a \$31 million loss related to Studio Entertainment in the current six-month period resulting from the foreign currency translation of net monetary assets denominated in Venezuelan currency, which was reported in "Other income/(expense), net" in the Condensed Consolidated Statements of Income.



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

## Consumer Products

Operating results for the Consumer Products segment are as follows:

(in millions)	Six Months Ended		% Change	
	March 29, 2014	March 30, 2013	Better/ (Worse)	
Revenues				
Licensing and publishing	\$1,206	\$1,047	15	%
Retail and other	805	729	10	%
Total revenues	2,011	1,776	13	%
Operating expenses	(858 )	(809 )	(6)	%
Selling, general, administrative and other	(362 )	(352 )	(3)	%
Depreciation and amortization	(87 )	(69 )	(26)	%
Operating Income	\$704	\$546	29	%

## Revenues

The 15% increase in licensing and publishing revenues was due to an increase from merchandise licensing, driven by performance of Disney Channel and Planes merchandise and a full period of revenues from Lucasfilm.

Retail and other revenue increased 10% due to an increase at our retail business, resulting from comparable store sales growth in North America, Japan and Europe, a new wholesale distribution business in North America and higher online sales in North America and Europe. These increases were partially offset by an unfavorable impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Japanese yen and store closures in Europe.

## Costs and Expenses

Operating expenses included an increase of \$32 million in cost of goods sold, from \$347 million to \$379 million, due to higher sales at our retail business. Operating expenses also include labor, distribution and occupancy costs, which increased driven by higher sales at our retail business and a full period of costs for Lucasfilm.

The increase in depreciation and amortization was driven by a full period of intangible asset amortization resulting from the acquisition of Lucasfilm.

## Segment Operating Income

Segment operating income increased 29% to \$704 million due to increases at our merchandise licensing and retail businesses.

## Other income/(expense), net

The Company recorded a \$16 million loss related to Consumer Products in the current six-month period resulting from the foreign currency translation of net monetary assets denominated in Venezuelan currency, which was reported in "Other income/(expense), net" in the Condensed Consolidated Statements of Income.

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

## Interactive

Operating results for the Interactive segment are as follows:

(in millions)	Six Months Ended		% Change	
	March 29, 2014	March 30, 2013	Better/ (Worse)	
Revenues				
Game sales and subscriptions	\$524	\$358	46	%
Advertising and other	147	127	16	%
Total revenues	671	485	38	%
Operating expenses	(366 )	(295 )	(24)	%
Selling, general, administrative and other	(226 )	(213 )	(6)	%
Depreciation and amortization	(10 )	(22 )	55	%
Operating Income (Loss)	\$69	\$(45 )	nm	

## Revenues

Game sales and subscriptions revenues grew \$166 million from \$358 million to \$524 million due to an increase of 44% from sales of self-published console games resulting from the success of Disney Infinity in the current six-month period compared to Epic Mickey 2 in the prior-year six-month period.

Higher advertising and other revenue was due to growth at our Japan mobile business driven by higher licensing fees from game sales, subscribers and sales of handsets.

## Costs and Expenses

Operating expenses reflected a \$68 million increase in cost of sales from \$148 million to \$216 million and a \$3 million increase in product development from \$147 million to \$150 million. The higher cost of sales was due to Disney Infinity sales volume in the current six-month period compared to Epic Mickey 2 in the prior-year six-month period.

The increase in selling, general, administrative and other costs was driven by higher marketing costs at our console games business due to Disney Infinity in the current six-month period compared to Epic Mickey 2 in the prior-year six-month period.

The decrease in depreciation and amortization was driven by lower amortization of intangible assets at our social games business.

## Segment Operating Income (Loss)

Segment operating results improved from a loss of \$45 million to income of \$69 million due to the success of Disney Infinity and growth at our Japan mobile business.

## Restructuring and impairment charges

The Company recorded restructuring charges of \$36 million and \$6 million related to Interactive in the current and prior-year six-month periods, respectively, primarily for severance costs from organizational and cost structure initiatives. These charges were reported in "Restructuring and impairment charges" in the Condensed Consolidated Statements of Income.

## OTHER FINANCIAL INFORMATION

## Corporate and Unallocated Shared Expenses

(in millions)	Quarter Ended		% Change Better/ (Worse)	% Change	Six Months Ended		% Change Better/ (Worse)	% Change
	March 29, 2014	March 30, 2013			March 29, 2014	March 30, 2013		
Corporate and unallocated shared expenses	\$(155 )	\$(129 )	(20)	%	\$(271 )	\$(252 )	(8)	%



The increase in Corporate and unallocated shared expenses for the quarter was driven by higher charitable contributions and the timing of allocations to operating segments. The increase for the six-month period was primarily due to higher labor costs and charitable contributions.

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

## Interest Income/(Expense), net

(in millions)	Quarter Ended		% Change Better/ (Worse)	Six Months Ended		% Change Better/ (Worse)
	March 29, 2014	March 30, 2013		March 29, 2014	March 30, 2013	
Interest expense	\$(67 )	\$(83 )	19 %	\$(148 )	\$(175 )	15 %
Interest and investment income	129	29	>100 %	259	49	>100 %
Interest income/(expense), net	\$62	\$(54 )	nm	\$111	\$(126 )	nm

The decrease in interest expense for the quarter and six-month period was primarily due to lower effective interest rates. The increase in interest and investment income for the quarter and six-month period was due to gains on sales of investments and income on late payments realized in connection with the settlement of an affiliate contract dispute.

## Income Taxes

Effective Income Tax Rate	Quarter Ended		Change Better/ (Worse)	Six Months Ended		Change Better/ (Worse)
	March 29, 2014	March 30, 2013		March 29, 2014	March 30, 2013	
	35.2	% 28.8	% (6.4 )ppt	35.2	% 28.9	% (6.3 )ppt

The increase in the effective income tax rate for the quarter and six-month period was primarily due to favorable tax adjustments recognized in the prior-year quarter related to pre-tax earnings of prior years. The increase for the six-month period also reflected tax benefits recognized in the prior year, which included an increase in prior-year earnings from foreign operations indefinitely reinvested outside the United States subject to tax rates lower than the federal statutory income tax rate. Additionally, the current quarter and six-month period effective income tax rates included lower benefits related to qualified domestic production activities, and the current quarter included an unfavorable impact from changes in our estimated full year effective income tax rate, which is used to determine the quarterly tax provision. The estimated full year effective rate is adjusted each quarter based on information available at the end of that quarter. The impact was unfavorable in the current quarter whereas it was favorable in the prior-year quarter.

## Noncontrolling Interests

(in millions)	Quarter Ended		% Change Better/ (Worse)	Six Months Ended		% Change Better/ (Worse)
	March 29, 2014	March 30, 2013		March 29, 2014	March 30, 2013	
Net income attributable to noncontrolling interests	\$139	\$108	(29) %	\$203	\$164	(24) %

The increase in net income attributable to noncontrolling interests for the quarter and six-month period is primarily due to improved operating results at ESPN and Hong Kong Disneyland Resort.

Net income attributable to noncontrolling interests is determined on income after royalties and management fees, financing costs and income taxes.

## IMPACT OF FOREIGN CURRENCY EXCHANGE RATES

The Company has a foreign exchange risk management program that is intended to reduce earnings fluctuations associated with foreign currency exchange rate changes. As part of this program, we enter into foreign currency derivative contracts designed to hedge projected foreign currency denominated operating income exposures for periods that generally do not exceed four years and to hedge foreign currency denominated net monetary assets to protect the U.S. dollar equivalent value of these assets from foreign currency fluctuations. The economic or political conditions in a country could reduce our ability to hedge exposure to currency fluctuations in the country or our ability to repatriate revenue from the country.

Based on our hedge portfolio and other potential currency impacts in fiscal 2014, we previously projected an adverse impact to growth in pre-tax income in fiscal 2014 of approximately \$200 million, driven by a decline in the Japanese yen since the beginning of fiscal 2013. Due to recent changes in the Venezuelan foreign currency exchange markets,

we recorded a \$143 million foreign currency loss in the second quarter of fiscal 2014. Including this impact, our projected adverse impact to pre-

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

tax income for fiscal 2014 is approximately \$350 million, of which approximately \$260 million has been recognized in the first six months of fiscal 2014.

## FINANCIAL CONDITION

The change in cash and cash equivalents is as follows:

(in millions)	Six Months Ended		% Change Better/ (Worse)
	March 29, 2014	March 30, 2013	
Cash provided by operations	\$3,739	\$3,304	13 %
Cash used in investing activities	(1,011 )	(2,990 )	66 %
Cash (used in)/provided by financing activities	(2,438 )	310	nm
Impact of exchange rates on cash and cash equivalents	(143 )	(59 )	>(100) %
Increase in cash and cash equivalents	\$147	\$565	(74) %

## Operating Activities

Cash provided by operating activities increased 13% to \$3.7 billion for the current six-month period compared to \$3.3 billion in the prior-year six-month period driven by higher operating cash flow at our Studio Entertainment and Parks and Resorts segments, partially offset by lower operating cash flow at our Media Networks segment. Studio Entertainment benefited from higher operating cash receipts from increased revenues, partially offset by higher film production spending. Parks and Resorts cash flow benefited from higher operating cash receipts due to increased revenues, partially offset by higher cash payments driven by increased spending on new guest offerings and labor cost inflation. Lower operating cash flow at Media Networks was due to higher television programming and production spending.

## Film and Television Costs

The Company's Studio Entertainment and Media Networks segments incur costs to acquire and produce feature 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 and 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 March 29, 2014 and March 30, 2013 are as follows:

(in millions)	Six Months Ended	
	March 29, 2014	March 30, 2013
Beginning balances:		
Production and programming assets	\$5,417	\$5,217
Programming liabilities	(928 )	(812 )
	4,489	4,405
Spending:		
Film and television production	2,123	1,942
Broadcast programming	3,275	3,142
	5,398	5,084
Amortization:		
Film and television production	(1,787 )	(1,610 )
Broadcast programming	(2,948 )	(2,903 )
	(4,735 )	(4,513 )
Change in film and television production and programming costs	663	571
Other non-cash activity	28	51
Ending balances:		
Production and programming assets	6,004	5,800
Programming liabilities	(824 )	(773 )
	\$5,180	\$5,027

## Investing Activities

Investing activities consist principally of investments in parks, resorts and other property and acquisition and divestiture activity.

The Company's investments in parks, resorts and other property for the six months ended March 29, 2014 and March 30, 2013 are as follows:

(in millions)	Six Months Ended	
	March 29, 2014	March 30, 2013
Media Networks		
Cable Networks	\$68	\$67
Broadcasting	28	24
Total Media Networks	96	91
Parks and Resorts		
Domestic	464	481
International	651	359
Total Parks and Resorts	1,115	840
Studio Entertainment	32	27
Consumer Products	10	14
Interactive	2	6
Corporate	104	141
	\$1,359	\$1,119



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

Capital expenditures for the Parks and Resorts segment are principally for theme park and resort expansion, new attractions, cruise ships, recurring capital and capital improvements and systems infrastructure. The increase at our international parks and resorts operations reflected higher construction spending on the Shanghai Disney Resort. Capital expenditures at Media Networks primarily reflect investments in facilities and equipment for expanding and upgrading broadcast centers, production facilities and television station facilities.

Capital expenditures at Corporate primarily reflect investments in corporate facilities, information technology and equipment.

The Company currently expects its fiscal 2014 capital expenditures will be approximately \$0.8 billion higher than fiscal 2013 capital expenditures of \$2.8 billion, primarily due to increased investment in Shanghai Disney Resort. While we fully consolidate capital expenditures for Shanghai Disney Resort, our net contribution is only 43% of the total capital expenditures. Therefore, net of Shanghai Disney Resort partner contributions, our capital spending is expected to increase by approximately \$0.4 billion.

**Other Investing Activities**

During the current six-month period, proceeds from the sales of investments and dispositions totaled \$0.4 billion. In the prior-year six-month period, acquisitions totaled \$2.3 billion due to the acquisition of Lucasfilm and proceeds from dispositions and investments totaled \$0.4 billion due to the sale of our 50% equity interest in ESS.

**Financing Activities**

Cash used in financing activities was \$2.4 billion in the current six-month period compared to cash provided by financing activities of \$0.3 billion in the prior-year six-month period.

Cash used in financing activities in the current six-month period was due to repurchases of common stock of \$3.3 billion and the dividend payment of \$1.5 billion, partially offset by net proceeds from borrowings of \$1.4 billion, contributions from our Shanghai Disney Resort joint venture partner of \$0.4 billion and proceeds from the exercise of stock options of \$0.3 billion.

The decrease in cash from financing activities of \$2.7 billion versus the prior-year six-month period was due to lower net proceeds from borrowings of \$1.5 billion and higher repurchases of common stock of \$1.4 billion.

During the six months ended March 29, 2014, the Company's borrowing activity was as follows:

(in millions)	September 28, 2013	Additions	Payments	Other Activity <sup>(1)</sup>	March 29, 2014
Commercial paper borrowings	\$—	\$2,316	\$—	\$—	\$2,316
U.S. medium-term notes	13,155	—	(1,000	) 5	12,160
European medium-term notes and other foreign currency denominated borrowings	509	138	(79	) (14	) 554
HKDL borrowings	275	—	(12	) (7	) 256
Other	349	—	(12	) (19	) 318
Total	\$14,288	\$2,454	\$(1,103	) \$(35	) \$15,604

<sup>(1)</sup> Primarily market value adjustments for debt with qualifying hedges and foreign currency translation adjustments.

The Company's bank facilities as of March 29, 2014 were as follows:

(in millions)	Committed Capacity	Capacity Used	Unused Capacity
Bank facility expiring March 2015	\$1,500	\$—	\$1,500
Bank facility expiring June 2017	2,250	—	2,250
Bank facility expiring March 2019	2,250	—	2,250

Total	\$6,000	\$—	\$6,000
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

All of the above bank facilities allow for borrowings at LIBOR-based rates plus a spread depending on the credit default swap spread applicable to the Company's debt, subject to a cap and floor that vary with the Company's debt rating assigned by Moody's Investors Service and Standard & Poor's. The spread above LIBOR can range from 0.23% to 1.63%. The Company also has the ability to issue up to \$800 million of letters of credit under the facility expiring in March 2019, which if utilized, reduces available borrowings under this facility. As of March 29, 2014, \$244 million of letters of credit were outstanding, of which none were 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 4, 2013, the Company declared a \$0.86 per share dividend (\$1.5 billion) related to fiscal 2013 for shareholders of record on December 16, 2013, which was paid on January 16, 2014.

During the six months ended March 29, 2014, the Company repurchased 45 million shares of its common stock for \$3.3 billion. As of March 29, 2014, the Company had remaining authorization in place to repurchase 116 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 nationally recognized 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 March 29, 2014, 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 stable outlook; and Fitch's long- and short-term debt ratings for the Company were A and F1, respectively, with stable outlook. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on March 29, 2014 by a significant margin. The Company's bank facilities also specifically exclude certain entities, including the International Theme Parks, from any representations, covenants or events of default.

## COMMITMENTS AND CONTINGENCIES

### Legal Matters

As disclosed in Note 11 to the Condensed Consolidated Financial Statements, the Company has exposure for certain legal matters, and the disclosure set forth in Note 11 relating to certain legal matters is incorporated herein by reference.

### Guarantees

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

### Tax Matters

As disclosed in Note 9 to the Consolidated Financial Statements in the 2013 Annual Report on Form 10-K, the Company has exposure for certain tax matters.

### Contractual Commitments

See Note 14 to the Consolidated Financial Statements in the 2013 Annual Report on Form 10-K for information regarding the Company's contractual commitments.

## OTHER MATTERS

### Accounting Policies and Estimates

We believe that the application of the following accounting policies, which are important to our financial position and results of operations, requires 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 2013 Annual Report on Form 10-K.

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

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 our estimate of Ultimate Revenues increases, 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, Ultimate Revenues 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 theatrical performance. Revenues derived from other markets subsequent to the theatrical release (e.g., the home entertainment or television markets) have historically been highly correlated with the theatrical performance. 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 the 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.

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. We amortize rights costs for multi-year sports programming arrangements 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 values of 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: primetime, daytime, late night, news 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 2013 Annual Report on Form 10-K 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

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

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.

We recognize revenues from advance theme park ticket sales when the tickets are used. For non-expiring, multi-day tickets, we recognize revenue over a five-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 2013 Annual Report on Form 10-K for estimated impacts of changes in these assumptions. Other assumptions include the healthcare cost trend rate and employee demographic factors such as retirement patterns, mortality, turnover and rate of compensation increase.

The discount rate enables us to state expected future cash payments for benefits as a present value on the measurement date. A lower discount rate increases the present value of benefit obligations and increases pension expense. The guideline for setting this rate is a high-quality long-term corporate bond rate. The Company's discount rate was determined by considering the average of pension yield curves constructed of a large population of high-quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves. To determine the expected long-term rate of return on the plan assets, we consider the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on pension plan assets will increase pension expense.

**Goodwill, Intangible Assets, Long-Lived Assets and Investments**

The Company is required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and if current events or circumstances require, on an interim basis. Goodwill is allocated to various reporting units, which are generally an operating segment or one 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 the 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.

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.

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 tests long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison of cash flows expected to be generated over the useful life of an asset group against the carrying value of the asset group. An asset group is established by identifying the lowest

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

level of cash flows generated by the group of assets that are largely independent of the cash flows of other assets and could include assets used across multiple businesses or segments. If the carrying value of the asset group exceeds the estimated undiscounted future cash flows, an impairment would be measured as the difference between the fair value of the group's long-lived assets and the carrying value of the group's long-lived assets. The impairment is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts, but only to the extent the carrying value of each asset is above its fair value. For assets held for sale, to the extent the carrying value is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference. Determining whether a long-lived asset is impaired requires various estimates and assumptions, including whether a triggering event has occurred, the identification of the asset groups, estimates of future cash flows and the discount rate used to determine fair values. If we had established different asset groups or utilized different valuation methodologies or assumptions, the impairment test results could differ, and we could be required to record impairment charges.

The Company has cost and equity investments. The fair value of these investments is dependent on the performance of the investee companies, as well as volatility inherent in the external markets for these investments. In assessing potential impairment of these investments, we consider these factors, as well as the forecasted financial performance of the 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 collectability 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 collectability 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, costs and expenses may decrease in future periods.

#### Contingencies and Litigation

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

#### Income Tax Audits

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

#### 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 and commodities 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

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

manage net exposure to interest rate changes related to the Company's portfolio of borrowings. By policy, the Company targets fixed-rate debt as a percentage of its net debt between minimum and maximum percentages. Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flows 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 and expenses. The Company utilizes option strategies and forward contracts that provide for the purchase or sale of foreign currencies to hedge probable, but not firmly committed, transactions. The Company also uses forward and option 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 four years. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related exposures. The economic or political conditions in a country could reduce our ability to hedge exposure to currency fluctuations in the country or our ability to repatriate revenue from the country. 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 March 29, 2014, 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 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. Legal Proceedings

As disclosed in Note 11 to the Condensed Consolidated Financial Statements, the Company is engaged in certain legal matters, and the disclosure set forth in Note 11 relating to certain legal matters is incorporated herein by reference.

### 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 2013 Annual Report on Form 10-K under the Item 1A, “Risk Factors.”

## 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 March 29, 2014:

Period	Total Number of Shares Purchased <sup>(1)</sup>	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 <sup>(2)</sup>
December 29, 2013 – January 31, 2014	7,613,283	\$74.59	7,197,400	129 million
February 1, 2014 – February 28, 2014	6,196,854	75.61	6,141,500	122 million
March 1, 2014 – March 29, 2014	6,658,315	80.94	6,605,000	116 million
Total	20,468,452	76.97	19,943,900	116 million

524,552 shares were purchased on the open market to provide shares to participants in the Walt Disney Investment <sup>(1)</sup> Plan (WDIP) and Employee Stock Purchase Plan (ESPP). These purchases were not made pursuant to a publicly announced repurchase plan or program.

<sup>(2)</sup> Under a share repurchase program implemented effective June 10, 1998, the Company is authorized to repurchase shares of its common stock. On March 22, 2011, 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.

ITEM 6. Exhibits  
See Index of Exhibits.

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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 6, 2014  
Burbank, California

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## INDEX OF EXHIBITS

Number and Description of Exhibit (Numbers Coincide with Item 601 of Regulation S-K)	Document Incorporated by Reference from a Previous Filing or Filed Herewith, as Indicated below
3.1 Restated Certificate of Incorporation	Exhibit 3.1 to the Current Report on Form 8-K of the Company dated March 20, 2014
4.1 364-Day Credit Agreement Dated as of March 14, 2014	Exhibit 10.1 to the Current Report on Form 8-K of the Company dated March 20, 2014
4.2 Five-Year Credit Agreement dated as of March 14, 2014	Exhibit 10.2 to the Current Report on Form 8-K of the Company dated March 20, 2014
12.1 Ratio of Earnings to Fixed Charges	Filed herewith
31(a) Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31(b) Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32(a) Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*	Furnished
32(b) Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*	Furnished
101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 29, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, (v) the Condensed Consolidated Statements of Equity and (vi) related notes	Filed

\* 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.