

WALT DISNEY CO/
Form 10-Q
May 05, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended
March 28, 2009

Commission File Number 1-11605

Incorporated in Delaware

I.R.S. Employer Identification

No. 95-4545390

500 South Buena Vista Street, Burbank, California 91521

(818) 560-1000

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

Yes ☒ No

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

Yes ☐ No

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

Large accelerated filer ☒ Accelerated filer ☐

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

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

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Yes No X

There were 1,856,751,570 shares of common stock outstanding as of May 1, 2009.

PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited; in millions, except per share data)

	Quarter Ended		Six Months Ended	
	March 28, 2009	March 29, 2008	March 28, 2009	March 29, 2008
Revenues	\$ 8,087	\$ 8,710	\$ 17,686	\$ 19,162
Costs and expenses	(6,800)	(6,812)	(15,182)	(15,231)
Restructuring and impairment charges	(305)		(305)	
Other income			114	
Net interest expense	(128)	(147)	(267)	(270)
Equity in the income of investees	147	144	294	267
Income before income taxes and minority interests	1,001	1,895	2,340	3,928
Income taxes	(348)	(712)	(836)	(1,471)
Minority interests	(40)	(50)	(46)	(74)
Net income	\$ 613	\$ 1,133	\$ 1,458	\$ 2,383
Earnings per share:				
Diluted	\$ 0.33	\$ 0.58	\$ 0.78	\$ 1.21
Basic	\$ 0.33	\$ 0.60	\$ 0.79	\$ 1.26
Weighted average number of common and common equivalent shares outstanding:				
Diluted	1,868	1,960	1,870	1,974
Basic	1,855	1,883	1,854	1,893

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited; in millions, except per share data)

	March 28, 2009	September 27, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,369	\$ 3,001
Receivables	4,939	5,373
Inventories	1,233	1,124
Television costs	743	541
Deferred income taxes	1,024	1,024
Other current assets	669	603
Total current assets	11,977	11,666
Film and television costs	5,631	5,394
Investments	1,564	1,563
Parks, resorts and other property, at cost		
Attractions, buildings and equipment	31,403	31,493
Accumulated depreciation	(16,608)	(16,310)
	14,795	15,183
Projects in progress	1,260	1,169
Land	1,155	1,180
	17,210	17,532
Intangible assets, net	2,284	2,428
Goodwill	22,368	22,151
Other assets	1,998	1,763
	\$ 63,032	\$ 62,497
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 5,213	\$ 5,980
Current portion of borrowings	2,187	3,529
Unearned royalties and other advances	2,786	2,082
Total current liabilities	10,186	11,591
Borrowings	12,541	11,110
Deferred income taxes	2,360	2,350
Other long-term liabilities	3,646	3,779
Minority interests	1,027	1,344
Commitments and contingencies		
Shareholders' equity		
Preferred stock, \$.01 par value		
Authorized 100 million shares, Issued none		
Common stock, \$.01 par value		
Authorized 3.6 billion shares, Issued 2.6 billion shares	26,693	26,546
Retained earnings	29,191	28,413
Accumulated other comprehensive income (loss)	47	(81)

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

	55,931	54,878
Treasury stock, at cost, 780.3 million shares at March 28, 2009 and 777.1 million shares at September 27, 2008	(22,659)	(22,555)
	33,272	32,323
	\$ 63,032	\$ 62,497

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited; in millions)

	Six Months Ended	
	March 28, 2009	March 29, 2008
OPERATING ACTIVITIES		
Net income	\$ 1,458	\$ 2,383
Depreciation and amortization	802	776
Gain on sale of equity investment	(114)	
Deferred income taxes	(49)	60
Equity in the income of investees	(294)	(267)
Cash distributions received from equity investees	258	257
Minority interests	46	74
Net change in film and television costs	(537)	56
Equity-based compensation	225	201
Impairment charges	203	
Other	2	114
Changes in operating assets and liabilities:		
Receivables	454	(481)
Inventories	(74)	(128)
Other assets	(32)	(6)
Accounts payable and other accrued liabilities	(256)	397
Income taxes	(25)	(171)
Cash provided by operations	2,067	3,265
INVESTING ACTIVITIES		
Investments in parks, resorts and other property	(749)	(596)
Proceeds from sale of equity investment	185	
Acquisitions	(487)	(163)
Other	(3)	(48)
Cash used in investing activities	(1,054)	(807)
FINANCING ACTIVITIES		
Commercial paper repayments, net	(919)	(616)
Borrowings	1,739	881
Reduction of borrowings	(726)	(150)
Dividends	(648)	(664)
Repurchases of common stock	(104)	(1,967)
Exercise of stock options and other	13	248
Cash used in financing activities	(645)	(2,268)
Increase in cash and cash equivalents	368	190
Cash and cash equivalents, beginning of period	3,001	3,670
Cash and cash equivalents, end of period	\$ 3,369	\$ 3,860

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Principles of Consolidation

These Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, we believe that we have included all normal recurring adjustments necessary for a fair statement of the results for the interim period. Operating results for the quarter and six months ended March 28, 2009 are not necessarily indicative of the results that may be expected for the year ending October 3, 2009. Certain reclassifications have been made in the prior year financial statements to conform to the current year presentation.

These financial statements should be read in conjunction with the Company's 2008 Annual Report on Form 10-K as amended on Form 8-K dated February 3, 2009.

In December 1999, DVD Financing, Inc. (DFI), a subsidiary of Disney Vacation Development, Inc. and an indirect subsidiary of the Company, completed a receivables sale transaction that established a facility that permitted DFI to sell receivables arising from the sale of vacation club memberships on a periodic basis. In connection with this facility, DFI prepares separate financial statements, although its separate assets and liabilities are also consolidated in these financial statements. DFI's ability to sell new receivables under this facility ended on December 4, 2008. (See Note 12 for further discussion of this facility in the Company's disclosures related to FSP FAS 140-4 and FIN 46(R)-8)

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

2. Segment Information

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

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

Beginning with the first quarter fiscal 2009 financial statements, the Company began reporting the Disney Interactive Media Group along with certain new business initiatives as Interactive Media for segment reporting purposes. Previously, Disney Interactive Studios and the Walt Disney Internet Group were reported in the Consumer Products and Media Networks segments, respectively, while the new

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

business initiatives were reported in corporate and unallocated shared expenses. The new presentation aligns with how management reports and measures segment performance for internal management purposes.

	Quarter Ended		Six Months Ended	
	March 28, 2009	March 29, 2008	March 28, 2009	March 29, 2008
<i>Revenues⁽¹⁾:</i>				
Media Networks	\$ 3,620	\$ 3,550	\$ 7,523	\$ 7,659
Parks and Resorts	2,407	2,725	5,072	5,497
Studio Entertainment	1,435	1,822	3,380	4,463
Consumer Products	496	457	1,269	1,111
Interactive Media	129	156	442	432
	\$ 8,087	\$ 8,710	\$ 17,686	\$ 19,162

Segment operating income (loss)⁽¹⁾:

Media Networks	\$ 1,306	\$ 1,356	\$ 1,961	\$ 2,285
Parks and Resorts	171	339	553	844
Studio Entertainment	13	377	200	891
Consumer Products	97	127	362	414
Interactive Media	(61)	(60)	(106)	(47)
	\$ 1,526	\$ 2,139	\$ 2,970	\$ 4,387

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

Quarter Ended