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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 Quarter Ended July 2, 2005 Commission File Number 1-11605

The Walt Disney Company

Incorporated in Delaware

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

500 South Buena Vista Street, Burbank, California 91521

(818) 560-1000

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

YES ☑ NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES ☑ NO

There were 2,010,139,928 shares of common stock outstanding as of August 2, 2005.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited; in millions, except per share data)

	Quarter Ended		Nine Months Ended	
	July 2, 2005	June 30, 2004	**July 2, 2005**	June 30, 2004
Revenues	**$ 7,715**	$ 7,471	**$ 24,210**	$ 23,209
Costs and expenses	**(6,369)**	(6,375)	**(20,516)**	(19,912)
Gain on sale of businesses and restructuring and impairment charges	**24**	(56)	**—**	(59)
Net interest expense	**(134)**	(151)	**(364)**	(446)
Equity in the income of investees	**125**	126	**363**	300
Income before income taxes and minority interests	**1,361**	1,015	**3,693**	3,092
Income taxes	**(463)**	(365)	**(1,294)**	(1,132)
Minority interests	**(47)**	(46)	**(127)**	(131)
Net income	**$ 851**	$ 604	**$ 2,272**	$ 1,829
Earnings per share:				
Diluted	**$ 0.41**	$ 0.29	**$ 1.09**	$ 0.88
Basic	**$ 0.42**	$ 0.29	**$ 1.11**	$ 0.89
Average number of common and common equivalent shares outstanding:				
Diluted	**2,096**	2,111	**2,105**	2,106
Basic	**2,031**	2,053	**2,039**	2,049

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited; in millions)

	July 2, 2005	September 30, 2004
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,034	$ 2,042
Receivables	4,870	4,558
Inventories	611	775
Television costs	537	484
Deferred income taxes	772	772
Other current assets	684	738
Total current assets	9,508	9,369
Film and television costs	5,741	5,938
Investments	1,345	1,292
Parks, resorts and other properties, at cost		
Attractions, buildings and equipment	25,827	25,168
Accumulated depreciation	(12,400)	(11,665)
	13,427	13,503
Projects in progress	2,134	1,852
Land	1,129	1,127
	16,690	16,482
Intangible assets, net	2,794	2,815
Goodwill	16,974	16,966
Other assets	840	1,040
	$ 53,892	$ 53,902
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	$ 4,831	$ 5,623
Current portion of borrowings	1,609	4,093
Unearned royalties and other advances	1,596	1,343
Total current liabilities	8,036	11,059
Borrowings	10,925	9,395
Deferred income taxes	3,113	2,950
Other long term liabilities	3,611	3,619
Minority interests	1,153	798
Commitments and contingencies (Note 13)		
Shareholders' equity		
Preferred stock, $.01 par value Authorized — 100 million shares, Issued — none	—	—
Common stock, $.01 par value Authorized — 3.6 billion shares, Issued — 2.2 billion shares at July 2, 2005 and 2.1 billion shares at September 30, 2004	12,926	12,447
Retained earnings	17,514	15,732
Accumulated other comprehensive loss	(163)	(236)
	30,277	27,943
Treasury stock, at cost, 150.4 million shares at July 2, 2005 and 101.6 million shares at September 30, 2004	(3,223)	(1,862)
	27,054	26,081
	$ 53,892	$ 53,902

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited; in millions)

	Nine Months Ended	
	July 2, 2005	June 30, 2004
OPERATING ACTIVITIES		
Net income	**$ 2,272**	$ 1,829
Depreciation	998	872
Deferred income taxes	129	103
Equity in the income of investees	(363)	(300)
Cash distributions received from equity investees	279	299
Minority interests	127	131
Amortization of film and television production costs	2,370	2,105
Film and television production spending	(2,012)	(1,633)
Non current television programming costs	(43)	(307)
Changes in noncurrent assets and liabilities, and other	(147)	96
	1,338	1,366
Changes in working capital		
Receivables	(261)	(88)
Inventories	41	53
Other current assets	(75)	(83)
Accounts payable and other accrued liabilities	(274)	149
Income taxes	(38)	101
Television programming costs	(52)	76
	(659)	208
Cash provided by operations	2,951	3,403
INVESTING ACTIVITIES		
Investments in parks, resorts and other property	(1,187)	(894)
Working capital proceeds from the Disney Stores North America sale	100	—
Other	18	31
Cash used by investing activities	(1,069)	(863)
FINANCING ACTIVITIES		
Commercial paper borrowings, net	819	100
Borrowings	245	79
Reduction of borrowings	(1,723)	(1,301)
Dividends	(490)	(430)
Repurchases of common stock	(1,361)	—
Euro Disney equity offering	171	—
Equity partner contributions	104	—
Exercise of stock options and other	345	178
Cash used by financing activities	(1,890)	(1,374)
(Decrease) Increase in cash and cash equivalents	(8)	1,166
Cash and cash equivalents, beginning of period	2,042	1,857
Cash and cash equivalents, end of period	**$ 2,034**	$ 3,023

See Notes to Condensed Consolidated Financial Statement

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except per share data)

1. *Principles of Consolidation*

These Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been reflected in these Condensed Consolidated Financial Statements. Operating results for the nine months ended July 2, 2005 are not necessarily indicative of the results that may be expected for the year ending October 1, 2005. Certain reclassifications have been made in the fiscal 2004 financial statements to conform to the fiscal 2005 presentation.

These financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2004 (the 2004 Annual Report).

Effective with the beginning of fiscal year 2005 and in connection with the completion of the Company's implementation of new company-wide integrated financial systems in late fiscal 2004, the Company changed its reporting period from a calendar period end to a period end that coincides with the cut-off of the Company's accounting systems. The accounting systems cut off on the Saturday closest to the calendar quarter end. Accordingly, the third quarter of fiscal 2005 began on April 3, 2005 and ended on July 2, 2005 whereas the third quarter of the prior-year began on April 1, 2004 and ended on June 30, 2004. This resulted in the same number of reporting days in each quarter and one incremental day for the current nine-month period. This change did not have a material impact on quarter-over-quarter earnings comparisons; however, it did benefit diluted earnings per share by approximately $0.01 on a cumulative basis for the current nine-month period. Fiscal 2005 will end on October 1, 2005 and fiscal 2009 will be the first fifty-three week fiscal year following this change.

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

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

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

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.

	Quarter Ended		Nine Months Ended	
	July 2, 2005	June 30, 2004	**July 2, 2005**	June 30, 2004
Revenues(1):				
Media Networks	**$ 3,386**	$ 2,931	**$ 9,855**	$ 8,891
Parks and Resorts	**2,449**	2,288	**6,663**	5,588
Studio Entertainment	**1,462**	1,711	**6,084**	6,837
Consumer Products	**418**	541	**1,608**	1,893
	$ 7,715	$ 7,471	**$ 24,210**	$ 23,209
Segment operating income (loss)(1):				
Media Networks	**$ 998**	$ 673	**$ 2,190**	$ 1,721
Parks and Resorts	**448**	421	**899**	841
Studio Entertainment	**(34)**	28	**552**	639
Consumer Products	**61**	76	**403**	388
	$ 1,473	$ 1,198	**$ 4,044**	$ 3,589

(1) The Studio Entertainment segment receives royalties on Consumer Products sales of merchandise based on certain Studio film properties. This intersegment revenue and operating income was $16 million and $10 million for the quarters ended July 2, 2005 and June 30, 2004, respectively, and $69 million and $55 million for the nine months ended July 2, 2005 and June 30, 2004, respectively.

The Company evaluates the performance of its operating segments based on segment operating income. A reconciliation of segment operating income to income before income taxes and minority interests is as follows:

	Quarter Ended		Nine Months Ended	
	July 2, 2005	June 30, 2004	**July 2, 2005**	June 30, 2004
Segment operating income	**$ 1,473**	$ 1,198	**$ 4,044**	$ 3,589
Corporate and unallocated shared expenses	**(124)**	(99)	**(342)**	(284)
Amortization of intangible assets	**(3)**	(3)	**(8)**	(8)
Gain on sale of businesses and restructuring and impairment charges	**24**	(56)	**—**	(59)
Net interest expense	**(134)**	(151)	**(364)**	(446)
Equity in the income of investees	**125**	126	**363**	300
Income before income taxes and minority interests	**$ 1,361**	$ 1,015	**$ 3,693**	$ 3,092

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

3. *Accounting Changes*

FIN 46

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46). Pursuant to the provisions of FIN 46, the Company began consolidating Euro Disney and Hong Kong Disneyland's balance sheets on March 31, 2004, the end of the Company's second quarter of fiscal 2004 and the income and cash flow statements beginning April 1, 2004, the beginning of the third quarter of fiscal 2004. Under FIN 46 transition rules, the operating results of Euro Disney and Hong Kong Disneyland continued to be accounted for on the equity method for the six months ended March 31, 2004.

The following table presents a condensed consolidating balance sheet for the Company as of July 2, 2005, reflecting the impact of consolidating the balance sheets of Euro Disney and Hong Kong Disneyland.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Cash and cash equivalents	$ 1,649	$ 385	$ 2,034
Other current assets	7,228	246	7,474
Total current assets	8,877	631	9,508
Investments	2,146	(801)	1,345
Fixed assets	12,407	4,283	16,690
Intangible assets	2,794	—	2,794
Goodwill	16,974	—	16,974
Other assets	6,570	11	6,581
Total assets	$ 49,768	$ 4,124	$ 53,892
Current portion of borrowings	$ 1,608	$ 1	$ 1,609
Other current liabilities	5,944	483	6,427
Total current liabilities	7,552	484	8,036
Borrowings	8,073	2,852	10,925
Deferred income taxes	3,113	—	3,113
Other long-term liabilities	3,488	123	3,611
Minority interest	488	665	1,153
Shareholders' equity	27,054	—	27,054
Total liabilities and shareholders' equity	$ 49,768	$ 4,124	$ 53,892

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

The following tables present a condensed consolidating income statement of the Company for the quarter and nine-months ended July 2, 2005, reflecting the impact of consolidating the income statements of Euro Disney and Hong Kong Disneyland.

	Quarter Ended July 2, 2005		
	Before Euro Disney and Hong Kong Disneyland Consolidation(1)	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Revenues	$ 7,404	$ 311	$ 7,715
Cost and expenses	(6,024)	(345)	(6,369)
Gain on sale of businesses and restructuring and impairment charges	24	—	24
Net interest expense	(121)	(13)	(134)
Equity in the income of investees	107	18	125
Income before income taxes and minority interests	1,390	(29)	1,361
Income taxes	(463)	—	(463)
Minority interests	(76)	29	(47)
Net income	$ 851	$ —	$ 851

	Nine Months Ended July 2, 2005		
	Before Euro Disney and Hong Kong Disneyland Consolidation(1)	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Revenues	$ 23,227	$ 983	$ 24,210
Cost and expenses	(19,449)	(1,067)	(20,516)
Gain on sale of businesses and restructuring and impairment charges	—	—	—
Net interest expense	(377)	13	(364)
Equity in the income of investees	338	25	363
Income before income taxes and minority interests	3,739	(46)	3,693
Income taxes	(1,294)	—	(1,294)
Minority interests	(173)	46	(127)
Net income	$ 2,272	$ —	$ 2,272

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

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

The following table presents the condensed consolidating cash flow statement of the Company for the nine months ended July 2, 2005, reflecting the impact of consolidating the cash flow statements of Euro Disney and Hong Kong Disneyland.

	Before Euro Disney and Hong Kong Disneyland consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Cash provided (used) by operations	$ 3,036	$ (85)	$ 2,951
Investments in parks, resorts and other property	(705)	(482)	(1,187)
	2,331	(567)	1,764
Other investing activities	(17)	135	118
Cash (used) provided by financing activities	(2,395)	505	(1,890)
(Decrease) increase in cash and cash equivalents	(81)	73	(8)
Cash and cash equivalents, beginning of period	1,730	312	2,042
Cash and cash equivalents, end of period	$ 1,649	$ 385	$ 2,034

EITF D-108

On September 30, 2004, the Emerging Issues Task Force (EITF) of the FASB issued Topic No. D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill* (EITF D-108). EITF D-108 requires that a direct value method be used to value intangible assets acquired in business combinations completed after September 29, 2004. EITF D-108 also requires the Company to perform an impairment test using a direct value method on all intangible assets that were previously valued using the residual method. This impairment test is required to be performed no later than the beginning of fiscal 2006 for the Company. Any impairments arising from the initial application of a direct value method would be reported as a cumulative effect of accounting change. For radio station acquisitions subsequent to the acquisition of Cap Cities/ABC, Inc. in 1996, the Company has applied the residual value method to value the acquired FCC licenses. The remaining net book value of FCC licenses that were valued under the residual method was approximately $550 million at July 2, 2005. The Company is in the process of evaluating the impact that adopting EITF D-108 will have on the Company’s financial statements. Based on our analysis to date, we believe that some of these FCC licenses may be impaired under EITF D-108, but we currently do not expect such impairment to exceed $65 million.

SFAS 123R

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) *Share-Based Payments* (SFAS 123R). The statement requires companies to record stock option expense in its financial statements based on a fair value methodology beginning no later than the first fiscal quarter beginning after June 15, 2005. The United States Securities and Exchange Commission (SEC) subsequently deferred the implementation date for SFAS 123R to the first fiscal year that begins after June 15, 2005 which is the first quarter of fiscal 2006 for the Company. The Company is evaluating the impact of the new standard and the method and timing of adoption. Although we have not completed our analysis, we anticipate that the expense would not exceed the amounts disclosed in Note 12 had the Company been expensing under the new rule.

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

4. *Investment in Leveraged Leases*

As of July 2, 2005, our investment in aircraft leveraged leases totaled approximately $153 million, consisting of $101 million and $52 million, with Delta Air Lines, Inc. (Delta) and FedEx Corporation, respectively. Given the current status of the airline industry, we continue to monitor the recoverability of these investments, particularly the Delta leases. Delta has disclosed in their earnings release dated July 21, 2005 that while it is making progress in reducing costs and increasing revenue, other factors beyond its control, including high fuel costs outpaced its initiatives, and its management team must implement further change with greater speed to strive to improve its competitive and financial position. Although Delta remains current on their lease payments to us, the inability of Delta to make their lease payments, or the termination of our lease through a bankruptcy proceeding, could result in the write-down of our investment and the acceleration of certain income tax payments.

5. *Gain on Sale of Businesses and Restructuring and Impairment Charges*

On June 20, 2005, the Company sold the Mighty Ducks of Anaheim, which resulted in a pre-tax gain of $26 million that was reported in Gain on Sale of Businesses and Restructuring and Impairment Charges in the Condensed Consolidated Statements of Income.

Effective November 21, 2004, the Company sold substantially all of the Disney Stores chain in North America under a long-term licensing arrangement to a wholly-owned subsidiary of The Children's Place (TCP). The Company received $100 million for the working capital transferred to the buyer at the closing of the transaction. During the nine months ended July 2, 2005, the Company recorded a loss on the working capital that was transferred to the buyer and additional restructuring and impairment charges related to the sale totaling $26 million, of which $2 million was recorded in the third quarter. The restructuring and impairment charges were primarily for employee retention and severance and lease termination costs. Pursuant to the terms of sale, the Disney Stores North America retained its lease obligations related to the stores transferred to the buyer and became a wholly owned subsidiary of TCP. TCP is required to pay the Company a royalty on substantially all of the physical retail store sales beginning on the second anniversary of the closing date of the sale.

After considering its options with respect to the Disney Store chain in Europe, including a potential sale of the business, the Company has decided to retain and continue to operate the chain.

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

6. *Borrowings*

During the nine months ended July 2, 2005, the Company's borrowing activity was as follows:

	September 30, 2004	Additions	Payments	Other activity	July 2, 2005
Commercial paper borrowings	$ 100	$ 819	$ —	$ (2)	$ 917
U.S. medium-term notes	6,624	—	(775)	—	5,849
Convertible senior notes	1,323	—	—	—	1,323
Other U.S. dollar denominated debt	305	—	—	—	305
Privately placed debt	254	—	(47)	—	207
European medium-term notes	1,099	—	(886)	—	213
Preferred stock	373	—	—	(7)	366
Capital Cities/ABC and ABC Family debt	189	—	—	(2)	187
Other(1)	455	—	(2)	(145)	308
Euro Disney borrowings(2)	2,221	—	(13)	(156)	2,052
Hong Kong Disneyland borrowings	545	245	—	17	807
Total	$ 13,488	$ 1,064	$ (1,723)	$ (295)	$ 12,534

(1) The $145 million included in other activity is primarily adjustments related to interest rate hedging activity.

(2) Other activity included a $130 million reduction of Euro Disney senior debt using cash security deposits and a $17 million decrease due to foreign currency translation as a result of the appreciation of the U.S. dollar against the Euro.

7. *Euro Disney*

In September 2004, Euro Disney, the Company, and Euro Disney's lenders finalized a Memorandum of Agreement (MOA) relating to the financial restructuring of Euro Disney and subsequently finalized the legal documentation called for by the MOA. The MOA provided for new financing as well as restructuring Euro Disney's existing financing. The key provisions of the MOA are described in Note 4 to the Consolidated Financial Statements in the 2004 Annual Report.

The transactions contemplated by the MOA were fully implemented on February 23, 2005 with the completion of a €253 million equity rights offering, of which the Company subscribed for €100 million. Following the completion of the financial restructuring, the Company's effective ownership interest in Euro Disney's operations increased to 51%. As discussed in Note 4 to the Consolidated Financial Statements in the 2004 Annual Report, the MOA provided for a 2% interest rate increase for certain tranches of Euro Disney's debt which resulted in a substantial modification of a portion of this debt. Relevant accounting rules required that the substantially modified portion be accounted for as though it had been extinguished and replaced with new borrowings recorded at fair value, which resulted in a $61 million gain recorded to net interest expense in the second quarter.

Certain indirect, wholly-owned subsidiaries of The Walt Disney Company have liability as current or former general partners of the operating subsidiary of Euro Disney to which substantially all of Euro Disney's assets and liabilities were transferred in the restructuring. In addition to their interests in this operating subsidiary of Euro Disney, certain of these subsidiaries of The Walt Disney Company have been capitalized with interest-bearing demand notes with an aggregate face value of €200 million.

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

8. *Pension and Other Benefit Programs*

The components of net periodic benefit cost are as follows:

	Pension Plans				Postretirement Medical Plans			
	Quarter Ended		Nine Months Ended		Quarter Ended		Nine Months Ended	
	July 2, 2005	June 30, 2004	**July 2, 2005**	June 30, 2004	**July 2, 2005**	June 30, 2004	**July 2, 2005**	June 30, 2004
Service cost	**$ 34**	$ 38	**$ 102**	$ 113	**$ 8**	$ 9	**$ 24**	$ 27
Interest cost	**58**	54	**174**	162	**15**	15	**45**	45
Expected return on plan assets	**(55)**	(54)	**(165)**	(162)	**(4)**	(4)	**(12)**	(12)
Amortization of prior service cost	**—**	—	**—**	1	**—**	—	**—**	(1)
Recognized net actuarial loss	**15**	19	**45**	58	**8**	17	**24**	50
Net periodic benefit cost	**$ 52**	$ 57	**$ 156**	$ 172	**$ 27**	$ 37	**$ 81**	$ 109

During the quarter and nine months ended July 2, 2005, we made contributions of $34 million and $108 million, respectively, into the pension and postretirement medical plans. The Company expects to make contributions of $90 million to its pension and postretirement medical plans during the fourth quarter of the fiscal year.

9. *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 stock options and assuming conversion of the Company’s convertible senior notes. For the quarters ended July 2, 2005 and June 30, 2004, options for 90 million and 125 million shares, respectively, were excluded from the diluted earnings per share calculation as they were anti-dilutive. For the nine months ended July 2, 2005 and June 30, 2004, options for 90 million and 111 million shares, respectively, were excluded.

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

	Quarter Ended		Nine Months Ended	
	July 2, 2005	June 30, 2004	**July 2, 2005**	June 30, 2004
Net income	**$ 851**	$ 604	**$ 2,272**	$ 1,829
Interest expense on convertible senior notes (net of tax)	**5**	5	**16**	15
	$ 856	$ 609	**$ 2,288**	$ 1,844
Weighted average number of common shares outstanding (basic)	**2,031**	2,053	**2,039**	2,049
Weighted average dilutive stock options	**20**	13	**21**	12
Assumed conversion of convertible senior notes	**45**	45	**45**	45
Weighted average number of common and common equivalent shares outstanding (diluted)	**2,096**	2,111	**2,105**	2,106

10. *Shareholders’ Equity*

The Company declared a $490 million dividend ($0.24 per share) on December 1, 2004 related to fiscal 2004, which was paid on January 6, 2005 to shareholders of record on December 10, 2004. The Company paid a $430 million dividend ($0.21 per share) during the second quarter of fiscal 2004 related to fiscal 2003.

During the current nine month period, the Company repurchased 49 million shares of Disney common stock for $1.4 billion, of which 33 million shares for $0.9 billion were repurchased in the third quarter. As of July 2, 2005, the Company had authorization in place to repurchase approximately 267 million additional shares.

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

11. *Comprehensive Income*

Comprehensive income is as follows:

	Quarter Ended		Nine Months Ended	
	July 2, 2005	June 30, 2004	**July 2, 2005**	June 30, 2004
Net income	**$ 851**	$ 604	**$ 2,272**	$ 1,829
Market value adjustments for investments and hedges, net of tax	**98**	48	**64**	16
Foreign currency translation	**(45)**	12	**9**	44
Comprehensive income	**$ 904**	$ 664	**$ 2,345**	$ 1,889

Accumulated other comprehensive loss is as follows:

	July 2, 2005	September 30, 2004
Market value adjustments for investments and hedges, net of tax	**$ 3**	$ (61)
Foreign currency translation	**95**	86
Additional minimum pension liability adjustment, net of tax	**(261)**	(261)
Accumulated other comprehensive loss	**$ (163)**	$ (236)

12. *Stock Incentive Plans*

The following table reflects pro forma net income and earnings per share had the Company elected to record employee stock option expense on a fair value basis:

	Quarter Ended		Nine Months Ended	
	July 2, 2005	June 30, 2004	**July 2, 2005**	June 30, 2004
Net income:				
As reported	**$ 851**	$ 604	**$ 2,272**	$ 1,829
Less stock option expense	**(64)**	(106)	**(187)**	(299)
Tax effect	**24**	39	**69**	111
Pro forma after stock option expense	**$ 811**	$ 537	**$ 2,154**	$ 1,641
Diluted earnings per share:				
As reported	**$ 0.41**	$ 0.29	**$ 1.09**	$ 0.88
Pro forma after option expense	**$ 0.39**	$ 0.26	**$ 1.03**	$ 0.79
Basic earnings per share				
As reported	**$ 0.42**	$ 0.29	**$ 1.11**	$ 0.89
Pro forma after option expense	**$ 0.40**	$ 0.26	**$ 1.06**	$ 0.80

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years. The pro forma amounts assume that the Company had been following the fair value approach since the beginning of fiscal 1996.

The Company generally grants stock options and restricted stock units to its key management employees annually in the second quarter of each fiscal year. Historically, these options vested ratably over four or more years and had a ten-year term. Beginning with the grant made in the quarter ended April 2, 2005, the Company generally has reduced the term of these options to seven years. We have assumed that the 10-year options have an average expected life of six years for input into the Black Scholes option valuation which we have used in our pro forma disclosures. For the new seven-year options, we have used a life of 4.75 years based on a simplified method set out in SEC Staff Accounting Bulletin No. 107 (SAB 107). SAB 107, which was issued by the SEC in March 2005, provides interpretive guidance on SFAS 123R. The simplified method defines the life as the average of the contractual term of the options and the weighted average vesting period for all option tranches.

Additionally, in connection with our analysis of option valuation methodologies for our upcoming adoption of SFAS 123R, we reviewed and updated, among other things, our forfeiture and volatility assumptions. Our volatility assumption has been based on the historical volatility of Disney stock and for the last two years we have used an assumed volatility of 40%. The interpretive guidance provided in SAB 107 indicates that if companies have traded financial instruments from which they can derive an implied volatility, they should consider implied volatility in their volatility assumption. We reviewed the implied volatility of our share price from the market prices of Disney exchange traded options and other traded financial instruments, such as our convertible debt. Based on our analysis, we concluded that we can reliably estimate implied volatility such that it can be taken into account in our volatility assumption. We considered the implied and historical volatility to determine an expected volatility of 27% which we have used to value the annual grant that was made in January 2005 and any subsequent grants. The weighted average fair values of options at their grant date during the nine months ended July 2, 2005 and June 30, 2004, were $7.71 and $9.94, respectively.

During the nine month period ended July 2, 2005, the Company granted approximately 19 million stock options and approximately nine million restricted stock units. Approximately one million of the restricted stock units include market based performance conditions, which require that on each vesting date, the Company's total shareholder return must exceed that of the S&P 500 for either the one or three-year period preceding the vesting date in order for the units to vest. Prior to the current year, the Company had issued performance restricted stock that generally vests based on achieving specified earnings targets. As of July 2, 2005, approximately 16 million restricted stock units were outstanding, of which two million vest upon performance conditions. All other units do not include performance conditions and generally vest 50% two years from grant date and 50% four years from grant date. In certain circumstances as described in our proxy statement dated January 6, 2005, accelerated vesting may occur. During the nine month periods ended July 2, 2005 and June 30, 2004, the Company recorded compensation expense related to restricted stock totaling $92 million and $41 million, respectively. Unearned restricted stock compensation expense for existing grants totaled approximately $268 million as of July 2, 2005 which will be amortized over the remaining vesting period. The increase in restricted stock expense reflects the shift in the Company's long-term incentive compensation plan to increase the proportion of restricted stock units and reduce the proportion of stock options.

13. *Commitment and Contingencies*

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

Stephen Slesinger, Inc. v. The Walt Disney Company. In this lawsuit, filed on February 27, 1991 in the Los Angeles County Superior Court, the plaintiff claims that a Company subsidiary defrauded it and breached a 1983 licensing agreement with respect to certain Winnie the Pooh properties, by failing to account for and pay royalties on revenues earned from the sale of Winnie the Pooh movies on videocassette and from the exploitation of Winnie the Pooh merchandising rights. The plaintiff seeks damages for the licensee's alleged breaches as well as confirmation of the plaintiff's interpretation of the licensing agreement with respect to future activities. The plaintiff also seeks the right to terminate the agreement on the basis of the alleged breaches. If each of the plaintiff's claims were to be confirmed in a final judgment, damages as argued by the plaintiff could total as much as several hundred million dollars and adversely impact the value to the Company of any future exploitation of the licensed rights. On March 29, 2004, the Court granted the Company's motion for terminating sanctions against the plaintiff for a host of discovery abuses, including the withholding, alteration, and theft of documents and other information, and, on April 5, 2004, dismissed plaintiff's case with prejudice. Plaintiff's subsequent attempts to disqualify the judge who granted the terminating sanctions were denied in 2004, and its motion for a “new trial” was denied on January 26, 2005, allowing plaintiff to proceed with its noticed appeal from the April 5, 2004, order of dismissal.

Milne and Disney Enterprises, Inc. v. Stephen Slesinger, Inc. On November 5, 2002, Clare Milne, the granddaughter of A. A. Milne, author of the Winnie the Pooh books, and the Company’s subsidiary Disney Enterprises, Inc. filed a complaint against Stephen Slesinger, Inc. (SSI) in the United States District Court for the Central District of California. On November 4, 2002, Ms. Milne served notices to SSI and the Company’s subsidiary terminating A. A. Milne’s prior grant of rights to Winnie the Pooh, effective November 5, 2004, and granted all of those rights to the Company’s subsidiary. In their lawsuit, Ms. Milne and the Company’s subsidiary seek a declaratory judgment, under United States copyright law, that Ms. Milne’s termination notices were valid; that SSI’s rights to Winnie the Pooh in the United States terminated effective November 5, 2004; that upon termination of SSI’s rights in the United States, the 1983 licensing agreement that is the subject of the *Stephen Slesinger, Inc. v. The Walt Disney Company* lawsuit terminated by operation of law; and that, as of November 5, 2004, SSI was entitled to no further royalties for uses of Winnie the Pooh. SSI filed (a) an answer denying the material allegations of the complaint and (b) counterclaims seeking a declaration that (i) Ms. Milne’s grant of rights to Disney Enterprises, Inc. is void and unenforceable and (ii) Disney Enterprises, Inc. remains obligated to pay SSI royalties under the 1983 licensing agreement. SSI also filed a motion to dismiss the complaint or, in the alternative, for summary judgment. Subsequently, the Court ruled that Milne’s termination notices are invalid and dismissed SSI’s counterclaims as moot. Following further motions SSI filed an amended answer and counterclaims and a third-party complaint against Harriet Hunt (heir to E. H. Shepard, illustrator of the original Winnie the Pooh stories), who had served a notice of termination and a grant of rights similar to Ms. Milne’s. By order dated August 3, 2004, the Court granted SSI leave to amend its answer to assert counterclaims against the Company allegedly arising from the Milne and Hunt terminations and the grant of rights to the Company’s subsidiary for (a) unlawful and unfair business practices; and (b) breach of the 1983 licensing agreement. In November 2004, the District Court granted a motion by Milne to dismiss her complaint for the purpose of obtaining a final appealable order of dismissal, so as to permit her appeal to the Court of Appeals to proceed. Oral argument of that appeal is scheduled to be heard on September 13, 2005.

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

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

Contractual Guarantees

The Company has guaranteed certain special assessment and water/sewer revenue bonds issued by the Celebration Community Development District and the Enterprise Community Development District (collectively, the Districts). The bond proceeds were used by the Districts to finance the construction of infrastructure improvements and the water and sewer system in the mixed-use, residential community of Celebration, Florida. As of July 2, 2005, the remaining debt service obligation guaranteed by the Company was $94 million, of which $58 million was principal. The Company is responsible to satisfy any shortfalls in debt service payments, debt service and maintenance reserve funds, and to ensure compliance with specified rate covenants. To the extent that the Company has to fund payments under its guarantees, the Districts have an obligation to reimburse the Company from future District revenues.

The Company has also guaranteed certain bond issuances by the Anaheim Public Authority that were used by the City of Anaheim to finance construction of infrastructure and a public parking facility adjacent to the Disneyland Resort. Revenues from sales, occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds. In the event of a debt service shortfall, the

Company will be responsible to fund the shortfall. As of July 2, 2005, the remaining debt service obligation guaranteed by the Company was $400 million, of which $109 million was principal. To the extent that subsequent tax revenues exceed the debt service payments in subsequent periods, the Company would be reimbursed for any previously funded shortfalls.

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

Commitments

In April 2005, the Company entered into a new agreement with the NFL for the right to broadcast NFL Monday Night football games on ESPN. The contract provides for total payments of approximately $8.87 billion over the eight-year period, commencing with the 2006-2007 season.

14. *Income Taxes*

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. Among current audits, the Internal Revenue Service (IRS) is examining the Company's federal income tax returns for 1996 through 2000. In connection with this examination, the IRS has proposed assessments with respect to certain of the Company's tax positions for the years under examination. However, the Company continues to believe that its tax positions comply with applicable tax law and intends to defend its positions vigorously. The Company believes it has adequately provided for any reasonably foreseeable outcome of these matters and does not anticipate any material earnings impact from their ultimate resolution. During the first quarter of fiscal 2005, there was a favorable resolution of an income tax matter that resulted in a $24 million tax reserve release.

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

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

ORGANIZATION OF INFORMATION

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

Overview
Seasonality
Business Segment Results

Quarter Results
Nine Month Results

Corporate and Other Non-Segment Items
Stock Option Accounting
Financial Condition
Commitments and Contingencies
Other Matters
Market Risk
Forward Looking Statements

OVERVIEW

Our summary consolidated results are presented below:

(in millions, except per share data)	Quarter Ended July 2, 2005	Quarter Ended June 30, 2004	% Change	Nine Months Ended July 2, 2005	Nine Months Ended June 30, 2004	% Change
Revenues	**$ 7,715**	$ 7,471	3%	**$ 24,210**	$ 23,209	4%
Costs and expenses	**(6,369)**	(6,375)	—	**(20,516)**	(19,912)	(3)%
Gain on sale of businesses and restructuring and impairment charges	**24**	(56)	nm	**—**	(59)	nm
Net interest expense	**(134)**	(151)	11%	**(364)**	(446)	18%
Equity in the income of investees	**125**	126	(1)%	**363**	300	21%
Income before income taxes and minority interests	**1,361**	1,015	34%	**3,693**	3,092	19%
Income taxes	**(463)**	(365)	(27)%	**(1,294)**	(1,132)	(14)%
Minority interests	**(47)**	(46)	(2)%	**(127)**	(131)	3%
Net income	**$ 851**	$ 604	41%	**$ 2,272**	$ 1,829	24%
Diluted earnings per share	**$ 0.41**	$ 0.29	41%	**$ 1.09**	$ 0.88	24%

Quarter Results

Net income increased 41%, or $247 million, to $851 million due to operating income growth at Media Networks and Parks and Resorts, partially offset by a decrease at Studio Entertainment and Consumer Products. Diluted earnings per share increased 41% to $0.41 in the current quarter. Current quarter earnings per share included a $32 million ($20 million after-tax or $0.01 per share) partial impairment of a cable television investment in Latin America, a $26 million ($16 million after-tax or $0.01 per share) gain on the sale of the Mighty Ducks of Anaheim and a $24 million ($15 million after-tax or $0.01 per share) write-down related to the MovieBeam venture. The prior-year quarter's earnings per share included restructuring and impairment charges of $56 million ($35 million after-tax or $0.02 per share) recorded in connection with the disposition of the Disney Stores North America.

Nine-Month Results

Net income for the nine-month period increased 24%, or $443 million, to $2.3 billion. The increase in net income was primarily due to segment operating income growth at the Media Networks and Parks and Resorts segments partially offset by a decrease at Studio Entertainment.

Diluted earnings per share increased 24% to $1.09 in the nine-month period. In addition to the partial impairment of the Latin American cable television investment, the gain on sale of the Mighty Ducks of Anaheim and the write-down related to the MovieBeam venture recorded in the third quarter and the effective income tax rate benefit, the current nine-month period also included a $61 million benefit ($38 million after-tax or $0.02 per share) from the restructuring of Euro Disney's borrowings and a $24 million benefit ($0.01 per share) from the favorable resolution of certain income tax matters. These benefits were partially offset by a $32 million charge ($20 million after-tax or $0.01 per share) to write-down an investment and restructuring and impairment charges related to the sale of the Disney Stores North America of $26 million ($16 million after-tax or $0.01 per share).

SEASONALITY

The Company's businesses are subject to the effects of seasonality. Consequently, the operating results for the quarter and nine months ended July 2, 2005 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 influenced by advertiser demand and the seasonal nature of programming, and generally peak in the spring and fall.

Parks and Resorts revenues fluctuate with changes in theme park attendance and resort occupancy resulting from the seasonal nature of vacation travel. 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 based upon the timing of theatrical motion picture, home entertainment (DVD and VHS) and television releases. Release dates for theatrical, home entertainment and television products are determined by several factors, including timing of vacation and holiday periods and competition in the market.

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

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

BUSINESS SEGMENT RESULTS

(in millions)	Quarter Ended July 2, 2005	Quarter Ended June 30, 2004	% Change	Nine Months Ended July 2, 2005	Nine Months Ended June 30, 2004	% Change
Revenues:						
Media Networks	**$ 3,386**	$ 2,931	16%	**$ 9,855**	$ 8,891	11%
Parks and Resorts	**2,449**	2,288	7%	**6,663**	5,588	19%
Studio Entertainment	**1,462**	1,711	(15)%	**6,084**	6,837	(11)%
Consumer Products	**418**	541	(23)%	**1,608**	1,893	(15)%
	$ 7,715	$ 7,471	3%	**$ 24,210**	$ 23,209	4%
Segment operating income (loss):						
Media Networks	**$ 998**	$ 673	48%	**$ 2,190**	$ 1,721	27%
Parks and Resorts	**448**	421	6%	**899**	841	7%
Studio Entertainment	**(34)**	28	nm	**552**	639	(14)%
Consumer Products	**61**	76	(20)%	**403**	388	4%
	$ 1,473	$ 1,198	23%	**$ 4,044**	$ 3,589	13%

The Company evaluates the performance of its operating segments based on segment operating income. The following table reconciles segment operating income to income before income taxes and minority interests.

(in millions)	Quarter Ended July 2, 2005	Quarter Ended June 30, 2004	% Change	Nine Months Ended July 2, 2005	Nine Months Ended June 30, 2004	% Change
Segment operating income	**$ 1,473**	$ 1,198	23%	**$ 4,044**	$ 3,589	13%
Corporate and unallocated shared expenses	**(124)**	(99)	(25)%	**(342)**	(284)	(20)%
Amortization of intangible assets	**(3)**	(3)	—	**(8)**	(8)	—
Gain on sale of businesses and restructuring and impairment charges	**24**	(56)	nm	**—**	(59)	nm
Net interest expense	**(134)**	(151)	11%	**(364)**	(446)	18%
Equity in the income of investees	**125**	126	(1)%	**363**	300	21%
Income before income taxes and minority interests	**$ 1,361**	$ 1,015	34%	**$ 3,693**	$ 3,092	19%

Table of Contents

Depreciation expense is as follows:

(in millions)	Quarter Ended July 2, 2005	Quarter Ended June 30, 2004	Nine Months Ended July 2, 2005	Nine Months Ended June 30, 2004
Media Networks	**$ 46**	$ 40	**$ 133**	$ 124
Parks and Resorts				
Domestic	**206**	182	**578**	540
International (1)	**49**	48	**149**	48
Studio Entertainment	**6**	4	**20**	14
Consumer Products	**7**	12	**20**	38
Segment depreciation expense	**314**	286	**900**	764
Corporate	**33**	34	**98**	108
Total depreciation expense	**$ 347**	$ 320	**$ 998**	$ 872

(1) Represents 100% of Euro Disney and Hong Kong Disneyland's depreciation expense for all periods since the Company began consolidating the results of operations and cash flows of these two entities beginning April 1, 2004.

Segment depreciation expense is included in segment operating income and corporate depreciation expense is included in corporate and unallocated shared expenses.

Business Segment Results — Quarter Results

Media Networks

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

(in millions)	Quarter Ended July 2, 2005	Quarter Ended June 30, 2004	% Change	Nine Months Ended July 2, 2005	Nine Months Ended June 30, 2004	% Change
Revenues:						
Cable Networks	**$ 1,933**	$ 1,627	19%	**$ 5,362**	$ 4,695	14%
Broadcasting	**1,453**	1,304	11%	**4,493**	4,196	7%
	$ 3,386	$ 2,931	16%	**$ 9,855**	$ 8,891	11%
Segment operating income:						
Cable Networks	**$ 729**	$ 529	38%	**$ 1,727**	$ 1,401	23%
Broadcasting	**269**	144	87%	**463**	320	45%
	$ 998	$ 673	48%	**$ 2,190**	$ 1,721	27%

Revenues

Media Networks revenues increased 16%, or $455 million, to $3.4 billion, consisting of a 19% increase, or $306 million, at the Cable Networks, and an 11% increase, or $149 million, at Broadcasting.

Increased Cable Networks revenues were due to growth of $284 million from cable and satellite operators. Revenues from cable and satellite operators are generally derived from fees charged on a per subscriber basis, and the increase in the current quarter was due to growth at ESPN which resulted from contractual rate increases, recognition of previously deferred revenues and subscriber growth. Subscriber growth and rate improvements at the Disney Channel also contributed to the increase.

The Company's contractual arrangements with cable and satellite operators are renewed or renegotiated from time to time in the ordinary course of business. A number of these arrangements are currently in negotiations. Consolidation in the cable and satellite distribution industry and other factors may adversely affect the Company's ability to obtain and maintain contractual terms for the distribution of its various cable and satellite programming services that are as favorable as those currently in place. If this were to occur, revenues from Cable Networks could increase at slower rates than in the past or could stabilize or decline. Certain of the Company's existing contracts with cable and satellite operators as well as contracts in negotiation include annual programming commitments. In these cases, revenue subject to the commitment is deferred until the annual commitments are satisfied which generally results in revenue shifting from the first half of the year to the second half. During the quarter, the Company recognized net revenues of $42 million related to these commitments compared to a net deferral of $36 million in the prior-year quarter.

Increased Broadcasting revenues were due to growth at Television Production and Distribution and the ABC Television Network. The increase at Television Production and Distribution was driven by higher license fee revenue from domestic and international markets as a result of a higher number of pilots produced and sales of *Desperate Housewives* and *Lost,* respectively. ABC Television Network revenues increased due to higher advertising rates and improved primetime ratings.

Costs and Expenses

Costs and expenses, which consist primarily of programming rights costs, production costs, distribution and marketing expenses, labor costs and general and administrative costs, increased 6%, or $130 million, to $2.4 billion consisting of a 10% increase, or $106 million, at the Cable Networks, and a 2% increase, or $24 million, at Broadcasting. The increase at Cable Networks was driven by higher marketing expenses, increased costs for new business initiatives, and higher general and administrative expenses, while the increase in Broadcasting was due to higher production and distribution costs partially offset by lower programming costs.

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

Segment Operating Income

Segment operating income increased 48%, or $325 million, to $998 million for the quarter due to an increase of $200 million at the Cable Networks and an increase of $125 million at Broadcasting. The increase in cable operating income was due to higher affiliate revenues partially offset by higher marketing and general and administrative expenses. The increase at Broadcasting was due to lower programming costs and higher advertising revenues at the ABC Television Network partially offset by increased production costs as more pilots were produced.

MovieBeam

The Company launched MovieBeam, an on-demand electronic movie rental service in three domestic cities in October 2003. The Company suspended service in April 2005 while evaluating its go-forward business model and negotiating a refinancing of the business with strategic and financial investors. If successful, a refinancing transaction will result in the Company making a further investment in the business while retaining only a minority interest in MovieBeam. Based on recent negotiations with a financial investor, the Company has concluded that any such refinancing will not be sufficient to recover all of its recorded investment related to the MovieBeam venture and has recognized $24 million of impairment charges during the third quarter of fiscal year 2005. In the second quarter of fiscal 2005, the Company had taken a $32 million write-down of its investment in the company that provides the technology used by MovieBeam.

Parks and Resorts

Revenues

Revenues at Parks and Resorts increased 7%, or $161 million, to $2.4 billion. The increase was due to increases of $92 million at the Walt Disney World Resort and $70 million at the Disneyland Resort.

At the Walt Disney World Resort, increased revenues were driven by higher theme park guest spending and increased occupied room nights. Higher guest spending reflected ticket price increases and fewer promotional offers compared to the prior-year quarter. During the quarter, the Company launched two new programs, *Disney's Magical Express* and *Extra Magic Hours*, which are designed to increase occupancy at Walt Disney World hotels.

At the Disneyland Resort, increased revenues were primarily due to higher theme park guest spending and increased attendance. Higher guest spending was due to ticket price increases, while increased attendance was due to the strength of the 50th anniversary celebration.

Across our domestic theme parks, attendance increased 1% and per capita theme park guest spending increased 6% compared to the prior-year quarter. Attendance at the Walt Disney World Resort decreased 1% while per capita theme park guest spending increased 4%. Attendance at the Disneyland Resort increased 6%, while per capita theme park guest spending increased 11%.

Operating statistics for our domestic hotel properties are as follows:

	East Coast Resorts Quarter Ended		West Coast Resorts Quarter Ended		Total Domestic Resorts Quarter Ended	
	July 2, 2005	June 30, 2004	**July 2, 2005**	June 30, 2004	**July 2, 2005**	June 30, 2004
Occupancy	**88%**	83%	**96%**	88%	**88%**	84%
Available Room Nights (in thousands)	**2,193**	2,171	**202**	202	**2,396**	2,373
Per Room Guest Spending	**$ 209**	$ 209	**$ 276**	$ 265	**$ 215**	$ 214

Per room guest spending consists of the average daily hotel room rate as well as guest spending on food, beverages and merchandise at the hotels.

Costs and Expenses

Costs and expenses, which consist principally of labor, cost of merchandise, food and beverages sold, depreciation, repairs and maintenance, entertainment, marketing and sales and information technology expense, increased 7%, or $134 million compared to the prior-year quarter. The increase in costs and expenses was primarily due to an increase in marketing costs related to the celebration of the 50th anniversary of Disneyland, at both Walt Disney World and Disneyland. In addition, costs and expenses increased due to new attractions and new service programs at Walt Disney World, higher volume-related expenses at Disneyland and increased pre-opening costs at Hong Kong Disneyland. Hong Kong Disneyland is scheduled to open in September 2005 and has incurred pre-opening costs and other expenses of $25 million and $49 million during the current quarter and nine-month periods, respectively. We expect to incur additional pre-opening costs during the remainder of fiscal 2005 which will be charged to expense as incurred.

Segment Operating Income

Segment operating income increased 6%, to $448 million primarily due to growth across the domestic resorts partially offset by pre-opening costs at Hong Kong Disneyland.

Studio Entertainment

Revenues

Revenues decreased 15%, or $249 million, to $1.5 billion, due to decreases of $198 million in worldwide home entertainment and $46 million in worldwide theatrical motion picture distribution, partially offset by an increase of $23 million in television distribution.

Worldwide home entertainment revenues declined due to lower overall unit sales in the current quarter as there were fewer strong performing titles. Prior-year quarter titles included Disney/Pixar's *Finding Nemo, Kill Bill Vol.1, Haunted Mansion, Cold Mountain* and *Scary Movie 3,* while current quarter titles included *National Treasure*, *The Pacifier* and Disney/Pixar's *The Incredibles.* Additionally, the Company observed a decline in home video unit sales for feature films relative to the related total domestic box-office results. Lower worldwide theatrical motion picture distribution revenues were due to fewer releases in the current quarter. The increase in television distribution revenues was due to a higher number of titles being made available during the current quarter.

Costs and Expenses

Costs and expenses, which consist primarily of production cost amortization, distribution and selling expenses, product costs and participation costs, decreased 11% or $187 million. Lower costs in international home entertainment and worldwide theatrical motion picture distribution were partially offset by higher costs in domestic home entertainment. Lower costs in international home entertainment were driven by lower participation and distribution costs for *The Incredibles* in the current quarter as compared to *Finding Nemo* in the prior-year quarter. Pixar receives an equal share of profits (after distribution fees) as co-producer of *Finding Nemo* and *The Incredibles.* Accordingly, participation costs were higher in the prior-year quarter due to the stronger performance of *Finding Nemo.* Lower costs in worldwide theatrical motion picture distribution were due to lower distribution costs and production cost amortization related to fewer releases in the current quarter and lower promotional spending on films to be released in the fourth quarter. Higher costs in domestic home entertainment were driven by higher promotional spending on catalog titles.

Segment Operating Income

Segment operating income decreased $62 million, to a loss of $34 million, due to lower overall unit sales in worldwide home entertainment partially offset by lower costs in worldwide theatrical motion picture distribution and higher revenues in television distribution.

Miramax

In March 2005, the Company entered into agreements with Miramax co-chairmen, Bob and Harvey Weinstein, and their new production company. Pursuant to those agreements, the Company, among other things, substantially resolved all economic issues relating to the Weinsteins' existing employment agreements; terminated the Weinsteins' existing employment agreements and entered into new employment agreements with them through September 30, 2005 and sold interests in certain films in various stages of production to the Weinsteins' new company and provided it with the opportunity to acquire certain development projects, as well as sequel rights to certain library product. The Company will retain certain co-financing, distribution and participation rights in several of these properties. The Company will also retain the Miramax and Dimension film libraries and the name "Miramax Films," while the Weinsteins will take the Dimension name into their new company. No material charges were recorded as a result of the execution of the agreements. The Company appointed a new president for Miramax in July 2005 and is in the process of evaluating projects currently in progress and other aspects of Miramax's business plan. Although the Company does not currently anticipate that it will incur material charges in connection with this evaluation, it is unable to determine the amount of any potential charges until the evaluation is completed.

In addition, the Company expects to release seven more Miramax films theatrically in the fourth quarter of fiscal 2005 as compared to the same period in the prior year, when Miramax released only four films. As feature films frequently incur losses during the theatrical window because of the related distribution costs, we expect that the expenses associated with these additional releases will increase our costs and reduce the Studio segment's operating income in the fourth quarter compared to the amount absent these releases. The impact of these releases on operating income will depend on how these titles perform and, to the extent the titles are successful, much of the benefit would be realized after the fourth quarter.

Consumer Products

Revenues

Revenues for the quarter decreased 23%, or $123 million, to $418 million, reflecting a decrease of $130 million due to the sale of the Disney Store North America in November 2004 partially offset by an increase in merchandise licensing of $15 million. Growth at merchandise licensing was driven by increases at hardlines and softlines in North America and Europe.

Costs and Expenses

Costs and expenses decreased 23%, or $108 million, to $357 million. The decrease was driven by the sale of the Disney Stores North America chain partially offset by higher product development expenses at Buena Vista Games.

Segment Operating Income

Segment operating income decreased 20%, or $15 million, to $61 million, driven by higher product development expenses at Buena Vista Games partially offset by growth in merchandise licensing.

Business Segment Results — Nine Month Results

Media Networks

Revenues

Media Networks revenues increased 11%, or $964 million, to $9.9 billion, due to an increase of 14%, or $667 million at the Cable Networks, and an increase of 7%, or $297 million at Broadcasting.

Increased Cable Networks revenues were due to increases of $538 million in revenues from cable and satellite operators and $174 million in advertising revenues. The increase in cable and satellite operator revenues was due to contractual rate increases at ESPN and subscriber growth at ESPN and the Disney Channels. Increased advertising revenue was primarily due to higher rates at ESPN and higher ratings at ABC Family.

Through the nine month period, the Company has deferred net revenue of $86 million related to sports programming commitments at ESPN compared to a $48 million deferral in the prior-year period. The Company expects to fulfill these sports programming commitments within the contractual time periods over the next two quarters.

Increased Broadcasting revenues were due to growth at Television Production and Distribution and the ABC Television Network. Television Production and Distribution revenues increased driven by higher license fee revenues led by sales of *Desperate Housewives* and *Lost* in international markets. The increase at ABC Television Network was due to an increase in primetime advertising revenue resulting from higher ratings and rates.

Costs and Expenses

Costs and expenses increased 7%, or $495 million, to $7.7 billion due to a 10% or $341 million increase at the Cable Networks, and a 4% or $154 million increase at Broadcasting. The increase at Cable Networks was due to higher programming and production costs, general and administrative costs and marketing expenses. Broadcasting costs and expenses increased due to higher production and distribution costs.

Segment Operating Income

Segment operating income increased 27%, or $469 million, to $2.2 billion due to increases of $326 million at the Cable Networks and $143 million at Broadcasting. The increase in cable operating income was due to higher affiliate and advertising revenue partially offset by higher costs and expenses. The increase at Broadcasting was due to higher license fee and advertising revenues partially offset by higher production and distribution costs.

Parks and Resorts

Revenues

Revenues at Parks and Resorts increased 19%, or $1.1 billion, to $6.7 billion. The increase was driven by a $672 million impact from the consolidation of Euro Disney and Hong Kong Disneyland. As we began consolidating the results of Euro Disney and Hong Kong Disneyland at the beginning of the third quarter of fiscal 2004, the nine-month period in the prior year includes only three months of operations. Excluding this impact, revenues grew 7%, or $403 million, driven by growth of $313 million at the Walt Disney World Resort and $120 million at the Disneyland Resort.

At the Walt Disney World Resort, increased revenues were primarily driven by higher occupied room nights, theme park guest spending and attendance. Increased hotel occupancy and theme park attendance were driven by increased international and domestic guest visitation, reflecting the ongoing recovery in travel and tourism and the popularity of Disney as a travel destination. Higher guest spending at the theme parks reflected ticket price increases and increased meal package spending due to increased product demand.

At the Disneyland Resort, increased revenues were driven by higher guest spending at the theme parks due to increased ticket prices and fewer promotional discounts.

Across our domestic theme parks, attendance increased 2% and per capita theme park guest spending increased 6%. Attendance at the Walt Disney World Resort increased 2% while per capita theme park guest spending increased 4%. Attendance at the Disneyland Resort increased 1% while per capita theme park guest spending increased 12%. Operating statistics for our domestic hotel properties are as follows:

	East Coast Resorts Nine Months Ended		West Coast Resorts Nine Months Ended		Total Domestic Resorts Nine Months Ended	
	July 2, 2005	June 30, 2004	**July 2, 2005**	June 30, 2004	**July 2, 2005**	June 30, 2004
Occupancy	**84%**	80%	**88%**	86%	**85%**	80%
Available Room Nights (in thousands)	**6,560**	6,290	**607**	607	**7,167**	6,897
Per Room Guest Spending	**$ 204**	$ 205	**$ 264**	$ 250	**$ 209**	$ 209

The increase in available room nights was primarily due to the opening of Disney's Pop Century Resort, which has approximately 2,900 rooms, late in the first quarter of fiscal 2004 and the re-opening of approximately 1,000 rooms in the French Quarter portion of the Port Orleans hotel in the second quarter of fiscal 2004. Per room guest spending consists of the average daily hotel room rate as well as guest spending on food, beverages, and merchandise at the hotels.

Costs and Expenses

Costs and expenses increased 21%, or $1.0 billion, driven by a $722 million impact from the consolidation of Euro Disney and Hong Kong Disneyland beginning in the third quarter of fiscal 2004. The remaining increase of $295 million was due to higher costs at Walt Disney World and Disneyland. Walt Disney World incurred higher volume-related expenses, marketing and sales costs, information technology costs, and depreciation and other costs associated with new attractions and the new service programs. Disneyland incurred higher marketing and sales costs and volume-related expenses associated with the 50th anniversary celebration, as well as higher depreciation and other costs.

Segment Operating Income

Segment operating income increased 7%, or $58 million, to $899 million due to growth at Walt Disney World and Disneyland. These increases were partially offset by a decrease of $50 million due to the consolidation of Euro Disney and Hong Kong Disneyland beginning in the third quarter of fiscal 2004, and higher pre-opening expenses at Hong Kong Disneyland in the third quarter.

Studio Entertainment

Revenues

Revenues decreased 11%, or $753 million, to $6.1 billion, due to decreases of $886 million in worldwide home entertainment and $188 million in international theatrical motion picture distribution, which were partially offset by increases of $187 million in television distribution and $97 million in domestic theatrical motion picture distribution.

Worldwide home entertainment revenues declined due to lower overall unit sales in the current period as there were fewer strong performing titles. The prior-year titles included *Finding Nemo, Pirates of the Caribbean* and *The Lion King* Platinum release, while the current period titles included *The Incredibles, National Treasure* and *King Arthur*. In international theatrical motion picture distribution, the performances of prior-period titles, which included *Finding Nemo, Brother Bear* and *Haunted Mansion*, were stronger than the current period titles, which included *The Incredibles* and *National Treasure*. Additionally, the prior-year period had more releases. Higher television distribution revenues were due to better performing titles in the pay television market and more titles being made available in the current period. Higher revenues in domestic theatrical motion picture distribution were due to the strong performances of current period titles, which included *The Incredibles*, *National Treasure,* and *The Pacifier* compared to the prior-period, which included *Scary Movie 3*, *Cold Mountain* and *Brother Bear*.

Costs and Expenses

Costs and expenses decreased 11%, or $666 million, due to lower costs in worldwide theatrical motion picture distribution and worldwide home entertainment. These declines were partially offset by an increase in television distribution. The decline in costs and expenses in worldwide theatrical distribution were driven by lower distribution costs and lower film write-offs. The prior-year period included higher profile films that had more extensive marketing campaigns to launch the films. The lower costs in worldwide home entertainment were also due to higher profile films in the prior-year period, which included *Finding Nemo, Pirates of the Caribbean* and *The Lion King* Platinum Release. Additionally, the Company incurred higher participation costs due to the better performance of *Finding Nemo* and *Pirates of the Caribbean* in the prior-year period compared to *The Incredibles* and *National Treasure* in the current period. Higher costs and expenses in television distribution were due to higher production cost amortization from increased sales in the current period.

Segment Operating Income

Segment operating income decreased 14%, or $87 million, to $552 million, due to lower overall unit sales in worldwide home entertainment, partially offset by lower costs in worldwide theatrical motion picture distribution and growth in television distribution.

Consumer Products

Revenues

Revenues decreased 15%, or $285 million, to $1.6 billion, driven by a decrease of $406 million due to the sale of the Disney Stores North America in November 2004, as well as a decrease of $11 million at Publishing. These decreases were partially offset by increases in merchandise licensing and Buena Vista Games of $88 million and $43 million, respectively.

The increase in merchandise licensing reflected higher revenues in all lines of business and recognition of contractual minimum guarantee revenues at Toys which increased by $37 million. Growth in other categories was driven by home and infant furnishings and food, health and beauty products. The increase at Buena Vista Games was due to higher Game Boy Advance sales and increased license revenues as well as the recognition of contractual minimum guarantee revenues which increased by $16 million.

Costs and Expenses

Costs and expenses decreased 20%, or $300 million, to $1.2 billion driven by a decrease of $399 million due to the sale of the Disney Stores North America chain partially offset by higher product development spending at Buena Vista Games and higher expenses at merchandise licensing.

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

Segment Operating Income

Segment operating income increased 4%, or $15 million, to $403 million, driven by increased revenues at merchandise licensing and Buena Vista Games, partially offset by increased spending at Buena Vista Games and lower revenues at Publishing.

The Disney Store

Effective November 21, 2004, the Company sold substantially all of the Disney Stores chain in North America under a long-term licensing arrangement to a wholly-owned subsidiary of The Children's Place (TCP). The Company received $100 million for the working capital transferred to the buyer at the closing of the transaction. During the nine months ended July 2, 2005, the Company recorded a loss on the working capital that was transferred to the buyer and additional restructuring and impairment charges related to the sale totaling $26 million, of which $2 million was recorded in the third quarter. The restructuring and impairment charges were primarily for employee retention and severance and lease termination costs. Pursuant to the terms of sale, the Disney Stores North America retained its lease obligations related to the stores transferred to the buyer and became a wholly owned subsidiary of TCP. TCP is required to pay the Company a royalty on substantially all of the physical retail store sales beginning on the second anniversary of the closing date of the sale.

After considering its options with respect to the Disney Store chain in Europe, including a potential sale of the business, the Company has decided to retain and continue to operate the chain.

The following table provides supplemental revenue and operating income detail for the Disney Stores. Amounts for North America reflect operations through November 20, 2004 (the day prior to the effective date of the sale of these stores).

	Quarter Ended			Nine Months Ended		
(in millions)	**July 2, 2005**	June 30, 2004	% Change	**July 2, 2005**	June 30, 2004	% Change
Revenues:						
North America	**$ 2**	$ 132	(98)%	**$ 84**	$ 490	(83)%
Europe	**58**	60	(3)%	**255**	249	2
Other	**4**	4	—	**14**	16	(13)%
	$ 64	196	(67)%	**$ 353**	$ 755	(53)%
Operating income (loss):						
North America	**$ (6)**	$ (9)	33%	**$ (7)**	$ —	nm
Europe	**(7)**	(3)	nm	**8**	17	(53)%
Other	**2**	1	100%	**8**	7	14
	$ (11)	$ (11)	—	**$ 9**	$ 24	(63)%

Table of Contents

CORPORATE AND OTHER NON-SEGMENT ITEMS

Corporate and Unallocated Shared Expenses

Corporate and unallocated shared expenses are as follows:

(in millions)	Quarter Ended July 2, 2005	Quarter Ended June 30, 2004	% Change	Nine Months Ended July 2, 2005	Nine Months Ended June 30, 2004	% Change
Corporate and unallocated shared expenses	**$ (124)**	$ (99)	(25)%	**$ (342)**	$ (284)	(20)%

The increase in corporate and unallocated shared expenses for the quarter and nine months primarily reflected reductions in litigation reserves in the prior year as a result of favorable developments in legal matters.

Net Interest Expense

Net interest expense is presented below:

(in millions)	Quarter Ended July 2, 2005	Quarter Ended June 30, 2004	% Change	Nine Months Ended July 2, 2005	Nine Months Ended June 30, 2004	% Change
Interest expense	**$ (153)**	$ (174)	12%	**$ (456)**	$ (462)	1%
Interest and investment income	**19**	23	(17)%	**31**	16	94%
Euro Disney gain on restructuring	**—**	—	—	**61**	—	nm
Net interest expense	**$ (134)**	$ (151)	11%	**$ (364)**	$ (446)	18%

Interest expense decreased $21 million and $6 million for the quarter and nine months ended July 2, 2005, respectively. Interest expense in the current quarter and nine month periods decreased due to lower average debt balances partially offset by higher effective interest rates. Interest expense for the nine months ended July 2, 2005 included an increase of $36 million due to the consolidation of Euro Disney and Hong Kong Disneyland as only three months of operations are reported in the nine-month period of fiscal 2004 as compared to nine months reported in the current year period.

See Note 7 to the Condensed Consolidated Financial Statements for a discussion of the Euro Disney gain on restructuring.

Interest and investment income for the nine months ended July 2, 2005 includes $42 million of write-downs of our investment in a company that licenses technology to the MovieBeam venture, of which $10 million was recorded in the third quarter. The prior-year nine-month period includes a $13 million write-down of another investment, while the current nine-month period includes $14 million in gains from the sale of investments.

Equity in the Income of Investees

(in millions)	Quarter Ended July 2, 2005	Quarter Ended June 30, 2004	% Change	Nine Months Ended July 2, 2005	Nine Months Ended June 30, 2004	% Change
Equity in the Income of Investees	**$ 125**	$ 126	(1)%	**$ 363**	$ 300	21%

Equity in the income of investees remained flat for the quarter at $125 million as improved overall performance by the equity investees was offset by a $32 million partial impairment of a cable television investment in Latin America due to revised expectations for long term business performance.

The increase in equity in the income of investees for the nine months ended July 2, 2005 was due to the absence of equity losses from Euro Disney and improved overall performance by the equity investees partially offset by the $32 million partial impairment of the Latin American cable television investment. Euro Disney was accounted for under the equity method in the first half of the prior-year and was consolidated starting the third quarter of the prior year.

Effective Income Tax Rate

	Quarter Ended July 2, 2005	Quarter Ended June 30, 2004	ppt Change	Nine Months Ended July 2, 2005	Nine Months Ended June 30, 2004	ppt Change
Effective Income Tax Rate	**34.0%**	36.0%	(2.0)%	**35.0%**	36.6%	(1.6)%

The decrease in the effective income tax rate from 36.0% to 34.0% for the current quarter was primarily attributable to the settlement of tax examinations in the intervening periods and an adjustment to tax benefits estimated in the prior year to actual amounts claimed. In addition to the items in the current quarter, the decrease in the effective income tax rate from 36.6% to 35.0% for the nine months was also driven by the favorable resolution of an income tax matter in the first quarter of the current year which resulted in a $24 million tax reserve release.

The tax provision for the current quarter and nine months reflects an estimated tax benefit of $22 million and $60 million, respectively, from an exclusion provided under U.S. income tax laws with respect to certain extraterritorial income attributable to foreign trading gross receipts (FTGRs). This exclusion was repealed as part of the American Jobs Creation Act of 2004 (the Act), which was enacted on October 22, 2004. The Act provides for a phase-out such that the exclusion for the Company's otherwise qualifying FTGRs generated in fiscal 2005, 2006 and 2007 will be limited to approximately 85%, 65% and 15%, respectively, and no exclusion will generally be available in fiscal years 2008 and thereafter.

The Act also made a number of other changes to the U.S. income tax laws which will affect the Company in future years, the most significant of which is a new deduction for qualifying domestic production activities. The IRS and U.S. Treasury Department are expected to issue further guidance regarding the application of this new law by the end of the current fiscal year. We are evaluating and, following the issuance of the additional guidance, will quantify the impact of the new deduction for qualifying domestic production activities.

Pension and Postretirement Benefit Costs

The Company determines annual net periodic benefit cost for the subsequent fiscal year based on its pension measurement date of June 30 of the prior year. Based on information as of June 30, 2005, we expect net periodic benefit cost for fiscal year 2006 to increase in the range of $125 million to $175 million over the current fiscal year. The majority of these costs are borne by the Parks and Resorts segment. The increase in net periodic benefit cost is driven by the significant decrease in high quality long-term corporate bond yields from June 30, 2004 to June 30, 2005, as the level of these rates on the measurement date determines the discount rate used to calculate the present value of our pension and postretirement liabilities. The lower discount rate causes an increase in the present value of our plan obligations which, in turn, results in higher benefit costs. This increase will also result in the Company recording a significant increase in our minimum pension liability adjustment in other accumulated comprehensive income/(loss) in the fourth quarter of fiscal 2005.

STOCK OPTION ACCOUNTING

The following table reflects pro forma net income and earnings per share had the Company elected to record stock option expense on a fair value basis:

	Quarter Ended		Nine Months Ended	
(in millions, except per share data)	**July 2, 2005**	June 30, 2004	**July 2, 2005**	June 30, 2004
Net income:				
As reported	**$ 851**	$ 604	**$ 2,272**	$ 1,829
Less stock option expense	**(64)**	(106)	**(187)**	(299)
Tax effect	**24**	39	**69**	111
Pro forma after stock option expense	**$ 811**	$ 537	**$ 2,154**	$ 1,641
Diluted earnings per share:				
As reported	**$ 0.41**	$ 0.29	**$ 1.09**	$ 0.88
Pro forma after stock option expense	**$ 0.39**	$ 0.26	**$ 1.03**	$ 0.79

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period and additional options may be granted in future years. The pro forma amounts assume that the Company had been following the fair value approach since the beginning of fiscal 1996.

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

Fully diluted shares outstanding and diluted earnings per share include the effect of in-the-money stock options calculated based on the average share price for the period and assumes conversion of the convertible senior notes. The dilution from employee options increases as the Company's share price increases, as shown below:

Average Disney Share Price	Total In-the-Money Options	Incremental Diluted Shares (1)	Percentage of Average Shares Outstanding	Hypothetical Q3 2005 EPS Impact (3)
$27.17	142 million	—(2)	—	$ 0.000
30.00	165 million	8 million	0.38%	(0.002)
40.00	223 million	35 million	1.67%	(0.007)
50.00	230 million	54 million	2.58%	(0.010)

(1) Represents the incremental impact on fully diluted shares outstanding assuming the average share prices indicated, using the treasury stock method. Under the treasury stock method, the proceeds that would be received from the exercise of all in-the-money options are assumed to be used to repurchase shares.

(2) Fully diluted shares outstanding for the quarter ended July 2, 2005 total 2,096 million and include the dilutive impact of in-the-money options at the average share price for the period of $27.17 and assume conversion of the convertible senior notes. At the average share price of $27.17, the dilutive impact of in-the-money options was 20 million shares for the quarter.

(3) Based upon Q3 2005 earnings of $851 million, or $0.41 diluted earnings per share.

FINANCIAL CONDITION

For the nine months ended July 2, 2005, cash and cash equivalents decreased by $8 million as detailed below.

(in millions)	Nine Months Ended July 2, 2005	Nine Months Ended June 30, 2004	Change
Cash provided by operations	**$ 2,951**	$ 3,403	$ (452)
Cash used by investing activities	**(1,069)**	(863)	(206)
Cash used by financing activities	**(1,890)**	(1,374)	(516)
(Decrease) Increase in cash and cash equivalents	**$ (8)**	$ 1,166	$ (1,174)

Operating Activities

Cash provided by operations decreased $452 million to $3.0 billion, primarily due to timing of payments for accounts payable, accrued expenses and income taxes.

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

Film and Television Costs

The Company's Studio and Media Networks segments incur costs to acquire and produce television and feature film content. These amounts are generally expensed based on the ratio of the current period's gross revenues to estimated remaining total gross revenues. Spending and amortization for the nine months ended July 2, 2005 and June 30, 2004 are as follows:

(in millions) Source/(use) of cash	Nine Months Ended **July 2, 2005**	 June 30, 2004
Film and Television Production		
Spending	**$ (2,012)**	$ (1,633)
Amortization	**2,370**	2,105
Net Change	**$ 358**	$ 472
Broadcast Programming Costs		
Spending	**$ (2,831)**	$ (3,199)
Amortization	**2,736**	2,968
Net Change(1)(2)	**$ (95)**	$ (231)

(1) Broadcast programming costs are classified as current or non-current depending upon the expected timing of airing of the program. The net change in broadcast programming is allocated between current and non-current programming as follows:

(in millions)	**July 2, 2005**	June 30, 2004
Non-current	**$ (43)**	$ (307)
Current	**(52)**	76
	$ (95)	$ (231)

(2) In addition to the cash spending amounts detailed above, we record programming assets with a corresponding increase to programming liabilities when the programming becomes available to us. These amounts were $119 million and $45 million for the nine months ended July 2, 2005 and June 30, 2004, respectively.

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

Investing Activities

During the nine months ended July 2, 2005, the Company invested $1.2 billion in parks, resorts and other properties. Investments in parks, resorts and other properties by segment are as follows:

(in millions)	Nine Months Ended July 2, 2005	Nine Months Ended June 30, 2004
Media Networks	**$ 125**	$ 137
Parks and Resorts		
Domestic	**497**	476
International (1)	**482**	142
Studio Entertainment	**26**	21
Consumer Products	**7**	8
Corporate and unallocated	**50**	110
	$ 1,187	$ 894

(1) Represents 100% of Euro Disney and Hong Kong Disneyland's capital expenditures for all periods since the Company began consolidating the results of operations and cash flows of these two entities beginning April 1, 2004.

Capital expenditures for the Parks and Resorts segment are principally for theme park and resort expansion, new rides and attractions and recurring capital and capital improvements. The international park spending in 2005 primarily reflects Hong Kong Disneyland construction cost where capital expenditures totaled $428 million compared to the prior-year amount of $129 million which includes only three months of activity as the Company began consolidating the results of Hong Kong Disneyland on April 1, 2004. Our equity partner funded $104 million of Hong Kong Disneyland's cash requirement for the current nine-month period which is included as a source of cash in financing activities.

Financing Activities

During the nine months ended July 2, 2005, the Company's borrowing activity was as follows:

(in millions)	September 30, 2004	Additions	Payments	Other activity	July 2, 2005
Commercial paper borrowings	$ 100	819	$ —	$ (2)	$ 917
U.S. medium-term notes	6,624	—	(775)	—	5,849
Convertible senior notes	1,323	—	—	—	1,323
Other U.S. dollar denominated debt	305	—	—	—	305
Privately placed debt	254	—	(47)	—	207
European medium-term notes	1,099	—	(886)	—	213
Preferred stock	373	—	—	(7)	366
Capital Cities/ABC and ABC Family debt	189	—	—	(2)	187
Other(1)	455	—	(2)	(145)	308
Euro Disney borrowings(2)	2,221	—	(13)	(156)	2,052
Hong Kong Disneyland borrowings	545	245	—	17	807
Total	$ 13,488	$ 1,064	$ (1,723)	$ (295)	$ 12,534

(1) The $145 million included in other activity is primarily adjustments related to interest rate hedging activity.

(2) Other activity included a $130 million reduction of Euro Disney senior debt using cash security deposits and a $17 million decrease due to foreign currency translation as a result of the appreciation of the U.S. dollar against the Euro.

The Company's bank facilities are as follows:

(in millions)	Committed Capacity	Capacity Used	Unused Capacity
Bank facilities expiring 2009(1)	$ 2,250	$ 208	$ 2,042
Bank facilities expiring 2010(1)	2,250	—	2,250
Total	$ 4,500	$ 208	$ 4,292

(1) These bank facilities allow for borrowings at LIBOR-based rates plus a spread, which depends on the Company's public debt rating and can range from 0.175% to 0.575%. As of July 2, 2005, the Company had not borrowed under these bank facilities. The Company also has the ability to issue up to $500 million of letters of credit under the facility expiring in 2009, which if utilized, reduces available borrowing. As of July 2, 2005, $208 million of letters of credit had been issued under this facility.

The Company expects to use commercial paper borrowings up to the amount of its above 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 January 18, 2005, the Company filed a shelf registration statement which allows the Company to borrow up to $5 billion and effectively replaces a previously-filed $7.5 billion shelf registration. The terms of the $5 billion shelf registration are substantially similar to those of the $7.5 billion shelf. The Company subsequently established a domestic medium-term note program under the new shelf, which permits issuance of $5 billion of additional debt instruments, of which none have been issued at July 2, 2005. In addition to the shelf, the Company also has a Euro medium-term note program, which permits issuance of approximately $4 billion of additional debt instruments, of which $0.2 billion has been utilized at July 2, 2005.

The Company declared a $490 million dividend ($0.24 per share) on December 1, 2004 related to fiscal 2004, which was paid on January 6, 2005 to shareholders of record on December 10, 2004. The Company paid a $430 million dividend ($0.21 per share) during the second quarter of fiscal 2004 related to fiscal 2003.

During the current nine-month period, the Company repurchased 49 million shares of Disney common stock for $1.4 billion, of which 33 million shares for $0.9 billion were repurchased in the third quarter. As of July 2, 2005, the Company had authorization in place to repurchase approximately 267 million additional shares.

We believe that the Company's financial condition is strong and that its cash balances, other liquid assets, operating cash flows, access to debt and equity capital markets and borrowing capacity, taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects. However, the Company's operating cash flow and access to the capital markets can be impacted by macroeconomic factors outside of its control. In addition to macroeconomic factors, the Company's borrowing costs can be impacted by short and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on the Company's performance as measured by credit metrics such as interest coverage and leverage ratios. As of July 2, 2005, Moody's Investors Service's long and short-term debt ratings for the Company were Baal and P-2, respectively; with a positive outlook on the long-term rating; and Standard & Poor's long and short-term debt ratings for the Company were A- and A-2, respectively, with stable outlook. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on July 2, 2005, by a significant margin. The Company's bank facilities also specifically exclude certain entities, including Euro Disney and Hong Kong Disneyland, from any representations, covenants or events of default.

COMMITMENTS AND CONTINGENCIES

Legal and Tax Matters

As disclosed in the Notes 13 and 14 to the Condensed Consolidated Financial Statements the Company has exposure for certain legal and tax matters.

Aircraft leveraged lease investment

As disclosed in Note 4 to the Condensed Consolidated Financial Statements, the Company's $153 million aircraft leveraged lease investments are exposed to the credit risk of the carriers. As discussed in Note 4, we are closely monitoring Delta Air Lines Inc.'s (Delta) financial restructuring progress as $101 million of our lease investment is with Delta. Although Delta remains current on their lease payments to us, the inability of Delta to make their lease payments, or the termination of our lease through a bankruptcy proceeding, could result in the write-down of our investment and the acceleration of certain income tax payments.

Information Technology Outsourcing

During the quarter, the Company entered into agreements with two suppliers to outsource certain information technology functions and support services. The transition of services to the new suppliers began in late July 2005. The terms of these agreements extend five to seven years with an option for the Company to extend for an additional two to three years. The Company will retain all responsibility and authority for systems architecture, technology strategy, and product standards under the agreements. While payments under these agreements are primarily variable, the Company anticipates spending approximately $1.3 billion for these services over the next seven years, which is less than what we estimate we would have spent had we not outsourced these functions.

Contractual commitments and guarantees

See Note 13 to the Condensed Consolidated Financial Statements for information regarding the Company's contractual commitments and guarantees.

OTHER MATTERS

Accounting Policies and Estimates

We believe that the application of the following accounting policies, which are important to our financial position and results of operations, 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 of the Consolidated Financial Statements in the 2004 Annual Report.

Film and Television Revenues and Costs

We expense the cost of film and television production and participations as well as certain multi-year sports rights over the applicable product life cycle based upon the ratio of the current period's gross revenues to the estimated remaining total gross revenues or on a straight-line basis, as appropriate. These estimates are calculated on an individual production basis for film and television and on an individual contract basis for sports rights. Estimates of total gross revenues can change significantly due to a variety of factors, including advertising rates and the level of market acceptance of the production.

For film productions, estimated remaining gross revenue from all sources includes revenue that will be earned within ten years of the date of the initial theatrical release. For television series, we include revenues that will be earned within ten years of the delivery of the first episode, or if still in production, five years from the date of delivery of the most recent episode, if later. For acquired film libraries, remaining revenues include amounts to be earned for up to 20 years from the date of acquisition.

Television network and station rights for theatrical movies, series and other programs are charged to expense based on the number of times the program is expected to be shown. Estimates of usage of television network and station programming can change based on competition and audience acceptance. Accordingly, revenue estimates and planned usage are reviewed periodically and are revised if necessary. A change in revenue projections or planned usage could have an impact on our results of operations.

Costs of film and television productions and programming costs for our television and cable networks are subject to valuation adjustments pursuant to applicable accounting rules. The net realizable value of the television broadcast program licenses and rights are reviewed using a daypart methodology. The Company's dayparts are: early morning, daytime, late night, prime time, news, children and sports (includes network and cable). A daypart is defined as an aggregation of programs broadcast during a particular time of day or programs of a similar type. The net realizable values of other cable programming assets are reviewed on an aggregated basis for each cable channel. 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, which are appropriate to the circumstances of each business. See Note 2 to the Consolidated Financial Statements in the 2004 Annual Report for a summary of these revenue recognition policies.

We record reductions to revenues for estimated future returns of merchandise, primarily home video, DVD and software products, 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 in a particular period, we may record less revenue in later periods when returns exceed the predicted amount. Conversely, if we overestimate the level of returns for a period, we may have additional revenue in later periods when returns are less than predicted.

Pension and Postretirement Benefit Plan Actuarial Assumptions

The Company's pension and postretirement medical benefit obligations and related costs are calculated using actuarial concepts, within the framework of Statement of Financial Accounting Standards No. 87 *Employer's Accounting for Pensions* and Statement of Financial Accounting Standards No. 106, *Employer's Accounting for Postretirement Benefits Other than Pensions,* respectively. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement. We evaluate these critical assumptions annually. Refer to the 2004 Annual Report 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 increases.

The discount rate enables us to state expected future cash payments for benefits as a present value on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. A lower discount rate increases the present value of benefit obligations and increases pension expense.

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

Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142) requires that goodwill and other intangible assets be tested for impairment at least on an annual basis. We completed our impairment testing as of September 30, 2004 and determined that there were no impairment losses related to goodwill and other intangible assets. In assessing the recoverability of goodwill and other intangible assets, market values and projections regarding estimated future cash flows and other factors are used to determine the fair value of the respective assets. If these estimates or related projections change in the future, we may be required to record impairment charges for these assets.

SFAS 142 requires the Company to compare the fair value of each reporting unit to its carrying amount on an annual basis to determine if there is potential goodwill impairment. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. For purposes of performing the impairment test for goodwill as required by SFAS 142 we established the following reporting units: Cable Networks, Television Broadcasting, Radio, Studio Entertainment, Consumer Products and Parks and Resorts.

To determine the fair value of our reporting units, we generally use a present value technique (discounted cash flow) corroborated by market multiples when available and as appropriate, except for the Television Network, a business within the Television Broadcasting reporting unit. The Television Broadcasting reporting unit includes the Television Network and the owned and operated television stations. These businesses have been grouped together because their respective cash flows are dependent on one another. For purposes of our impairment test, we used a revenue multiple to value the Television Network. We did not use a present value technique or a market multiple approach to value the Television Network as a present value technique would not capture the full fair value of the Television Network and there is little comparable market data available due to the scarcity of television networks. We applied what we believe to be the most appropriate valuation methodology for each of the reporting units. If we had established different reporting units or utilized different valuation methodologies, the impairment test results could differ.

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

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

Contingencies and Litigation

We are currently involved in certain legal proceedings and, as required, have accrued estimates of the probable and estimable losses for the resolution of these claims. These estimates have been developed in consultation with outside counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to these proceedings. See Note 13 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. Among current audits, the Internal Revenue Service (IRS) is examining the Company's federal income tax returns for 1996 through 2000. In connection with this examination, the IRS has proposed assessments with respect to certain of the Company's tax positions for the years under examination. However, the Company continues to believe that its tax positions comply with applicable tax law and intends to defend its positions vigorously. The Company believes it has adequately provided for any reasonably foreseeable outcome of these matters and does not anticipate any material earnings impact from their ultimate resolution. During the first quarter of fiscal 2005, there was a favorable resolution of an income tax matter that resulted in a $24 million tax reserve release.

Accounting Changes

EITF D-108

On September 30, 2004, the EITF issued EITF D-108. EITF D-108 requires that a direct value method be used to value intangible assets acquired in business combinations completed after September 29, 2004. EITF D-108 also requires the Company to perform an impairment test using a direct value method on all intangible assets that were previously valued using the residual method. This impairment test is required to be performed no later than the beginning of fiscal 2006 for the Company. Any impairments arising from the initial application of a direct value method would be reported as a cumulative effect of accounting change. For radio station acquisitions subsequent to the acquisition of Cap Cities/ABC, Inc. in 1996, the Company has applied the residual value method to value the acquired FCC licenses. The remaining net book value of FCC licenses that were valued under the residual method was approximately $550 million at July 2, 2005. The Company is in the process of evaluating the impact that adopting EITF D-108 will have on the Company's financial statements. Based on our analysis to date, we believe that some of these FCC licenses may be impaired under EITF D-108, but we currently do not expect such impairment to exceed $65 million.

SFAS 123R

In December 2004, the FASB issued SFAS 123R. The statement requires companies to record stock option expense in its financial statements based on a fair value methodology beginning no later than the first fiscal quarter beginning after June 15, 2005. The SEC subsequently deferred the implementation date for SFAS 123R to the first fiscal year that begins after June 15, 2005 which is the first quarter of fiscal 2006 for the Company. The Company is evaluating the impact of the new standard and the method and timing of adoption. Although we have not completed our analysis, we anticipate that the expense would not exceed the amounts disclosed in Note 12 to the Condensed Consolidated Financial Statements had the Company been expensing under the new rule.

MARKET RISK

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

Policies and Procedures

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

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

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

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.

FORWARD LOOKING STATEMENTS

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 international, political, health concern, weather related and military developments, technological developments and changes in domestic and global economic conditions, competitive conditions and consumer preferences. Such developments may affect travel and leisure businesses generally and may, among other things, affect the performance of the Company's theatrical and home entertainment releases, the advertising market for broadcast and cable television programming, expenses of providing medical and pension benefits, demand for our products and performance of some or all company businesses either directly or through their impact on those who distribute our products. Additional factors are set forth in the 2004 Annual Report under the heading "Factors that may affect forward-looking statements."

PART I. FINANCIAL INFORMATION

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 Procedure — We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation as of July 2, 2005, 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 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.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

Since our Form 10-Q filing for the quarter ended April 2, 2005, developments identified below occurred in the following legal proceedings. For information on certain other legal proceedings, see Note 13 to the Condensed Consolidated Financial Statements included in this report.

Milne and Disney Enterprises, Inc. v. Stephen Slesinger, Inc. On November 5, 2002, Clare Milne, the granddaughter of A. A. Milne, author of the Winnie the Pooh books, and the Company's subsidiary Disney Enterprises, Inc. filed a complaint against Stephen Slesinger, Inc. (SSI) in the United States District Court for the Central District of California. On November 4, 2002, Ms. Milne served notices to SSI and the Company's subsidiary terminating A. A. Milne's prior grant of rights to Winnie the Pooh, effective November 5, 2004, and granted all of those rights to the Company's subsidiary. In their lawsuit, Ms. Milne and the Company's subsidiary seek a declaratory judgment, under United States copyright law, that Ms. Milne's termination notices were valid; that SSI's rights to Winnie the Pooh in the United States terminated effective November 5, 2004; that upon termination of SSI's rights in the United States, the 1983 licensing agreement that is the subject of the *Stephen Slesinger, Inc. v. The Walt Disney Company* lawsuit terminated by operation of law; and that, as of November 5, 2004, SSI was entitled to no further royalties for uses of Winnie the Pooh. SSI filed (a) an answer denying the material allegations of the complaint and (b) counterclaims seeking a declaration that (i) Ms. Milne's grant of rights to Disney Enterprises, Inc. is void and unenforceable and (ii) Disney Enterprises, Inc. remains obligated to pay SSI royalties under the 1983 licensing agreement. SSI also filed a motion to dismiss the complaint or, in the alternative, for summary judgment. Subsequently, the Court ruled that Milne's termination notices are invalid and dismissed SSI's counterclaims as moot. Following further motions SSI filed an amended answer and counterclaims and a third-party complaint against Harriet Hunt (heir to E. H. Shepard, illustrator of the original Winnie the Pooh stories), who had served a notice of termination and a grant of rights similar to Ms. Milne's. By order dated August 3, 2004, the Court granted SSI leave to amend its answer to assert counterclaims against the Company allegedly arising from the Milne and Hunt terminations and the grant of rights to the Company's subsidiary for (a) unlawful and unfair business practices; and (b) breach of the 1983 licensing agreement. In November 2004, the District Court granted a motion by Milne to dismiss her complaint for the purpose of obtaining a final appealable order of dismissal, so as to permit her appeal to the Court of Appeals to proceed. Oral argument of that appeal is scheduled to be heard on September 13, 2005.

Shamrock Holdings of California, Inc. v. Iger. On May 9, 2005, Shamrock Holdings of California, Inc., Roy Disney and Stanley Gold filed a complaint against The Walt Disney Company and Company directors Robert Iger, Michael Eisner, Judith Estrin, John Chen, Aylwin Lewis, Monica Lozano, George Mitchell and Fr. Leo O'Donovan in the Delaware Court of Chancery. The complaint alleged that the representations made by the defendants in connection with the process of selecting the Company's next Chief Executive Officer were false and misleading, and that this led Shamrock, Disney and Gold to forego running an alternate slate of directors at the Company's 2005 Annual Meeting. The complaint sought an order voiding the 2005 election of directors, compelling the Company to hold another election of directors, and enjoining the defendants from changing either Eisner or Iger's compensation or employment contracts. On July 11, 2005, the complaint was dismissed with prejudice pursuant to a settlement agreement between the parties, as set forth in the Form 8-K filed by the Company on July 14, 2005.

In re The Walt Disney Company Derivative Litigation. William and Geraldine Brehm and thirteen other individuals filed an amended and consolidated complaint on May 28, 1997 in the Delaware Court of Chancery seeking, among other things, a declaratory judgment against each of the Company's directors as of December 1996 that the Company's 1995 employment agreement with its former president Michael S. Ovitz, was void, or alternatively that Mr. Ovitz's termination should be deemed a termination "for cause" and any severance payments to him forfeited. On October 8, 1998, the Delaware Court of Chancery dismissed all counts of the amended complaint. Plaintiffs appealed, and on February 9, 2000, the Supreme Court of Delaware affirmed the dismissal but ruled also that plaintiffs should be permitted to file an amended complaint in accordance with the Court's opinion. The plaintiffs filed their amended complaint on January 3, 2002. On February 6, 2003, the Company's directors' motion to dismiss the amended complaint was converted by the Court to a motion for summary judgment and the plaintiffs were permitted to take discovery. The Company and its directors answered the amended complaint on April 1, 2003. On May 28, 2003, the Court (treating as a motion to dismiss the motion for summary judgment into which it had converted the original motion on February 6, 2003) denied the directors' motion to dismiss the amended complaint. Trial commenced on October 20, 2004 and on August 9, 2005, the Delaware Court of Chancery issued an order entering judgment against the plaintiffs and in favor of all defendants on all counts.

Similar or identical claims have also been filed by the same plaintiffs (other than William and Geraldine Brehm) in the Superior Court of the State of California, Los Angeles County, beginning with a claim filed by Richard and David Kaplan on January 3, 1997. On May 18, 1998, an additional claim was filed in the same California court by Dorothy L. Greenfield. On September 25, 2001, Ms. Greenfield sought leave to amend her claim, but withdrew her request to amend on January 3, 2002. All of the California claims have been consolidated and stayed pending final resolution of the Delaware proceedings.

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

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

PART II. OTHER INFORMATION —(continued)

ITEM 2. Issuer Purchases of Equity Securities

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 July 2, 2005:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(2)
April 3, 2005 — April 30, 2005	126,897	$ 27.48	—	300 million
May 1, 2005 — May 28, 2005	10,430,553	27.41	10,281,400	290 million
May 29, 2005 — July 2, 2005	23,210,299	27.50	23,053,000	267 million
Total	33,767,749	$ 27.47	33,334,400	267 million

(1) 433,349 shares were purchased on the open market to provide shares to participants in the Walt Disney Investment Plan (WDIP) and Employee Stock Purchase Plan (ESPP). These purchases were not made pursuant to a publicly announced repurchase plan or program.

(2) Under a share repurchase program most recently reaffirmed by the Company's Board of Directors on April 21, 1998, and implemented effective June 10, 1998, the Company was authorized to repurchase up to 400 million shares of its common stock. The repurchase program does not have an expiration date.

PART II. OTHER INFORMATION (continued)

ITEM 6. Exhibits

See Index of Exhibits.

SIGNATURE

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

THE WALT DISNEY COMPANY
(Registrant)

By: /s/ THOMAS O. STAGGS
(Thomas O. Staggs, Senior Executive Vice President and Chief Financial Officer)

August 10, 2005
Burbank, California

INDEX OF EXHIBITS

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

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