SYNCOR INTERNATIONAL CORP /DE/
Form 10-K
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2001

Commission File Number 0-8640

SYNCOR INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**85-0229124** (I.R.S. Employer Identification No.)
6464 Canoga Avenue, Woodland Hills, California (Address of principal executive offices)	**91367-2407** (Zip Code)

(818) 737-4000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK $.05 PAR VALUE
(Title of Class)

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 Ö No___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.___

The aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the average closing bid and asked prices of such stock on March 25, 2002, was $613,263,495. For purposes of the foregoing calculation, each executive officer and director of Registrant was deemed an "affiliate" of Registrant. The number of shares outstanding (excluding treasury shares) of the Registrant's $0.05 par value common stock as of March 25, 2002 was 24,756,517 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's definitive Proxy Statement for Registrant's Annual Meeting of Stockholders to be held on June 17, 2002, are incorporated by reference into Part III of this report.

SYNCOR INTERNATIONAL CORPORATION

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FORM 10-K ANNUAL REPORT

December 31, 2001

PART I

Item 1. BUSINESS.

Overview

We are a provider of specialty services and products used in the diagnosis, treatment and management of heart disease, cancer and other disorders. We are the nation's leading provider of radiopharmacy services and a leading provider of outpatient medical imaging services.

Radiopharmacy Business

Our 130 domestic radiopharmacies serve hospitals, medical clinics and medical imaging centers in 48 states and supply more than 50% of the U.S. market for these specialized services. We also own or operate 19 radiopharmacies in 13 foreign countries and in Puerto Rico. Our radiopharmacies compound, dispense and distribute patient-specific radiopharmaceutical prescriptions, or unit doses, used in nuclear diagnostic imaging procedures. We also distribute radiopharmaceuticals in bulk for manufacturers.

A radiopharmaceutical is a radioactive compound formed by combining precise amounts of radioactive materials with targeting compounds that concentrate in specific human organs or tissues. Radiopharmaceuticals, like other pharmaceuticals, are prescribed by physicians based on their patients' specific needs. When administered to the patient, the radiopharmaceutical can be detected with the use of specialized medical imaging equipment. Radiopharmaceutical nuclear imaging procedures are used by physicians primarily to detect irregularities in organ tissue or function in order to diagnose heart disease, cancer and other disorders. Radiopharmaceuticals are also used in some cases to treat, manage and monitor disease.

The most common use of nuclear imaging procedures is for the diagnosis of heart disease. We distribute Cardiolite®, made by Bristol-Myers Squibb, through a long-standing agreement that we originally had with DuPont Pharmaceuticals until it was acquired by Bristol-Myers. We have been instrumental in making Cardiolite® the best-selling cardiology imaging agent in the U.S. We distribute Cardiolite® on an exclusive basis within specified geographic areas under our agreement with Bristol-Myers.

In addition, we have recently undertaken new initiatives to produce and distribute other complex pharmaceuticals and products used in diagnosing and treating disease and other health problems. Complex pharmaceuticals are products that have challenging storage or handling requirements, may require patient specific compounding or ultra-precise dispensing accuracy, may require rapid response to critical conditions or, due to its cost or limited availability, may require a stockless approach to inventory management. These products include F-18 Fluorodeoxyglucose, or FDG, and Xigris™, which is manufactured by Eli Lilly and Company. We produce and distribute FDG, the most commonly used radiopharmaceutical in positron emission tomography (PET), a highly sensitive imaging technology used to diagnose cancer and manage cancer therapies. We have a strategic partnership with Eli Lilly to be their exclusive rapid response provider of Xigris, a biotechnology compound used to treat severe sepsis, a life-threatening condition if not treated immediately.

Medical Imaging Business

We also are a leading independent provider of outpatient medical imaging services. Our 65 outpatient medical imaging centers are organized in clusters located primarily in Arizona, California, Florida and Texas. We also own or operate 19 medical imaging centers in five foreign countries and Puerto Rico. Medical imaging services are principally noninvasive procedures that generate representations of internal anatomy and convert them to film or digital media to aid in the detection and diagnosis of diseases and other disorders. By concentrating centers in targeted markets, we offer managed care organizations and other third-party payors a full complement of medical imaging services, including magnetic resonance imaging, or MRI, computed tomography, or CT, traditional X-ray, mammography, ultrasound and fluoroscopy imaging, as well as PET imaging services.

Industries

Radiopharmacy Services Industry

Radiopharmaceuticals have a short shelf-life, because they utilize radioactive materials that continuously decay. Through the late 1970s, hospitals typically operated their own on-site radiopharmacies that compounded radiopharmaceuticals as needed for each hospital's imaging needs, which was believed to be the only viable means of having these time-sensitive products available for procedures when needed. In 1974, we pioneered the concept of outsourcing unit-dose radiopharmacy services. Our outsourcing approach has been widely adopted because it lowers hospital inventory and other costs and expenses and enhances physician service and support. Today, nearly 90% of radiopharmaceutical unit doses are compounded off-site.

As the U.S. population has increased and life expectancies have continued to increase, the demand for radiopharmacy services also has increased, particularly in the areas of cardiology and oncology. Although used for many imaging procedures, the most common use for radiopharmaceuticals is for cardiology imaging procedures. These procedures are very effective in revealing the size, shape and other structural characteristics of the heart and other human tissues and have gained widespread clinical acceptance as important tools in detecting and diagnosing certain heart problems. As the benefits of preventative medicine are becoming more widespread, we believe that cancer-related radiopharmaceutical imaging procedures and therapies also are gaining wider acceptance.

Approximately 12 million radiopharmaceutical imaging procedures were performed in the U.S. in 2001, including more than 150,000 PET imaging procedures. In 2001, the U.S. market for all radiopharmacy services was approximately $1.12 billion, of which about 66% related to heart imaging procedures and 11.5% related to cancer imaging procedures. From 1994 through 2001, radiopharmacy services expenditures have grown at an estimated compounded annual growth rate of 10%, and we anticipate that the U.S. market for radiopharmacy services will continue to grow due, in part, to aging population demographics and demand for less invasive methods of diagnosis and treatment.

We believe that advances in medical imaging technology and new applications for nuclear imaging procedures also will contribute to increased demand for radiopharmacy services. For example, PET imaging can reveal function, or metabolism, at the cellular level, which differentiates it from other imaging procedures such as MRI and CT imaging, which primarily demonstrate structure, or anatomy. PET is a clinically proven, safe method for the imaging of an increasing number of diseases and disorders, including colon cancer, lung cancer, breast cancer, lymphoma, brain cancer, heart disease and neurological disorders such as Alzheimer's Disease. PET imaging can be used to visualize rapidly growing tumors, to determine tumor response to radiation or chemotherapy, to diagnose recurrence of tumor growth after surgical removal, to decide the best location for a biopsy of a suspected tumor and to differentiate harmless scarring, or radiation necrosis, from new tumor growth. PET imaging also is a useful tool for determining whether exploratory surgery, radiation therapy, organ transplantation or other procedures may be necessary.

Medical Imaging Services Industry

Medical imaging services are principally non-invasive procedures that generate representations of internal anatomy and convert them to film or digital media for viewing. Film is transmitted by computer. Medical imaging facilitates the early detection and diagnosis of diseases and other disorders, helping to minimize the cost and amount of care required and reducing the need for more costly, invasive diagnostic procedures

There are several types of medical imaging services, or modalities, including:

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Magnetic resonance imaging (MRI)– MRI uses high-strength magnetic fields to produce computer-processed images of the body. MRI offers excellent image quality, and in many cases is the preferred means of imaging tissues and organs such as the brain, spinal cord and other internal anatomy.

Computed tomography (CT) imaging – CT imaging uses computer analysis of information generated by an X-ray beam to produce multiple images of a particular organ or area of the body. CT imaging is used to detect tumors and other conditions affecting bones and internal organs.

Nuclear Imaging– Nuclear imaging uses special equipment, most commonly a gamma camera, to detect gamma rays that concentrate in a particular organ or part of the body. Nuclear imaging is an effective tool for the early diagnosis of heart disease, thyroid disease tumors, bone changes and other conditions.

Positron emission tomography (PET) imaging – PET is a nuclear medicine imaging technique that uses radiopharmaceuticals with shelf-lives that are extremely short. FDG is the most commonly used PET isotope. PET imaging demonstrates function, or metabolism, at the cellular level, which differentiates it from other medical imaging procedures such as MRI or CT imaging, which primarily demonstrates structure, or anatomy.

X-ray –X-ray uses electromagnetic radiation to penetrate the body to form an image on film. Conventional X-ray is used to study soft tissue and bone.

Mammography –Mammography uses a low-dose X-ray of the breast tissue that allows detection of tumors and cysts.

Ultrasound –Ultrasound uses high frequency sound waves that are sent out into the body. The reflected "echoes" create an image from inside the body. Ultrasound is used on internal organs and, most commonly, fetuses.

Fluoroscopy –Fluoroscopy uses an enhanced X-ray to study organs, typically in the digestive tract. Fluoroscopy differs from conventional X-ray in that it enables the radiologist to see "live" images of body functions, such as the digestive system at work on a monitor rather than on a still film.

Total annual spending for medical imaging services in the U.S. for 2001 was estimated at $66 billion. Demand for all medical imaging services in the U.S. has increased approximately 8% per year over the past five years primarily due to:

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* aging of the general population;

* more active lifestyles, resulting in an increase in incidence of injuries;

* advances in medical imaging equipment and technology;

* physician acceptance of advanced medical imaging procedures;

* development of new applications for existing medical imaging technologies;

* expanded reimbursement for advanced medical imaging procedures; and

* a wider acceptance of the benefits of preventative medicine.

Medical imaging procedures typically are performed in hospitals, medical clinics, free-standing outpatient medical imaging centers and mobile medical imaging centers. Most hospitals and medical clinics own and operate their own medical imaging systems within their facilities to serve their own patients. These hospitals or clinics bill their patients' third-party payors, such as health insurers, Medicare or Medicaid, for the imaging services.

Free-standing outpatient medical imaging centers, like the imaging centers we own and operate, are located in permanent facilities outside of hospitals or medical clinics. Free-standing centers depend primarily on physician referrals for patients. They generally do not contract with hospitals or medical clinics, and may compete with local hospitals and medical clinics in the provision of medical imaging services. Like hospitals and medical clinics, independently owned and operated outpatient medical imaging centers bill their patients or third-party payors for their services. The ownership of outpatient medical imaging centers in the U.S. is highly fragmented, with more than 4,100 independent outpatient centers nationwide.

Competitive Strengths

We believe the competitive strengths of our business include:

Market Leadership

We own and operate 130 radiopharmacies nationwide, or more radiopharmacies than our three largest competitors combined. Our radiopharmacies can deliver radiopharmaceuticals within 90 minutes to hospitals, medical clinics and medical imaging centers that perform more than 90% of all radiopharmaceutical imaging procedures performed in the U.S. in 2002. Radiopharmaceuticals are time-sensitive, with half-lives ranging from 110 minutes to eight days, with the majority of the radiopharmaceuticals we dispense having a half life of six hours. Accordingly, our proximity to our customers is one of our principal strengths.

Our established national distribution channels have enabled us to establish exclusive relationships with leading companies who seek a national distribution channel. We are the exclusive distributor of Bristol-Myers' Cardiolite® in specified geographic areas surrounding most of our U.S. radiopharmacies. Cardiolite® has become the best-selling cardiac imaging agent in the U.S. since we began distributing it. We also recently entered into an exclusive arrangement with Eli Lilly to distribute its Xigris product on an emergency basis nationwide. Xigris is a complex biotechnology compound for treating severe sepsis, a life-threatening condition if not treated immediately. We offer Eli Lilly the unique ability to distribute Xigris within three hours to most hospitals nationwide.

Our medical imaging centers are organized in local clusters within targeted regions. Regional critical mass results in cost efficiencies from higher equipment utilization and lower overhead costs and staffing expenses. Our significant regional presence also allows us to attract and contract with leading radiologists and negotiate favorable relationships with third-party payors in the region.

Superior Service

Our radiopharmacies operate under a single set of business processes and information systems that enable us to provide prompt, reliable service, rapidly implement new services and products and provide valuable information on product usage to manufacturers and other suppliers. We can receive and process customer orders and deliver patient-specific unit doses 24 hours a day, 7 days a week. This enables our customers to obtain the correct doses at the right time in order to effectively schedule radiopharmaceutical imaging procedures. In 2001, we compounded and dispensed more than approximately 7 million unit doses with a reported dispensing error rate of approximately 1/100,000. We also remove and dispose of the contaminated syringes containing radioactive materials from our customer sites. Our tracking systems allow our customers to meet governmental reporting requirements.

The local clustering of our medical imaging centers allows us to offer a range of medical imaging modalities and services, greater flexibility of scheduling, timely and accurate diagnoses, and the ability to establish and maintain relationships with referring physicians.

Broad Range of Services and Products

We offer more than 50 brand name and generic radiopharmaceuticals. We are applying our strengths developed in the marketing and distribution of Cardiolite® to position ourselves to become a major provider of PET radiopharmaceuticals, brachytherapy seeds and other time-sensitive, complex pharmaceutical products, such as Xigris, where we believe there are other marketing opportunities. In February 2002, we entered into an agreement with IDEC Pharmaceuticals Corporation to distribute Zevalin, a novel radioimmunotherapy recently approved by the US Food and Drug Administration for the treatment of certain Non-Hodgkin's Lymphomas. We believe that our leading market share and proven ability to enhance product brands will help to assure our access to new radiopharmaceuticals and other products suitable for rapid distribution through our nationwide radiopharmacy network.

Local clustering of our medical imaging centers allows us to provide convenient scheduling and a full range of medical imaging services within a localized market in a cost-effective manner, because each center is not required to offer each type of imaging service. Further, local clusters of imaging centers facilitate our relationships with referring physicians because we can serve their patients more quickly and efficiently.

Innovation and Product Safety

We have a long history of providing innovative solutions to our customers' needs with services and products that enhance the safety and performance of the products we distribute. We pioneered the concept of outsourcing radiopharmacy services in 1974. Our radiopharmacy innovations also include our patented tungsten radiopharmaceutical delivery systems, commonly known as "Pigs," and our SECURE® Safety Insert Systems, which set new standards for the safe handling and delivery of radiopharmaceuticals and ease of use in compliance with rigorous regulations governing our industry.

Integrated Information Technology and Customer Support

We have developed a number of proprietary information system technologies, including SYNtrac™, Unit Dose Manager™ and NucLink™, to assist our customers in the management of their nuclear medicine departments and radiopharmaceutical inventories, to make the calculation of patient-specific radiopharmaceutical prescriptions easier, and to facilitate electronic communication with our local radiopharmacies. These systems are used by more than 1,600 of our radiopharmacy customers to meet the extensive record-keeping and other regulatory requirements applicable to their businesses. We believe that gaining access to SYNtrac and other systems and our logistics management skills is an important factor in many customers' decisions to enter into multi-year primary supplier agreements with us.

Radiopharmacy Business

Our radiopharmacies primarily compound, dispense and distribute patient-specific radiopharmaceutical prescriptions, or unit doses, used in nuclear diagnostic imaging procedures. Our radiopharmacy customers typically order individual patient prescriptions for radiopharmaceutical unit doses by telephone or via a direct computer link-up with our radiopharmacies. As we receive prescriptions, we schedule them for compounding, dispensing and delivery to the customer. Compounding of unit doses involves mixing a radioactive isotope, which is constantly

decaying, with the appropriate pharmaceutical. Our radiopharmacists calculate the precise amount of radioisotope that will deliver the correct dosage at the scheduled time of use, taking into account the rate of decay. Unit doses are typically drawn from a vial into a syringe for transportation and administration. Because the radioisotopes used in radiopharmaceuticals emit radiation, they must be stored and delivered in specialized containers. We have developed proprietary, OSHA-compliant, radiopharmaceutical delivery systems, including our SECURE® Safety Insert Systems and our line of tungsten containers, commonly known as "Pigs," that allow for the safe transport and handling of radioactive substances and reduced radiation exposure to our radiopharmacy personnel and customers.

Once the radiopharmaceutical unit dose is prepared, we coordinate the delivery of the unit dose directly to the customer's point of use through our staff of 862 customer service assistants and fleet of more than 800 delivery vehicles nationwide. Most deliveries are made next-day, within one to six hours before the scheduled imaging procedure. Because the radioisotope is constantly decaying, reliable and timely delivery is essential. Our 130 radiopharmacies nationwide can deliver radiopharmaceuticals within 90 minutes to hospitals, medical centers and medical imaging centers that performed more than 90% of all radiopharmaceutical imaging procedures performed in the U.S. in 2001. This enables us to process prescription orders for scheduled radiopharmaceutical patient imaging procedures in a timely and cost effective manner and to provide unscheduled emergency services.

After the radiopharmaceutical has been administered to the patient, the syringe is placed back into the same container in which we delivered it to be picked up and returned to our radiopharmacy by our customer service assistants. We take responsibility for disposing of the used syringe and maintaining appropriate records that the product was compounded, delivered and disposed of in accordance with the myriad of regulations covering the use, handling and disposal of radioactive materials.

Services and Products

We compound, dispense and distribute unit-dose radiopharmaceuticals made by a number of manufacturers. We also distribute radiopharmaceuticals in bulk to hospitals and other customers that compound and dispense the product themselves.

Our primary products are cardiology imaging agents used in diagnosing heart problems. In 2001, sales of Cardiolite® represented an estimated 58% of sales of all cardiac imaging agents in the U.S. and 41.2% of our total sales.

We act as the primary distributor of Cardiolite, as well as a distributor of Bristol-Myers' other radiopharmaceutical products, under the terms of a supply and distribution agreement with Bristol-Myers. Under the terms of the agreement, we have exclusive rights to distribute Cardiolite within specified geographic areas surrounding most of our existing U.S. radiopharmacies. Our exclusive rights to distribute Cardiolite also extend to new radiopharmacies that we may develop or acquire in local markets where Bristol-Myers has no preexisting distribution arrangement. In other markets, and in areas outside of the specified areas surrounding our radiopharmacies, our rights to distribute Cardiolite are nonexclusive. Our rights to distribute other Bristol-Myers products, including Thallium, also are nonexclusive.

Our other principal radiopharmacy products include Thallium, a generic cardiac imaging agent, which accounted for 6.3% of our net sales in 2001. No other product constitutes more than 1.4% of our net sales.

We also produce FDG, which we distribute through our network of radiopharmacies. FDG is the most commonly used radioisotope in PET radiopharmaceuticals. When administered intravenously, FDG can reveal how certain organs and tissues are functioning by measuring glucose metabolism. It is widely used to study organ and tissue functions in neurology, cardiology and oncology. FDG is produced in cyclotrons and has a half-life of only 110 minutes. In order to effectively provide PET radiopharmaceuticals, it is essential to have adequate supplies of FDG in proximity to the radiopharmacy where the PET radiopharmaceutical is to be compounded and dispensed. To ensure an adequate supply of FDG, we have built or acquired 8 cyclotron facilities in key markets and have entered into arrangements with several local universities and other cyclotron owners and operators to supply us with this critical component of PET radiopharmaceuticals in other markets.

We also produce and distribute Iodine-123 capsules. Iodine-123 is a radiopharmaceutical used to diagnose and treat thyroid disorders. We manufacture Iodine-123 capsules at our Golden, Colorado facility. Our radiopharmacies also distribute Iodine-125 brachytherapy seeds, which are used to treat prostate cancer. We manufactured our own line of Iodine-125 brachytherapy seeds until February 2002, when we discontinued production of the seeds. We are currently evaluating whether or not to re-start the manufacture of seeds.

We have other businesses that complement our radiopharmacy services business. We provide radiology technical staff on a temporary or full-time basis to hospitals, radiology clinics, nuclear cardiology clinics and physician offices in over thirty markets nationwide. On August 1, 2001, we acquired Inovision Radiation Measurements, LLC and its affiliate, Victoreen, LLC, both of which now operate as Syncor Radiation Management, LLC. As a result of the acquisition, we now manufacture and supply radiation measurement equipment and related accessories used by nuclear medicine departments, radiopharmacies and other businesses that handle radioactive materials. On August 31, 2001, we acquired InteCardia, Inc., a provider of cardiovascular services through the operation of a state-of-the-art cardiac diagnostic facility that offers outpatient cardiac catheterization, nuclear cardiology and echocardiography. InteCardia also offers nuclear cardiology groups with full turnkey services, including the provision of imaging and cardiac stress equipment and nuclear medicine technologists.

Proprietary Systems and Technologies

In 1994, we introduced the SECURE® Safety Insert System, which is designed to eliminate the potential for contamination of lead-lined or tungsten radiopharmaceutical containers with radioactive material or the blood from used radiopharmaceutical syringes. With our system, the risk of needle sticks also is reduced significantly. We believe that our patented SECURE® Safety Insert System is the only system currently available that meets new, more stringent OSHA industry standards that went into effect in July 2001. We also have patent rights to a family of tungsten radiopharmaceutical delivery systems that we refer to as the “Pigs.” The Pigs are radiopharmaceutical containers that are smaller and weigh considerably less than traditional containers used to transport radiopharmaceuticals and set new industry standards for the safe transport and handling of radiopharmaceuticals, including FDG. Our tungsten containers also provide enhanced radiation shielding compared to lead-lined delivery systems typically used by our competitors, resulting in a reduction in radiation exposure to our pharmacy personnel and customers.

We also license to our customers our proprietary Windows-based SYNtrac, Unit Dose Manager and NucLink integrated software and hardware systems to assist them in the management of their nuclear medicine departments and to facilitate electronic communication with our radiopharmacies. As of December 31, 2001, we licensed our software systems to more than 1,600 of our radiopharmacy customers.

Customers

We provide radiopharmacy services and products to hospitals, medical centers and medical imaging clinics in 48 states in the U.S., Puerto Rico and 13 foreign countries. Our principal radiopharmacy service customers are:

* corporate account customers such as group purchasing organizations, or GPOs;
* local independent hospitals and medical clinics; and
* community-based, multiple-facility integrated healthcare networks, or IHNs.

Corporate account customers, either GPOs or proprietary multi-hospital groups, negotiate contracts on behalf of IHNs, independent hospitals, and clinics. These contracts are multi-year contracts, although certain contracts have clauses that permit the GPO or multi-hospital group to cancel the contract if certain conditions occur. We estimated that we have 1,165 customers committed under a national or regional contract. Sales to members or affiliates of our corporate account customers were approximately $225 million in 2001, representing nearly 29% of our net sales, compared to approximately $187 million, or nearly 30% of our net sales in 2000. Our largest corporate account customers include AmeriNet Inc. and Health Trust Purchasing Group (formerly Columbia/HCA). In 2001, sales to AmeriNet and Health Trust represented 10% and 6%, respectively, of our net sales. No other corporate account customer accounts for as much as 5% of our net sales.

We also have customers that are affiliated with GPOs that do not have contracts with us. Sales to these customers were approximately $191 million in 2001, representing nearly 25% of our net sales, compared to approximately $168 million, or 26.8% of our net sales in 2000. No customers in this sales category accounted for as much as 5% of our net sales.

Despite the fact that the majority of IHN’s and hospitals hold membership or are affiliated with a GPO or proprietary multi-hospital group, some IHN’s and local independent hospitals choose not to participate in a national agreement. Our sales to these customers were approximately $133 million in 2001, representing nearly 17.2% of our net sales. This compares to $104 million, representing 16.5% of our net sales, in 2000. No local independent hospital or clinic accounted for as much as 5% of our net sales.

Sales and Marketing

We market and sell our radiopharmacy services and products and services in the U.S. directly through a dedicated sales force of more than 100 national and regional sales and marketing personnel. Our sales and marketing personnel are responsible for developing and managing customer relationships and for communicating the benefits of working with Syncor. To maintain a highly effective local presence, our field sales force works closely with local radiopharmacy managers to ensure that our customers’ expectations are met on a daily basis. We also have individuals dedicated to targeting and managing contracts with multi-hospital groups, including GPOs, proprietary hospital systems, and multi-hospital alliances. In addition, we have a specialty sales team designed to increase our sales in new areas separate from traditional nuclear medicine, such as brachytherapy and PET.

We also rely indirectly on the sales and marketing efforts by manufacturers of the radiopharmaceuticals we distribute. For example, our sales and marketing force works closely with Bristol-Myers’ sales and marketing personnel to make joint sales calls, prepare marketing and sales materials and educate customers regarding the Bristol-Myers products we distribute.

Distribution

We have a nationwide distribution network consisting of a national distribution center in Toledo, Ohio, and three regional distribution centers. Our national distribution center maintains a central warehouse of critical supplies in order to facilitate bulk-purchasing and minimize warehousing and inventory requirements at our radiopharmacies.

Competition

Our radiopharmacies in the U.S. compete for both unit-dose sales, which account for 90% of the U.S. market, and sales of bulk products, which account for the remaining 10%. We compete on a national level with radiopharmaceutical manufacturers that operate their own radiopharmacies, including Amersham, PLC and Mallinckrodt Inc. We also compete with Central Pharmacy Services, Inc., a nationwide owner and operator of radiopharmacies. We also compete in local markets across the U.S. with independent radiopharmacies and universities that own and operate their own radiopharmacies.

The key competitive factors affecting our radiopharmacy services business are:

* speed and reliability of radiopharmacy services;
* safety of radiopharmaceutical delivery systems;
* geographic scope of operations;
* range of radiopharmaceuticals and other products offered;
* integration of order and delivery functions with customers' operations; and
* record keeping and regulatory compliance.

Our PET radiopharmaceuticals compete with PET radiopharmaceuticals produced and distributed by PETNet Radiopharmaceutical Services, Inc., Mobile P.E.T. Systems, Inc. and Eastern Isotopes.

Medical Imaging Business

We own or operate 65 free-standing outpatient medical imaging centers organized in clusters located primarily in Arizona, California, Florida and Texas. Each cluster offers a full complement of medical imaging services, including MRI, CT imaging, X-ray, ultrasound, mammography, fluoroscopy. We also own or operate 19 medical imaging centers in four foreign countries and Puerto Rico. Our foreign medical imaging centers include 2 catheterization labs.

Thirty-four of our centers offer only MRI, and the remaining 31 centers offer one or more of the different types of imaging services, including 4 centers that offer PET imaging. At each of our centers, we schedule patient imaging procedures specified by the referring physician and record all patient insurance and billing information. The scheduled imaging procedures are performed by our medical technologists under the supervision of licensed radiologists who perform their services on an independent contractor basis. The radiologists consult with referring physicians regarding the nature of the medical imaging procedures that are performed by our medical technologists and interpret the medical images.

Customers, Contracts and Payors

We depend primarily on physician referrals for patients at our medical imaging centers. We focus on developing a strong physician referral network and relationships with leading radiologists. We believe that our regional differentiation, combined with our full complement of medical imaging services, makes us attractive to managed care organizations and other payors, who increasingly prefer to work with fewer healthcare services providers, including medical imaging services providers.

Our medical imaging net sales depend to a large extent upon the acceptance of outpatient diagnostic imaging procedures as covered benefits under various third-party payor programs. In order to be reimbursed for these services, payment must be approved by private insurers or Medicare and Medicaid programs. In 2001, Medicare and Medicaid accounted for approximately 15.5% of our total net sales, while managed care organizations accounted for approximately 65.8%, and conventional indemnity insurance companies and workers' compensation each accounted for approximately 8.0%. Other plans, including self-pay, account for the remainder.

Billing and Collection

Billing and collection and other administrative functions for most of our medical imaging centers are performed at regional billing offices located in Westlake Village, California, Plantation, Florida and Jacksonville, Florida. Our regional offices generally bill and collect both for technical services we provide at our centers and for professional services performed by radiologists affiliated with our centers. We believe that our ability to provide a single bill for all medical imaging services centers, instead of separate billing for technical, professional and other services, is preferred by third-party payors.

Accurate billing is crucial to reimbursement from third-party payors. In July 2001, we began implementing an enterprise-wide integrated medical imaging services information management and billing system. This new system will allow us to standardize and implement best operating practices and further consolidate billing and collection functions for all our medical imaging centers. Some of our recently acquired centers currently bill and collect on individual systems, but will be converted to consolidated billing and collection functions in our regional offices in the near future.

Imaging Systems Equipment

We operate a variety of medical imaging systems. As of December 31, 2001, we operated 69 MRI systems, 22 CT systems, 6 PET systems (including 2 systems in sites we managed but did not own) and 60 other systems, substantially all of which are owned by us. We have made significant investments in purchasing, updating and maintaining our systems in an effort to offer the latest, most advanced imaging systems available. As of December 31, 2001, approximately 44% of our systems were less than three years old. We have the ability to upgrade most of our current MRI and CT systems, which we believe reduces the potential for technological obsolescence. We continually evaluate our capital needs and periodically purchase new equipment or update or enhance existing equipment. We purchase our imaging systems from major medical equipment manufacturers, including General Electric Medical Systems, Hitachi Medical Systems, Siemens Medical Systems, and Phillips Medical Systems. As a major purchaser of medical imaging systems, we believe we receive relatively attractive pricing for equipment and service contracts from equipment manufacturers.

Sales and Marketing

We depend primarily on physician referrals for patients at our medical imaging centers. We market and sell our medical imaging services through local and regional marketing personnel and with the help of local radiologists affiliated with our centers. We focus our marketing and sales activities on attracting referrals from physicians representing various medical specialties and, to a lesser extent, on contracting with managed care organizations and others.

Competition

The market for diagnostic imaging services is highly fragmented and competitive. There are few national medical imaging service providers and more than 4,100 independent outpatient medical imaging centers nationwide. We compete with independent regional or local owners and operators of medical imaging centers, including hospitals and private medical clinics and radiology physician groups that own their own medical imaging equipment. We generally do not compete with the national imaging services providers, who tend not to have a significant presence in the markets we serve.

We believe that the key competitive factors affecting our medical imaging business are, in order of importance:

* range of medical imaging modalities and services offered;
* proximity of imaging center locations and flexibility of scheduling;
* timeliness and accuracy of diagnosis by our affiliated radiologists;
* ability to attract and retain qualified affiliated radiologists and technologists;
* quality and type of equipment used;

* price;
* relationships with referring physicians;
* participation in healthcare plans; and
* access to capital.

Government Regulation

Radiopharmacy Business

Each of our radiopharmacies in the U.S. is licensed by and must comply with the regulations of the U.S. Nuclear Regulatory Commission, or NRC, or corresponding state agencies. In addition, each radiopharmacy is licensed and regulated by the Board of Pharmacy in the state where it is located. Our manufacturing facility in Colorado and our FDG production facilities in Florida, California, Massachusetts, Missouri, Ohio, Pennsylvania, Texas and Washington, are licensed by the respective states to handle radioactive materials and are registered with the Food and Drug Administration, or FDA, as manufacturing facilities. As FDA-registered manufacturing facilities, they must comply with the FDA's "current good manufacturing practices" standards.

Periodic inspections of our radiopharmacies and manufacturing facilities are conducted by the NRC, FDA and various other Federal and state agencies. Unsatisfactory inspection results could lead to escalated enforcement action, the imposition of fines or the suspension, revocation or denial of renewal of the licenses for the location inspected. We devote substantial human and financial resources to ensure continued regulatory compliance by our radiopharmacies and manufacturing facilities.

We are subject to various Federal, state and local regulations relating to occupational safety and health and the use and disposal of bio-hazardous materials. In addition, the products we dispense and distribute through our U.S. radiopharmacies are subject to Federal, state and local regulations relating to drugs and medical devices.

Our transport of radioactive materials is regulated by the U.S. Department of Transportation, or DOT. We audit our own radiopharmacies for DOT compliance. The DOT, and corresponding state regulators, also conduct periodic and unannounced inspections of our radiopharmacies for compliance with applicable regulations. Although we believe that our safety practices and procedures for storing, handling, transporting, and disposing of radioactive, bio-hazardous, and other hazardous and non-hazardous materials comply with applicable laws, regulations, and standards, we cannot eliminate completely the risk of accidental contamination or injury from such materials. In the event of a spill or release, we could be held liable for damages that result, and any liability could exceed the limits or fall outside our insurance coverage. We also could incur business interruption or other loss of business as a result of such an event. Furthermore, there can be no assurance that there will not be future changes to the regulatory programs applicable to us, and those changes could force us to make significant changes to our processes, procedures, or materials or to make investments in capital improvements to our facilities.

The need to comply with applicable environmental laws and regulations, such as those regulating the use and disposal of radioactive materials, is inherent in our industry and the normal operations of our radiopharmacies and our manufacturing facilities. Historically, compliance with such laws and regulations has not had a material adverse effect on our capital expenditures, earnings or competitive position.

The Centers for Medicare and Medicaid Services, or CMS (formerly the Health Care Financing Administrations, or HCFA), the U.S. agency that establishes Medicare reimbursement policies, regularly re-evaluates reimbursement rates for all health care provider services and has reduced such rates in the past. Starting August 1, 2000, CMS began using prices submitted by manufacturers to set reimbursements for many hospital outpatient drugs, including radiopharmaceuticals, instead of reimbursing these products as a direct cost pass-through. Since our sales of radiopharmaceuticals are made to hospitals and clinics, we get paid by them, not reimbursed by CMS. The introduction of set reimbursement rates nevertheless could have an impact on the prices that customers will be willing to pay for the radiopharmaceuticals that they purchase from us, and that impact, in turn, could affect our revenues. We are not able to predict the long-term impact of this change in the reimbursement system upon our business.

We are also subject to the Federal fraud and abuse laws governing provider and supplier relationships with Federal healthcare programs, including Medicare and Medicaid. One such law, the Federal Anti-Kickback Statute, prohibits payments made in exchange for referral of items or services covered by Federal health care programs, including Medicare and Medicaid. This law is extremely broad. It prohibits fraudulent claims, kickbacks, rebates and bribes, as well as payment of any form of remuneration, in cash or in kind, in return for referrals of business paid for by Federal health care programs. Also prohibited are any payments made to those in a position to recommendpurchasing, leasing, or ordering any goods, services, or items for which payment may be made under Federal health care programs. Failure to comply with the Anti-Kickback Statute can result in a felony conviction, imprisonment, significant fines, and exclusion from the Medicare and Medicaid programs.

Recognizing that the law is broad and may technically prohibit beneficial arrangements, the Office of the Inspector General ("OIG") of the Department of Health and Human Services developed regulations addressing those types of business arrangements that will not be subject to scrutiny under the law. These "Safe Harbors" describe activities that may technically violate the act, but which are not to be considered illegal when carried on in conformance with the regulations. For example, the Safe Harbors cover activities such as offering discounts to health care providers and contracting with physicians or other individuals that have the potential to refer business to us that would ultimately be billed to Medicare or Medicaid.

The OIG periodically issues Fraud Alerts identifying practices it believes may violate Federal fraud and abuse laws. One Fraud Alert addressed joint venture and contractual arrangements between healthcare providers. Another concerns prescription-drug marketing practices. Drug marketing activities may implicate the Federal fraud and abuse laws because the cost of drugs is often reimbursed by Medicare and Medicaid. According to the Fraud Alert, questionable practices may include payments to pharmacists to recommend a particular drug or product. We try to structure our business arrangements to comply with Federal fraud and abuse laws. However, if we are found to have violated any of these laws, we could suffer penalties, fines or possible exclusion from Medicare, Medicaid or other governmental programs. For example, our business arrangements may not fully meet the stringent criteria specified in the Safe Harbors. Failure to qualify for Safe

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Harbor protection does not mean that an arrangement is illegal. Rather, the arrangement must be analyzed under the Anti-Kickback Statute to determine whether there is an intent to pay or receive remuneration in return for referrals. Even though we continuously strive to comply with the requirements of the Anti-Kickback Statute, liability under the Anti-Kickback Statute may still arise because of the intentions of the parties with whom we do business. Conduct and business arrangements that do not fully satisfy one of the Safe Harbors may result in increased scrutiny by government enforcement authorities such as the OIG.

Many states have adopted laws similar to the Federal Anti-Kickback Statute. Some of these state prohibitions apply to referral of patients for health care services reimbursed by any source, not just government health care programs. Although we believe that we comply with both Federal and state anti-kickback statutes, any finding of a violation of these laws could subject us to criminal and civil penalties or possible exclusion from Federal or state health care programs. Such penalties would adversely affect our financial performance and our ability to operate our business.

The Federal False Claims Act and similar state statutes prohibit presenting, or causing to be presented, a claim for payment under Medicare, Medicaid, and other Federally funded programs containing false or misleading information. Although our radiopharmacy services segment for the most part does not submit claims for payment directly to Federally funded programs, the costs of our products are included in the claims submitted by our customers to Federally funded programs. Thus, liability could accrue to us if a finding were made that we “caused” a false claim to be presented to the government. Violations of the False Claims Act can result in significant penalties and exclusion from participation in the Medicare and Medicaid programs. Liability under the False Claims Act arises primarily when an entity knowingly submits a false claim for reimbursement to the Federal government. Simple negligence should not give rise to liability, but submitting a claim with reckless disregard of its truth or falsity could result in substantial civil liability. In addition to the civil provisions of the False Claims Act, the Federal government can use several other criminal statutes to prosecute persons who submit false or fraudulent claims for payment to the Federal government. The costs of defending claims under the False Claims Act, and, if a violation is found, the cost of sanctions imposed under the Act, would adversely affect our financial performance.

Our foreign radiopharmacies are subject to the regulations of the countries in which they operate.

Medical Imaging Services

The Federal government and all states in which we operate or plan to operate medical imaging centers regulate various aspects of our medical imaging services business.

Reimbursement for medical imaging services is undergoing change as third-party payors, such as Medicare and Medicaid, health maintenance organizations and other health insurance carriers, increase effortsto control the cost, utilization and delivery of healthcare services. Legislation has been proposed or enacted at both the Federal and state levels to regulate healthcare delivery in general and medical imaging services in particular. CMS, the U.S. agency that establishes Medicare reimbursement policies, regularly re-evaluates reimbursement rates for all health care provider services, including medical imaging services, and has reduced such rates in the past. CMS' latest published figures applicable to reimbursement for medical imaging services reflect reductions in rates of up to 4 percent for 2002. We are not able to predict the long-term impact of changes in the reimbursement system upon our business.

The medical imaging services business also is subject to state insurance laws governing the presentation and payment of insurance claims for medical imaging services to patients with health insurance.

The establishment and operation of outpatient diagnostic imaging centers are subject to various licensing requirements. Some states require a Certificate of Need, or CON, in some circumstances to establish, construct, acquire or expand healthcare facilities and services. We may also have to comply with Federal certification requirements, such as the Federal certification requirement to provide mammography examinations and the Medicare certification requirement for our centers to be qualified as Independent Diagnostic Testing Facilities. Certificate of need regulations may limit or preclude us from providing our services in certain jurisdictions. In practice, certificate of need laws have prevented hospitals and other providers who have been unable to obtain a certificate of need from acquiring new machines or offering new services. A significant increase in the number of states regulating our business through certificate of need or similar programs could adversely impact us. Our medical imaging centers also are subject to Federal and state regulations relating to testing standards, personnel accreditation and compliance with government reimbursement programs.

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Our centers are also subject to the Federal fraud and abuse laws described above for the radiopharmacy business. See “Government Regulation-Radiopharmacy Business” above. Among the types of relationships covered by the Safe Harbors developed by the OIG are personal service arrangements, such as the arrangements between radiologists and our medical imaging centers. In addition to the Safe Harbors, the OIG has issued Advisory Opinions, indicating whether the OIG would be likely to view a particular arrangement as violative of the Federal Anti-Kickback Statute. With respect to payments for marketing services, the OIG has indicated that if an arrangement contains certain characteristics, the arrangement may be more likely to be investigated by the OIG or found to violate the Federal Anti-Kickback Statute. Among the characteristics listed by the OIG are compensation arrangements based on a percentage of sales and the use of sales agents who are health professionals to exert undue influence on purchasers or patients. Our arrangements with physicians and other persons or entities who may be in a position to refer patients may not fully meet the stringent criteria specified in the Safe Harbors. Failure to qualify for Safe Harbor protection does not mean that an arrangement is illegal. Rather, the arrangement must be analyzed under the Anti-Kickback Statute to determine whether there is an intent to pay or receive remuneration in return for referrals. Even though we continuously strive to comply with the requirements of the Anti-Kickback Statute, liability under the Anti-Kickback Statute may still arise because of the intentions of the parties with whom we do business. Conduct and business arrangements that do not fully satisfy one of the Safe Harbors may result in increased scrutiny by government enforcement authorities such as the OIG. Our centers are also subject to the Federal False Claims Act described above for the radiopharmacy business. See “Government Regulation-Radiopharmacy Business” above.

The “Stark II” statute, enacted under the Omnibus Budget Reconciliation Act of 1993, prohibits a physician from making a referral to an entity for the furnishing of designated health services (including diagnostic imaging services) for which payment may be made under a Federal health care program, if the physician has a financial relationship with that entity. The term financial relationship includes both ownership interests and compensation arrangements. Any person who presents or causes to be presented a claim to the Medicare or Medicaid programs pursuant to a prohibited referral is also subject to significant penalties and possible exclusion from participation in Federal health care programs. In addition, a number of states (including California and Florida) have enacted their own versions of self-referral laws which may require physicians to disclose any financial interest they may have with a healthcare provider to their patients when referring patients to that provider. Any sanctions imposed on us under Stark or companion state laws could adversely affect our financial results and our business. Our medical imaging services business also may be subject to state laws that prohibit the practice of medicine by non-physicians or the splitting of fees between physicians and non-physicians.

The Federal Health Insurance Portability and Accountability Act of 1996 provides that it is a felony to knowingly and willfully execute any scheme to defraud any healthcare benefit program. This Act also imposes new requirements relating to the privacy of medical information. The government published regulations to implement these requirements in December 2000, with which health care providers are expected to comply by April 2003. A violation of these provisions may result in criminal or civil penalties, which would adversely affect our financial performance or our ability to operate our business. We have begun to address compliance with the Act and applicable regulations and expect the new requirements to have significant effect on the manner in which we handle health data and communicate with payors. The cost of compliance with this act could be significant and could adversely affect our financial performance and business.

We are also subject to licensing and regulation under Federal, state and local laws relating to the handling and disposal of medical specimens, infectious and hazardous waste and radioactive materials as well as to the safety and health of laboratory employees. The sanctions for failure to comply with these regulations may include denial of the right to conduct business, significant fines and criminal penalties.

Our foreign medical imaging centers are subject to the regulations of the countries in which they operate.

Patents, Trademarks, and Licenses

We own a number of trademarks and patents, including patent rights to our SECURE® Safety Insert System and our family of radiopharmaceutical delivery systems known as "Pigs." SECURE® Safety Inserts is a registered trademark, and CMI-Net™, NeRD™, NucLink™, PETPig™, Piglet™, Piglet2™, PharmaSeed™, SYNtrac™ and UDM™ are trademarks of the Company.

We license our SYNtrac, UDM and NucLink systems to our customers to assist in the management of their nuclear medicine departments and to facilitate electronic communication between our radiopharmacies and customers.

We believe that our trademarks, patents and licenses are important contributors to our ability to differentiate our radiopharmacy services from those of our competitors and build mutually beneficial long-term customer relationships.

Employees

As of December 31, 2001, we employed more than 4,200 people in the U.S., of whom approximately 3,000 were full-time employees. Of our full-time employees, approximately 1,580 are employed in our U.S. radiopharmacy business, 800 are employed in our U.S. medical imaging business, 400 are employed in our international operations, and the rest are in our corporate headquarters. Four hundred twenty of our U.S. radiopharmacy business employees are licensed nuclear pharmacists. With limited exceptions in foreign countries, none of our employees is covered by a collective bargaining agreement. We consider our employee relations to be good.

Environmental Matters

In operating our facilities, historically we have not encountered any major difficulties in effecting compliance with applicable pollution control laws. No material capital expenditures for environmental control facilities are expected. While we cannot predict the effect which any future legislation, regulations, or interpretations may have upon our operations, we do not anticipate any changes that would have a material adverse impact on our operations.

Risk Factors

Except for the historical information and discussions, statements contained in this Form 10-K may constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those expressed in or implied by such statements due to a number of factors, including the risk factors below.

Sales of Cardiolite® account for a significant portion of our net sales and net income, and a reduction in our Cardiolite sales as a result of the expiration of our current exclusive distribution rights in December 2003 and the expiration of the key patents for Cardiolite, could have a material adverse impact on our business and operating results.

Sales of Cardiolite accounted for 41.2% of our net sales in 2001. Under the terms of our supply and distribution agreement with Bristol-Myers, we have the exclusive right to distribute Cardiolite within specified geographic areas surrounding most of our U.S. radiopharmacies. These rights expire December 31, 2003, and we cannot assure you that they will be renewed or extended on similar terms, or at all.

Bristol-Myers' key U.S. patents for Cardiolite expire between 2005 and 2008. Once the patents expire, other manufacturers may begin producing and distributing generic versions of Cardiolite which could compete with Cardiolite. It is also possible that new cardiology imaging agents may be developed in the future that are superior to Cardiolite. Our Cardiolite sales could decline significantly in the future if our current distribution rights are not renewed or extended after the end of 2003, and thereafter when generic versions of Cardiolite become available after Bristol-Myers' key U.S. patents expire or the introduction of new cardiology imaging agents. If we are unable to respond appropriately to the occurrence of any of these events, they could have a material adverse impact on our business, operating results and financial condition.

We depend on Bristol-Myers for our principal products and raw materials, and any loss or interruption in the supply of Bristol-Myers' products or raw materials would have a material adverse impact on our business and operating results.

Our radiopharmacies dispense more than 50 different radiopharmaceutical products with more than 100 medical indications, which we obtain primarily from six suppliers. Our principal supplier in the U.S. is Bristol-Myers, from which we obtain Cardiolite, as well as Thallium, a generic cardiology imaging agent that accounted for 6.3% of our net sales in 2001. In the aggregate, products supplied by Bristol-Myers, including Cardiolite and Thallium, accounted for 53.5% of our net sales in 2001. Our business, results of operations and financial condition would be materially adversely affected if our supply of products from Bristol-Myers is interrupted for any reason. In addition, our business, results of operations and financial condition would be materially adversely affected if we encounter delays in obtaining alternative products from other suppliers, or if alternate products available to us are inferior in quality to Bristol-Myers' products and are not readily accepted by our customers.

Technetium is a radioactive isotope used to compound radiopharmaceuticals, which are then dispensed to our customers, generally in unit-dose form. Sales of technetium-based products (such as Cardiolite) accounted for 50.9% of our net sales in 2001. We obtain most of our U.S. supply of technetium from technetium generators supplied by Bristol-Myers. We do not have a long-term contract with Bristol-Myers for the supply of technetium generators. Although we believe technetium generators are available in sufficient quantity from other suppliers, we have periodically experienced minor disruptions in our supply. Any significant disruption in our supply of technetium generators could have a material adverse effect on our business, results of operations and financial condition, unless and until we obtain alternative sources of supply.

We depend on a few large customers for sales of our radiopharmaceutical services and products, and the loss of one or more of these customers could have a material adverse impact on our operating results.

Corporate account customers representing multiple-facility integrated healthcare networks, or IHN's, or local independent hospitals, and that purchase exclusively through a GPO, accounted for 29% of our net sales in 2001. Sales to AmeriNet Inc.and Health Trust Purchasing Group (formerly Columbia/HCA) constituted 16% of our net sales in 2001. Although most of these contracts are multi-year contracts, certain contracts permit the customers to cancel their contracts on 30 to 90 days notice. In addition, all of our contracts may be cancelled for a variety of reasons, including our inability to provide the level of quality of service and products required by the contract. Although the loss of any particular corporate account does not necessarily result in our losing each of the individual hospitals or clinics within a purchasing group as customers because they may continue to purchase from us outside of the corporate account contracts, often we do lose customers following the termination of corporate contracts. The trend toward further consolidation of hospital and clinic groups and the use of large purchasing groups may put further pressure on our future profit margins, and the loss of any significant corporate account customers or a material part of such customers' business (whether as a result of a cancellation of our contract, an acquisition of our customer by another company that is served by another provider, a material deterioration in the financial condition of our customer or otherwise) may have an adverse short-term or long-term impact on our radiopharmacy net sales, which could have a material adverse impact on our business, operating results or financial condition.

We depend on reimbursements from third-party payors, and therefore changes in the mix of payors or in their reimbursement policies could have a material adverse impact on our business and operating results.

We depend in significant part on reimbursements from governmental and non-governmental third-party payors. This reimbursement directly affects our medical imaging net sales because we receive direct payments from third-party payors for services we provide, and also indirectly affects our radiopharmacy services net sales, because it affects the amounts our customers are reimbursed for payments they make to us for our radiopharmaceuticals and the amount of these reimbursements impacts the amount our customers are willing to pay us. Third-party payors are implementing a variety of approaches to reduce costs, which could have a material adverse effect on us. The increasing prevalence of managed care, centralized purchasing decisions by hospitals, consolidation among and integration of healthcare providers and competition for patients is continuing to affect pricing, purchasing, usage patterns and particular drug treatment decisions based on cost considerations. The level of reimbursement we are able to obtain for our services increasingly will depend on our ability to properly itemize and bill for these items. Cost-reduction measures implemented by third-party payors, decisions by third parties limiting the use of diagnostic tests or drug treatments we provide, the inability of any third-party payors to satisfy their payment obligations to us, or a shift in the mix of our private payors to managed care organizations which tends to reduce the amount reimbursed for tests and treatments, could have a material adverse impact on our business, operating results or financial condition.

We derive a significant portion of our revenue from governmental programs such as Medicare and Medicaid. In 2001, 15.5% of our net sales were attributable to direct reimbursements from these programs. In recent years, changes in these highly regulated programs have limited and reduced reimbursements to providers and these trends may continue. For example, the Centers for Medicare and Medicaid Services, or CMS, the Federal agency that establishes Medicare reimbursement policies, has considered making significant reductions in reimbursement rates for medical imaging services and radiopharmaceuticals in the past and has indicated that it is continuing to evaluate these rates. We believe new initiatives by CMS to lower these reimbursement rates can be expected in the future. For example, on August 1, 2000, CMS began setting reimbursement rates for radiopharmaceuticals based on the prices submitted by manufacturers, which tend to be lower than the previous prices based on the pass-through rate. Further, CMS recently approved reductions in reimbursement rates for PET studies for hospital outpatients effective April 1, 2002. We are not able to predict the effects of this change in Medicare reimbursement policies, nor can we predict whether CMS will also make reductions in reimbursement rates for PET studies conducted at independent diagnostic testing facilities such as our medical imaging centers. In addition, the Medicare and Medicaid programs are subject to statutory and regulatory changes, retroactive and prospective rate adjustments, administrative rulings, executive orders, and freezes and funding reductions, any of which may adversely affect our business. For example, for purposes of Medicare reimbursement, recently promulgated Federal regulations affect the ability of a Medicare provider such as a hospital to include a service or facility as provider-based, as opposed to treating the service as if it were offered offsite from the hospital. Historically, provider-based status has allowed a provider to obtain more favorable Medicare reimbursement for services like the ones we provide. While the Medicare, Medicaid and SCHIP Benefits and Improvement Act of 2000 offers some relief for facilities recognized as provider-based on October 1, 2000, under these new regulations, some of our customers may have difficulty qualifying our services for provider-based status. If a client cannot obtain provider-based status for our services, then the provider might decide not to contract with us, which would result in a decline in our revenues.

We also may be subject to rate reductions as a result of Federal budgetary or other legislation related to the Medicare and Medicaid programs. Various state Medicaid programs periodically experience budget shortfalls, which may result in Medicaid payment reductions and delays in payment to us.

The application or repeal of state certificate of need regulations could harm our business.

Some states require a certificate of need or other similar regulatory approval prior to the acquisition of high-cost capital items such as some of the equipment we purchase and use to render our services. In many cases, a limited number of certificates of need are available in a given jurisdiction, and if we are unable to obtain the applicable certificate of need or other approval, these regulations may limit or preclude our options in the relevant jurisdiction. On the other hand, states in which we have obtained a certificate of need or other required approval may repeal certificate of need or other relevant regulations or liberalize exemptions from such regulations, actions which would lower the barrier to entry in those states and could adversely affect our business.

Complying with Federal and state health care payment requirements is an expensive and time-consuming process, and any failure to comply, even if inadvertent, could result in substantial refund obligations and/or penalties.

Because we derive a significant portion of our revenue from governmental programs such as Medicare and Medicaid, we are directly subject to extensive and technical billing and operations requirements by both the Federal government and the states in which we do business. In the areas in which we do not directly bill the government for services, we are nevertheless indirectly subject to such requirements through our customers. We believe that our billing practices materially comply with applicable state and Federal requirements. However, there can be no assurance that such requirements will not be interpreted in the future in a manner inconsistent with our interpretation and application.

The rules that directly or indirectly affect us include, but are not limited to, the following:

* Federal and state billing, claims submission, and documentation laws and regulations;

* the Federal Medicare and Medicaid Anti-kickback Law, and similar state laws;

* the Federal False Claims Act, and similar Federal criminal laws;the Federal Physician Anti-Self-Referral law (“Stark II”), and similar state laws;

The failure to comply, even if inadvertent, with any of these requirements could require us to refund payments to the government. Such refunds could be significant and could also lead to the imposition of significant penalties. Even if we successfully defend against any action against us for violation of these laws or regulations, we would likely be forced to incur significant legal expenses and divert our management’s attention from the operation of our business. Any of these actions, individually or in the aggregate, could adversely affect our ability to operate our business and our financial results.

We depend upon highly trained personnel in the operation of our radiopharmaceutical and medical imaging businesses, and our inability to recruit and/or retain a sufficient number of these personnel could restrict our ability to meet the needs of our customers and could have a material adverse impact on our business, operating results and financial condition.

Each of our radiopharmacies employs one or more nuclear pharmacists who require highly specialized training and must be specially licensed. There is a shortage nationwide of nuclear pharmacists, and we may not be able to attract or retain sufficient qualified pharmacists in some geographic areas we serve. Our loss of our pharmacists, or our inability to attract a significant number of new pharmacists could have a material adverse impact on our business, operating results or financial condition.

In addition, each of our medical imaging center employs a number of technologists who require specialized training to operate our diagnostic equipment. There is a shortage of qualified technologists. It is impossible to predict the availability of technologists or the compensation levels that will be required to hire and retain them. We may not be able to hire and retain a sufficient number of technologists, and we may be required to increase our compensation costs to do so.

A reduction in the number of medical imaging procedures we perform could have a material adverse impact on our business and operating results.

The principal operating costs in our medical imaging services business are depreciation, fees paid to radiologists, compensation paid to technologists, rent, annual system maintenance costs, and insurance costs. Because most of these costs are relatively fixed, a significant reduction in the number of procedures we perform for any reason (including as a result of increased competition, changes in third-party payor reimbursement policies, equipment down-time for scheduled or unanticipated maintenance or otherwise) could result in significantly lower operating margins.

Changes in radiopharmaceutical and medical imaging technologies or the introduction of new services and products in the markets we serve could have an adverse impact on our radiopharmacy and medical imaging businesses.

Radiopharmaceutical and medical imaging technologies are subject to constant and often rapid changes. New and more effective radiopharmaceutical services and products may be developed for the diagnosis or treatment of diseases, particularly in the cardiovascular or oncology areas, and we may be unable to obtain marketing rights to these products or have to pay substantial amounts to acquire them. In addition, new diagnostic or treatment modalities that are not based on nuclear medicine may be developed for diseases currently addressed by our products. These developments could adversely affect our radiopharmacy net sales, which could have a material adverse impact on our business, operating results or financial condition.

The emergence of new types of equipment or significant improvements to the existing types of equipment for medical imaging could render our existing medical imaging equipment obsolete or noncompetitive and require us to significantly modify or abandon our existing imaging equipment. New types of equipment may also render the use of radiopharmaceuticals as imaging agents unnecessary. These developments could have a material adverse impact on our business, operating results or financial condition.

Our business and our industry are highly regulated, and if government laws or regulations are enforced in a manner adverse to us we may be subject to significant penalties and sanctions.

The healthcare services industry is extensively regulated by Federal, state and local governmental agencies. We are subject to regulation by the Food and Drug Administration, the Nuclear Regulatory Commission, the Department of Transportation, state nuclear regulatory agencies, state boards of pharmacy, state health departments and various other Federal and state agencies, and similar governmental agencies in other

countries in which we operate. If we do not comply with the laws and regulations applicable to us we may be subject to a variety of penalties and sanctions, including substantial civil and criminal penalties, damages and fines and the curtailment of our operations. Any penalties, damages, fines or curtailment of our operations, individually or in the aggregate, could have a material adverse impact on our business, operating results or financial condition. The risk of our being found in violation of applicable laws and regulations is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Any action against us for violation of these laws or regulations, even if ultimately we are successful in defending against it, could cause us to incur significant legal expenses and divert our management’s attention from the operation of our businesses.

We are subject to economic, political and other risks and uncertainties inherent in doing business internationally.

Our international operations accounted for 6.4% of our net sales in 2001. Our international operations are subject to various risks and uncertainties of doing business in foreign markets, and these risks and uncertainties may be heightened as a result of our strategy of targeting emerging market countries. The risks and uncertainties relating to our international operations include:

* fluctuations in currency rates, which may affect our reported earnings;
* compliance with foreign regulatory requirements which often are subject to frequent change and not as well defined and developed as in the U.S.;
* operations through joint ventures with local partners over whom we have limited control;
* political and economic instability in the countries where we operate; and
* restrictions on remittances of cash from our international operations.

If we become subject to product liability and malpractice claims that are not adequately covered by our insurance, we may have to pay significant damages and other expenses.

Our businesses are subject to the risks of various claims from customers and patients, including claims arising from the distribution and manufacture of radiopharmaceuticals and medical devices and malpractice claims arising from the provision of medical imaging services. We may not be able to maintain product liability or malpractice insurance in the future on acceptable terms or with adequate coverage against potential liabilities. A successful claim not covered by our insurance, or in excess of our insurance coverage, could have a material adverse impact on our business, operating results or financial condition.

Our business depends in part upon our ability to protect our intellectual property and avoid violating the intellectual property of others.

We rely to a significant extent on various intellectual property rights, including patents, tradenames, trademarks and trade secrets. We own U.S. patents covering our proprietary radiopharmaceuticals delivery system, including our SECURE® Safety Insert System and our family of tungsten radiopharmaceutical delivery systems more commonly known as “Pigs.” We also license our proprietary SYNtrac and Unit Dose Manager software systems to many of our customers for the management of their nuclear medicine departments and to facilitate electronic communication with our radiopharmacies. In addition, we rely on certain other trade secrets and other proprietary know-how that are either not patentable or that we choose not to patent. If any of our competitors successfully challenges or circumvents our patents orSIZE="1"> **July 2, 2011**

	Disney Shareholders	Non-controlling Interests	Total Equity	Disney Shareholders	Non-controlling Interests	Total Equity
Beginning Balance	$38,049	$1,863	$39,912	$38,650	$1,662	$40,312
Net income	1,831	205	2,036	1,476	187	1,663
Other comprehensive income/(loss):						
Market value adjustments for hedges and investments	68		68	(2)		(2)
Pension and postretirement medical adjustments	57		57	21		21
Foreign currency translation and other	(87)	(19)	(106)	9	10	19

Other comprehensive income

38	(19)	19	28	10	38

Comprehensive income

1,869 186 2,055 1,504 197 1,701

Equity compensation activity

463 463 211 211

Common stock repurchases

(373) (373) (1,427) (1,427)

Distributions and other

(2) 18 16 8 117 125

Ending Balance

$40,006	**$2,067**	**$42,073**	**$38,946**	**$1,976**	**$40,922**

See Notes to Condensed Consolidated Financial Statements

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THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (cont d)

(unaudited; in millions)

	Nine Months Ended					
	June 30, 2012			July 2, 2011		
	Disney Shareholders	Non-controlling Interests	Total Equity	Disney Shareholders	Non-controlling Interests	Total Equity
Beginning Balance	$ 37,385	$ 2,068	$ 39,453	$ 37,519	$ 1,823	$ 39,342
Net income	4,438	345	4,783	3,720	287	4,007
Other comprehensive income/(loss):						
Market value adjustments for hedges and investments	124		124	(56)		(56)
Pension and postretirement medical adjustments	145		145	99		99
Foreign currency translation and other	(82)	(24)	(106)	29	18	47
Other comprehensive income	187	(24)	163	72	18	90
Comprehensive income	4,625	321	4,946	3,792	305	4,097
Equity compensation activity	1,116		1,116	1,413		1,413
Dividends	(1,076)		(1,076)	(756)		(756)
Common stock repurchases	(2,042)		(2,042)	(3,029)		(3,029)
Distributions and other	(2)	(322)	(324)	7	(152)	(145)
Ending Balance	**$ 40,006**	**$ 2,067**	**$ 42,073**	**$ 38,946**	**$ 1,976**	**$ 40,922**

See Notes to Condensed Consolidated Financial Statements

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THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. *Principles of Consolidation*

These Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. We believe that we have included all normal recurring adjustments necessary for a fair statement of the results for the interim period. Operating results for the quarter and nine months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending September 29, 2012. 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 2011 Annual Report on Form 10-K.

The Company enters into relationships or investments with other entities, and in certain instances, the entity in which the Company has a relationship or investment may be a variable interest entity (VIE). A VIE is consolidated in the financial statements if the Company has the power to direct activities that most significantly impact the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. Although the Company has less than a 50% direct ownership interest in Disneyland Paris, Hong Kong Disneyland Resort and Shanghai Disney Resort, they are VIEs, and given the nature of the Company s relationships with these entities, which include management agreements, the Company has consolidated Disneyland Paris, Hong Kong Disneyland Resort and Shanghai Disney Resort in its financial statements.

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

2. *Segment Information*

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

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	Quarter Ended		Nine Months Ended	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011
Revenues [1]:				
Media Networks	**$ 5,084**	$ 4,949	**$ 14,555**	$ 13,916
Parks and Resorts	**3,441**	3,170	**9,495**	8,668
Studio Entertainment	**1,625**	1,620	**4,423**	4,892
Consumer Products	**742**	685	**2,369**	2,233
Interactive	**196**	251	**654**	759
	$ 11,088	$ 10,675	**$ 31,496**	$ 30,468
Segment operating income (loss) [1]:				
Media Networks	**$ 2,126**	$ 2,094	**$ 5,048**	$ 4,684
Parks and Resorts	**630**	519	**1,405**	1,132
Studio Entertainment	**313**	49	**642**	501
Consumer Products	**209**	155	**670**	609
Interactive	**(42)**	(86)	**(140)**	(214)
	$ 3,236	$ 2,731	**$ 7,625**	$ 6,712

(1) Studio Entertainment segment revenues and operating income include an allocation of Consumer Products and Interactive 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		Nine Months Ended	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011
Studio Entertainment	**$ 64**	$ 77	**$ 194**	$ 195
Consumer Products	**(53)**	(76)	**(182)**	(192)
Interactive	**(11)**	(1)	**(12)**	(3)
	$	$	**$**	$

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

	Quarter Ended		Nine Months Ended	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011
Segment operating income	**$ 3,236**	$ 2,731	**$ 7,625**	$ 6,712
Corporate and unallocated shared expenses	**(107)**	(101)	**(334)**	(335)
Restructuring and impairment charges	**(7)**	(34)	**(51)**	(46)
Other income			**184**	75

Net interest expense	**(93)**	(88)	**(278)**	(266)
Income before income taxes	**$ 3,029**	$ 2,508	**$ 7,146**	$ 6,140

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3. ***Acquisitions***

UTV

Pursuant to a delisting offer process governed by Indian law, on February 2, 2012, the Company purchased additional publicly held shares and all of the shares held by the founder of UTV Software Communications Limited (UTV), a media and entertainment company headquartered and publicly traded in India, for $377 million. The Company also assumed approximately $300 million of UTV s borrowings. The purchase increased the Company s ownership interest to 93% from 50%. As a result, the Company changed its accounting for UTV from an equity method investment to a consolidated subsidiary. The acquisition of UTV supports the Company s strategic priority of increasing its brand presence and reach in key international markets.

Upon consolidation, the Company recognized a non-cash gain of $184 million ($116 million after tax) as a result of adjusting the carrying value of the Company s 50% equity investment to its estimated fair value of $405 million. The gain was recorded in Other Income in the Condensed Consolidated Statement of Income. The fair value was determined based on the Company s internal valuation of the UTV business using an income approach (discounted cash flow model) which the Company believes provides the most appropriate indicator of fair value.

The Company has performed a preliminary allocation of the purchase price to the estimated fair value of the tangible and intangible assets acquired and liabilities assumed. The majority of the purchase price has been allocated to goodwill, which is not amortizable for tax purposes. The goodwill reflects the synergies and increased Indian market penetration expected from combining the operations of UTV and the Company.

In accordance with Indian securities regulation, the Company can be required to purchase any outstanding UTV shares at the election of each remaining UTV shareholder for 1,100 Indian rupees per share until March 16, 2013. To date, the Company has paid $63 million to acquire an incremental 6% interest bringing its ownership percentage to 99%.

Seven TV

On November 18, 2011, the Company acquired a 49% ownership interest in Seven TV, a broadcast television network in Russia for $300 million. Seven TV was converted to an ad-supported, free-to-air Disney Channel in Russia. The Company accounts for its interest in Seven TV as an equity method investment.

AETN

A&E Television Networks LLC (AETN) operates multiple cable broadcasting services and is owned 42.1% by the Company, 42.1% by the Hearst Corporation (Hearst) and 15.8% by NBCUniversal. On July 9, 2012, AETN agreed to redeem NBCUniversal s entire 15.8% equity interest for approximately $3 billion. Approximately $2.5 billion represents the enterprise value of NBCUniversal s equity interest in AETN, and the balance of approximately $0.5 billion represents the value of tax benefits expected to be generated as a result of the transaction, which is to be paid to NBCUniversal in accordance with the amended and restated limited liability company agreement of AETN. As a result of the transaction, the Company s and Hearst s ownership interest would increase to 50%. The transaction is expected to close prior to the end of calendar 2012 upon the satisfaction of closing conditions. The Company and Hearst will each make a $300 million equity contribution to AETN and each will potentially provide up to $500 million in shareholder loans to assist in financing the transaction. The Company expects that it will continue to account for its interest in AETN as an equity method investment.

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Goodwill

The changes in the carrying amount of goodwill for the nine months ended June 30, 2012, are as follows:

	Media Networks	Parks and Resorts	Studio Entertainment	Consumer Products	Interactive	Total
Balance at Oct. 1, 2011	$ 15,728	$ 172	$ 5,284	$ 1,797	$ 1,164	$ 24,145
Acquisitions	445		426		175	1,046
Dispositions			(1)	(3)		(4)
Other, net	(64)		(60)		(19)	(143)
Balance at June 30, 2012	**$ 16,109**	**$ 172**	**$ 5,649**	**$ 1,794**	**$ 1,320**	**$ 25,044**

The carrying amount of goodwill at June 30, 2012 and October 1, 2011 includes accumulated impairments of $29 million at Interactive.

4. *Dispositions and Other Income*
Miramax

On December 3, 2010, the Company sold Miramax Film NY, LLC (Miramax) for $663 million. Net proceeds which reflect closing adjustments, the settlement of related claims and obligations and Miramax s cash balance at closing were $532 million, resulting in a pre-tax gain of $64 million, which is reported in Other income in the fiscal 2011 Condensed Consolidated Statement of Income. The book value of Miramax included $217 million of allocated goodwill that is not deductible for tax purposes. Accordingly, tax expense recorded in connection with the transaction was approximately $103 million resulting in a loss of $39 million after tax.

5. *Borrowings*
During the nine months ended June 30, 2012, the Company s borrowing activity was as follows:

	October 1, 2011	Additions	Payments	Other Activity	**June 30, 2012**
Commercial paper borrowings	$ 1,583	$	$ (558)	$	**$ 1,025**
U.S. medium-term notes	8,400	2,977	(1,268)	5	**10,114**
European medium-term notes and other foreign currency denominated borrowings [(1)]	1,111	272	(198)	196	**1,381**
Other[(1)]	572	2	(82)	55	**547**
Disneyland Paris borrowings [(2)]	1,981		(140)	(150)	**1,691**
Hong Kong Disneyland borrowings [(3)]	330			(65)	**265**
Total	$ 13,977	$ 3,251	$ (2,246)	$ 41	**$ 15,023**

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

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(3) The other activity reflects the conversion of a portion of the Government of the Hong Kong Special Administrative Region s loan to equity pursuant to a capital realignment and expansion plan.

In June 2012, the Company entered into a new five-year $2.25 billion bank facility with a syndicate of lenders. This facility replaced an existing three-year $2.25 billion facility which was scheduled to expire in 2013, and in combination with an existing $2.25 billion facility that matures in 2015, is used to support commercial paper borrowings. The bank facilities allow for borrowings at LIBOR-based rates plus a spread depending on the credit default swap spread applicable to the Company s debt, subject to a cap and a floor that vary with the Company s public debt rating. The spread above LIBOR can range from 0.26% to 1.93%.

6. *International Theme Park Investments*

The Company has a 51% effective ownership interest in the operations of Disneyland Paris, a 48% ownership interest in the operations of Hong Kong Disneyland Resort and a 43% ownership interest in the operations of Shanghai Disney Resort (collectively the International Theme Parks), all of which are consolidated in the Company s financial statements.

The following tables present summarized balance sheet information for the Company as of June 30, 2012 and October 1, 2011, reflecting the impact of consolidating the balance sheets of the International Theme Parks.

	As of June 30, 2012		
	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash and cash equivalents	$ 3,842	$ 532	$ 4,374
Other current assets	10,136	244	10,380
Total current assets	13,978	776	14,754
Investments	3,852	(1,455)	2,397
Fixed assets	16,620	4,324	20,944
Other assets	37,122	74	37,196
Total assets	$ 71,572	$ 3,719	$ 75,291
Current portion of borrowings	$ 2,396	$ 173	$ 2,569
Other current liabilities	8,065	483	8,548
Total current liabilities	10,461	656	11,117
Borrowings	10,671	1,783	12,454
Deferred income taxes and other long-term liabilities	9,497	150	9,647
Equity	40,943	1,130	42,073
Total liabilities and equity	$ 71,572	$ 3,719	$ 75,291

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	As of October 1, 2011		
	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash and cash equivalents	$ 2,407	$ 778	$ 3,185
Other current assets	10,323	249	10,572
Total current assets	12,730	1,027	13,757
Investments	3,791	(1,356)	2,435
Fixed assets	15,386	4,309	19,695
Other assets	36,137	100	36,237
Total assets	$ 68,044	$ 4,080	$ 72,124
Current portion of borrowings	$ 2,866	$ 189	$ 3,055
Other current liabilities	8,459	574	9,033
Total current liabilities	11,325	763	12,088
Borrowings	8,800	2,122	10,922
Deferred income taxes and other long-term liabilities	9,507	154	9,661
Equity	38,412	1,041	39,453
Total liabilities and equity	$ 68,044	$ 4,080	$ 72,124

The following table presents summarized income statement information of the Company for the nine months ended June 30, 2012, reflecting the impact of consolidating the income statements of the International Theme Parks.

	Before International Theme Parks Consolidation [1]	International Theme Parks and Adjustments	Total
Revenues	$ 29,924	$ 1,572	$ 31,496
Cost and expenses	(23,085)	(1,572)	(24,657)
Restructuring and impairment charges	(51)		(51)
Other income	184		184
Net interest expense	(221)	(57)	(278)
Equity in the income of investees	425	27	452
Income before income taxes	7,176	(30)	7,146
Income taxes	(2,360)	(3)	(2,363)
Net income	$ 4,816	$ (33)	$ 4,783

(1)

These amounts include the International Theme Parks under the equity method of accounting. As such, royalty and management fee income from these operations is included in Revenues and our share of their net income/(loss) is included in Equity in the income of investees. There were $9 million in royalties and management fees recognized for the nine months ended June 30, 2012.

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The following table presents summarized cash flow statement information of the Company for the nine months ended June 30, 2012, reflecting the impact of consolidating the cash flow statements of the International Theme Parks.

	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash provided by operations	$ 6,168	$ 263	$ 6,431
Investments in parks, resorts and other property	(2,392)	(459)	(2,851)
Other investing activities	(739)	120	(619)
Cash used by financing activities	(1,544)	(136)	(1,680)
Impact of exchange rates on cash and cash equivalents	(58)	(34)	(92)
Increase/(decrease) in cash and cash equivalents	1,435	(246)	1,189
Cash and cash equivalents, beginning of period	2,407	778	3,185
Cash and cash equivalents, end of period	$ 3,842	$ 532	$ 4,374

7. ***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**	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011	**June 30, 2012**	July 2, 2011	**June 30, 2012**	July 2, 2011
Service cost	**$ 69**	$ 73	**$ 208**	$ 220	**$ 5**	$ 4	**$ 16**	$ 14
Interest cost	**111**	104	**330**	311	**19**	17	**56**	50
Expected return on plan assets	**(128)**	(111)	**(385)**	(331)	**(5)**	(6)	**(17)**	(18)
Amortization of prior year service costs	**3**	3	**10**	10			**(1)**	(1)
Recognized net actuarial loss	**77**	57	**232**	171	**7**	2	**23**	6
Net periodic benefit cost	**$ 132**	$ 126	**$ 395**	$ 381	**$ 26**	$ 17	**$ 77**	$ 51

During the nine months ended June 30, 2012, the Company made contributions to its pension and postretirement medical plans totaling $393 million. The Company expects total pension and postretirement medical plan contributions in fiscal 2012 of approximately $400 million to $425 million including discretionary contributions above the minimum requirements. Final minimum pension plan funding requirements for fiscal 2012 will be determined based on our January 1, 2012 funding actuarial valuation which will be available by the end of the fourth quarter of fiscal 2012.

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8. *Earnings Per Share*

Diluted earnings per share amounts are based upon the weighted average number of common and common equivalent shares outstanding during the period and are calculated using the treasury stock method for equity-based compensation awards (Awards). A reconciliation of the weighted average number of common and common equivalent shares outstanding and Awards excluded from the diluted earnings per share calculation, as they were anti-dilutive, is as follows:

	Quarter Ended		Nine Months Ended	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011
Shares (in millions):				
Weighted average number of common shares outstanding (basic)	**1,791**	1,883	**1,794**	1,891
Weighted average dilutive impact of equity-based compensation awards	**21**	29	**24**	33
Weighted average number of common and common equivalent shares outstanding (diluted)	**1,812**	1,912	**1,818**	1,924
Awards excluded from diluted earnings per share	**10**	10	**13**	7

9. *Equity*

On November 30, 2011, the Company declared a $0.60 per share dividend ($1.1 billion) related to fiscal 2011 for shareholders of record on December 16, 2011, which was paid on January 18, 2012. The Company paid a $0.40 per share dividend ($756 million) during the second quarter of fiscal 2011 related to fiscal 2010.

During the nine months ended June 30, 2012, the Company repurchased 53 million shares of its common stock for $2,042 million. As of June 30, 2012, the Company had remaining authorization in place to repurchase 251 million additional shares. The repurchase program does not have an expiration date.

The par value of the Company s outstanding common stock totaled approximately $28 million.

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

	June 30, 2012	October 1, 2011
Market value adjustments for investments and hedges	**$ 76**	$ (48)
Foreign currency translation and other	**(39)**	43
Unrecognized pension and postretirement medical expense	**(2,480)**	(2,625)
Accumulated other comprehensive income (loss) [(1)]	**$ (2,443)**	$ (2,630)

(1) Accumulated other comprehensive income (loss) and components of other comprehensive income (loss) are net of 37% estimated tax.

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10. *Equity-Based Compensation*

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

	Quarter Ended		Nine Months Ended	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011
Stock options/rights [(1)]	**$ 29**	$ 29	**$ 89**	$ 104
RSUs	**77**	70	**234**	216
Total equity-based compensation expense [(2)]	**$ 106**	$ 99	**$ 323**	$ 320
Equity-based compensation expense capitalized during the period	**$ 15**	$ 16	**$ 42**	$ 50

(1) Includes stock appreciation rights issued in connection with acquisition of Playdom

(2) Equity-based compensation expense is net of capitalized equity-based compensation and excludes amortization of previously capitalized equity-based compensation costs. During the quarter and nine months ended June 30, 2012, amortization of previously capitalized equity-based compensation totaled $15 million and $39 million, respectively. During the quarter and nine months ended July 2, 2011, amortization of previously capitalized equity-based compensation totaled $8 million and $43 million, respectively.

Unrecognized compensation cost related to unvested stock options/rights and RSUs totaled approximately $190 million and $663 million, respectively, as of June 30, 2012.

The weighted average grant date fair values of options issued during the nine months ended June 30, 2012 and July 2, 2011 were $10.65 and $10.97, respectively.

During the nine months ended June 30, 2012, the Company made equity compensation grants totaling 19.8 million units, which included its regular annual grant issued in January, 2012, consisting of 9.8 million stock options and 8.6 million RSUs, of which 0.5 million RSUs included market and performance conditions.

In March 2012, shareholders of the Company approved an amendment to the 2011 Stock Incentive Plan, which increased the number of shares authorized to be awarded as grants by an incremental 15 million shares. Following this amendment, the maximum number of shares available for issuance (assuming all the awards are in the form of stock options) was approximately 131 million shares and the number available for issuance assuming all awards are in the form of RSUs was approximately 66 million shares.

11. *Commitments and Contingencies*

Legal Matters

Celador International Ltd. v. American Broadcasting Companies, Inc. On May 19, 2004, an affiliate of the creator and licensor of the television program, *Who Wants to be a Millionaire,* filed an action against the Company and certain of its subsidiaries, including American Broadcasting Companies, Inc. and Buena Vista Television, LLC, alleging it was damaged by defendants improperly engaging in certain intra-company transactions and charging merchandise distribution expenses, resulting in an underpayment to the plaintiff. On July 7, 2010, the jury returned a verdict for breach of contract against certain subsidiaries of the Company, awarding plaintiff damages of $269.4 million. The Company has stipulated with the plaintiff to an award of prejudgment interest of $50 million, which amount will be reduced pro rata should the Court of

Appeals reduce the damages amount. On December 21, 2010, the Company s

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alternative motions for a new trial and for judgment as a matter of law were denied. Although we cannot predict the ultimate outcome of this lawsuit, the Company believes the jury s verdict is in error and is vigorously pursuing its position on appeal, notice of which was filed by the Company on January 14, 2011. On or about January 28, 2011, plaintiff filed a notice of cross-appeal. The Company has determined that it does not have a probable loss under the applicable accounting standard relating to probability of loss for recording a reserve with respect to this litigation and therefore has not recorded a reserve.

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

Contractual Guarantees

The Company has guaranteed bond issuances by the Anaheim Public Authority that were used by the City of Anaheim to finance construction of infrastructure and a public parking facility adjacent to the Disneyland Resort. Revenues from sales, occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds. In the event of a debt service shortfall, the Company will be responsible to fund the shortfall. As of June 30, 2012, the remaining debt service obligation guaranteed by the Company was $355 million, of which $84 million was principal. To the extent that tax revenues exceed the debt service payments in subsequent periods, the Company would be reimbursed for any previously funded shortfalls. To date, tax revenues have exceeded the debt service payments for the Anaheim bonds.

ESPN STAR Sports, a joint venture in which ESPN owns a 50% equity interest, has agreements for global rights to certain cricket programming through 2019. ESPN and the other joint-venture partner have jointly guaranteed the programming rights obligation of approximately $0.9 billion.

Long-Term Receivables and the Allowance for Credit Losses

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

The Company estimates the allowance for credit losses related to receivables for the sale of syndicated programming based upon a number of factors, including historical experience, and an ongoing review of the financial condition of individual companies with which we do business. The balance of syndication receivables recorded in other non-current assets, net of an immaterial allowance for credit losses, was $0.8 billion as of June 30, 2012. The activity in the current period related to the allowance for credit losses was not material.

The Company estimates the allowance for credit losses related to receivables for sales of its vacation ownership units based primarily on historical collection experience. Projections of uncollectible amounts are also based on consideration of the economic environment and the age of receivables. The balance of mortgage receivables recorded in other non-current assets, net of a related allowance for credit losses of approximately 3%, was approximately $0.7 billion as of June 30, 2012. The activity in the period related to the allowance for credit losses was not material.

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Income Taxes

During the nine months ended June 30, 2012, the Company settled certain tax matters with various jurisdictions. As a result of these settlements, the Company reduced its unrecognized tax benefits by $126 million, including interest and penalties.

In the next twelve months, it is reasonably possible that our unrecognized tax benefits could change due to resolutions of open tax matters. These resolutions would reduce our unrecognized tax benefits by approximately $52 million.

12. *Fair Value Measurements*

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

Level 1	Quoted prices for identical instruments in active markets
Level 2	Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets
Level 3	Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

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

	Fair Value Measurement at June 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	$ 105	$	$	$ 105
Derivatives (1)				
Interest rate		224		224
Foreign exchange		519		519
Liabilities				
Derivatives (1)				
Foreign exchange		(129)		(129)
Other		(3)		(3)
Total recorded at fair value	$ 105	$ 611	$	$ 716
Fair value of borrowings	$ 8,580	$ 3,823	$ 3,218	$ 15,621

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	Fair Value Measurements at October 1, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	$ 143	$ 43	$	$ 186
Derivatives [(1)]				
Interest rate		214		214
Foreign exchange		498		498
Residual Interests			40	40
Liabilities				
Derivatives [(1)]				
Interest rate		(18)		(18)
Foreign exchange		(262)		(262)
Other derivatives		(1)		(1)
Total recorded at fair value	$ 143	$ 474	$ 40	$ 657
Fair value of borrowings	$ 8,953	$ 2,128	$ 3,070	$ 14,151

(1) The Company has a master netting arrangement by counterparty with respect to certain derivative contracts. Contracts in a liability position totaling $111 million and $167 million have been netted against contracts in an asset position in the Condensed Consolidated Balance Sheets at June 30, 2012 and October 1, 2011, respectively.

Level 1 borrowings consist of U.S. medium-term notes.

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

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

Level 2 borrowings, which include commercial paper and U.S. medium-term notes, are valued based on quoted prices for similar instruments in active markets.

Level 3 residual interests relate to securitized vacation ownership mortgage receivables and are valued using a discounted cash flow model that considers estimated interest rates, discount rates, prepayment, and defaults. On June 5, 2012, the Company repurchased previously sold mortgage receivables.

Level 3 borrowings, which include International Theme Parks borrowings and other foreign currency denominated borrowings, are valued based on historical market transactions, interest rates, credit risk and market liquidity.

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

The Company also has assets and liabilities that are required to be recorded at fair value on a non-recurring basis when certain circumstances occur. During the nine months ended June 30, 2012 and July 2, 2011,

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the Company recorded impairment charges of $111 million and $43 million, respectively, on film productions. These impairment charges are reported in Costs and expenses in the Condensed Consolidated Statements of Income. The film impairment charges reflected the excess of the unamortized cost of the films over the estimated fair value using discounted cash flows. The discounted cash flow analysis is a level 3 valuation technique. The aggregate carrying values of the films for which we prepared the fair value analyses were $124 million and $94 million as of June 30, 2012 and July 2, 2011, respectively.

Transfers of Financial Assets

Through December 4, 2008, the Company sold mortgage receivables arising from sales of its vacation ownership units under a facility that expired on December 4, 2008 and was not renewed. The Company continued to service the sold receivables and had a residual interest in those receivables. On June 5, 2012, the Company repurchased these receivables for $191 million which equaled the outstanding principal balance and approximated fair value.

13. *Derivative Instruments*

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

The following tables summarize the gross fair value of the Company s derivative positions as of June 30, 2012 and October 1, 2011:

	As of June 30, 2012			
	Current Assets	Other Assets	Other Accrued Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	$ 178	$ 78	$ (58)	$ (33)
Interest rate		224		
Other			(3)	
Derivatives not designated as hedges				
Foreign exchange	69	194	(38)	
Gross fair value of derivatives	247	496	(99)	(33)
Counterparty netting	(87)	(24)	87	24
Total Derivatives (1)	$ 160	$ 472	$ (12)	$ (9)

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	As of October 1, 2011			
	Current Assets	Other Assets	Other Accrued Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	$ 133	$ 33	$ (100)	$ (90)
Interest rate	1	213		
Other			(1)	
Derivatives not designated as hedges				
Foreign exchange	103	229	(51)	(21)
Interest rate				(18)
Gross fair value of derivatives	237	475	(152)	(129)
Counterparty netting	(111)	(56)	111	56
Total Derivatives [1]	$ 126	$ 419	$ (41)	$ (73)

[1] Refer to Note 12 for further information on derivative fair values and counterparty netting.

Interest Rate Risk Management

The Company is exposed to the impact of interest rate changes primarily through its borrowing activities. The Company s objective is to mitigate the impact of interest rate changes on earnings and cash flows and on the market value of its borrowings. In accordance with its policy, the Company targets its fixed-rate debt as a percentage of its net debt between a minimum and maximum percentage. The Company typically uses pay-floating and pay-fixed interest rate swaps to facilitate its interest rate management activities.

The Company designates pay-floating interest rate swaps as fair value hedges of fixed-rate borrowings effectively converting fixed-rate borrowings to variable rate borrowings indexed to LIBOR. As of June 30, 2012 and October 1, 2011, the total notional amount of the Company s pay-floating interest rate swaps was $3.1 billion and $1.2 billion, respectively. The following table summarizes adjustments related to fair value hedges included in net interest expense in the Condensed Consolidated Statements of Income.

	Quarter Ended		**Nine Months Ended**	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011
Gain (loss) on interest rate swaps	**$ 25**	$ 16	**$ 9**	$ (61)
Gain (loss) on hedged borrowings	**(25)**	(16)	**(9)**	61

The Company may designate pay-fixed interest rate swaps as cash flow hedges of interest payments on floating-rate borrowings. Pay-fixed swaps effectively convert floating-rate borrowings to fixed-rate borrowings. The unrealized gain or losses from these cash flow hedges are deferred in accumulated other comprehensive income (AOCI) and recognized in interest expense as the interest payments occur. The Company did not have pay-fixed interest rate swaps that were designated as cash flow hedges of interest payments at June 30, 2012 nor at October 1, 2011.

Foreign Exchange Risk Management

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

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The Company enters into option and forward contracts that change in value as foreign currency exchange rates change to protect the value of its existing foreign currency assets, liabilities, firm commitments and forecasted but not firmly committed foreign currency transactions. In accordance with policy, the Company hedges its forecasted foreign currency transactions for periods generally not to exceed four years within an established minimum and maximum range of annual exposure. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related forecasted transaction, asset, liability or firm commitment. The principal currencies hedged are the Euro, Japanese yen, Canadian dollar and British pound. Cross-currency swaps are used to effectively convert foreign currency-denominated borrowings into U.S. dollar denominated borrowings.

The Company designates foreign exchange forward and option contracts as cash flow hedges of firmly committed and forecasted foreign currency transactions. As of June 30, 2012 and October 1, 2011, the notional amounts of the Company s net foreign exchange cash flow hedges were $5.2 billion and $3.6 billion, respectively. Mark to market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of the foreign currency transactions. Gains and losses recognized related to ineffectiveness for the nine months ended June 30, 2012 and July 2, 2011 were not material. Net deferred gains recorded in AOCI for contracts that will mature in the next twelve months totaled $120 million. The following table summarizes the pre-tax adjustments to AOCI for foreign exchange cash flow hedges.

	Quarter Ended		Nine Months Ended	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011
Gain (loss) recorded in AOCI	**$ 157**	$ (114)	**$ 218**	$ (249)
Reclassification of (gains) losses from AOCI into revenues and costs and expenses	**(29)**	63	**(15)**	119
Net change in AOCI	**$ 128**	$ (51)	**$ 203**	$ (130)

Foreign exchange risk management contracts with respect to foreign currency assets and liabilities are not designated as hedges and do not qualify for hedge accounting. The notional amounts of these foreign exchange contracts at June 30, 2012 and October 1, 2011 were $2.8 billion and $2.6 billion, respectively. During the quarters ended June 30, 2012 and July 2, 2011, the Company recognized net gains of $130 million and net losses of $62 million, respectively, in costs and expenses on these foreign exchange contracts which offset respective net losses of $136 million and net gains of $63 million on the related economic exposures. During the nine months ended June 30, 2012 and July 2, 2011, the Company recognized net gains of $73 million and net losses of $127 million, respectively, in costs and expenses on these foreign exchange contracts which offset respective net losses of $109 million and net gains of $119 million on the related economic exposures.

Commodity Price Risk Management

The Company is subject to the volatility of commodities prices and designates certain commodity forward contracts as cash flow hedges of forecasted commodity purchases. Mark to market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of commodity purchases. The fair value of the commodity hedging contracts and related gains or losses recognized in earnings were not material at June 30, 2012 nor at October 1, 2011.

Risk Management Other Derivatives Not Designated as Hedges

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

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

At June 30, 2012, the notional amount of other risk management contracts was not material. The notional amount of these pay fixed interest rate swaps not designated as hedges at October 1, 2011 was $184 million. On June 5, 2012, the Company terminated these pay fixed interest rate swaps in connection with the repurchase of securitized vacation ownership mortgage receivables. For the nine months ended June 30, 2012 and July 2, 2011, gains and losses recognized in income on these risk management contracts were not material.

Contingent Features

The Company s derivative financial instruments may require the Company to post collateral in the event that a net liability position with a counterparty exceeds limits defined by contract and that vary with the Company s credit rating. If the Company s credit ratings were to fall below investment grade, such counterparties would also have the right to terminate our derivative contracts, which could lead to a net payment to or from the Company for the aggregate net value by counterparty of our derivative contracts. The aggregate fair value of derivative instruments with credit-risk-related contingent features in a net liability position by counterparty were $21 million and $114 million on June 30, 2012 and October 1, 2011, respectively.

14. *Restructuring and Impairment Charges*

In the current quarter and nine months, the Company recorded $7 million and $51 million, respectively, of restructuring and impairment charges primarily for severance and related costs for organizational and cost structure initiatives, across various of our businesses.

In the prior-year quarter and nine months, the Company recorded $34 million and $46 million, respectively, of restructuring and impairment charges for severance and facilities costs related to organizational and cost structure initiatives, primarily at our Studio Entertainment and Interactive segments.

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

Other Financial Information

Financial Condition

Commitments and Contingencies

Other Matters

Market Risk

OVERVIEW

Our summary consolidated results are presented below:

	Quarter Ended		% Change	Nine Months Ended		% Change
(in millions, except per share data)	**June 30, 2012**	July 2, 2011	Better/ (Worse)	**June 30, 2012**	July 2, 2011	Better/ (Worse)
Revenues	**$ 11,088**	$ 10,675	4%	**$ 31,496**	$ 30,468	3%
Costs and expenses	**(8,128)**	(8,229)	1%	**(24,657)**	(24,554)	%
Restructuring and impairment charges	**(7)**	(34)	79%	**(51)**	(46)	(11)%
Other income			%	**184**	75	>100%
Net interest expense	**(93)**	(88)	(6)%	**(278)**	(266)	(5)%
Equity in the income of investees	**169**	184	(8)%	**452**	463	(2)%
Income before income taxes	**3,029**	2,508	21%	**7,146**	6,140	16%
Income taxes	**(993)**	(845)	(18)%	**(2,363)**	(2,133)	(11)%
Net income	**2,036**	1,663	22%	**4,783**	4,007	19%
Less: Net income attributable to noncontrolling interests	**(205)**	(187)	(10)%	**(345)**	(287)	(20)%
Net income attributable to Disney	**$ 1,831**	$ 1,476	24%	**$ 4,438**	$ 3,720	19%

Diluted earnings per share	**$**	**1.01**	$	0.77	31%	**$**	**2.44**	$	1.93	26%

Quarter Results

Diluted earnings per share (EPS) increased 31% for the quarter driven by improved segment performance, a decrease in weighted average shares outstanding and a lower effective income tax rate. Improved segment results were driven by the worldwide theatrical success of Marvel s *The Avengers*, the benefit from contractual rate increases and subscriber growth on revenues from Multi-channel Video Service Providers (MVSP) (Affiliate Fees) along with higher advertising revenues at ESPN, increased guest spending at our domestic parks and resorts, the launch of the *Disney Fantasy* cruise ship, and an increase in royalties from Tokyo Disney Resort, which was impacted by the March 2011 earthquake and tsunami in Japan in the prior-year. These increases were partially offset by a negative impact from the timing of deferred Affiliate Fee revenue recognition at ESPN, increased operating expenses at our domestic parks and resorts and higher programming and production costs at ESPN. The Affiliate Fee timing impact at ESPN of $139 million was due to a change in the provisions related to annual programming commitments in a MVSP contract, which shifted the recognition of affiliate revenue to the first and second quarter of the current year as compared to recognition in the third quarter of the prior year.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Nine-Month Results

Diluted EPS increased 26% for the nine months driven by improved segment performance and a decrease in weighted average shares outstanding as well as a gain related to an acquisition discussed below. Improved segment results were driven by higher attendance and guest spending at our domestic parks and resorts, higher Affiliate Fees due to contractual rate increases and subscriber growth along with higher advertising revenues at ESPN, an increase at Tokyo Disney Resort and the worldwide theatrical success of Marvel s *The Avengers*. These increases were partially offset by higher film cost write-downs, increased operating expenses at our domestic parks and resorts, higher programming and production costs at ESPN and lower political advertising revenues at our local television stations.

In the current nine months, the Company recorded a $184 million ($116 million after tax) non-cash gain in connection with the Company s acquisition of an incremental interest in UTV Software Communication Limited (UTV Gain) and $51 million ($32 million after tax) of restructuring and impairment charges due to severance related to organizational and cost structure initiatives. See Note 3 to the Condensed Consolidated Financial Statements for discussion of the UTV Gain.

In the prior-year nine months, the Company recorded $46 million of restructuring and impairment charges and gains on the sale of Miramax and BASS totaling $75 million. Restructuring and impairment charges in the prior-year quarter included an impairment related to assets that had tax basis in excess of the book value resulting in a $44 million tax benefit on the restructuring and impairment charges. The book value of Miramax included allocated goodwill totaling $217 million which is not tax deductible. Accordingly, the taxable gain on the sales of Miramax and BASS exceeded the $75 million book gain resulting in tax expense of $107 million. The table below shows the pretax and after tax impact of the prior year items.

	Benefit / (Expense)		
(in millions)	Pretax	Tax Effect	After Tax
Restructuring and impairment charges	$ (46)	$ 44	$ (2)
Gains on sales of businesses	75	(107)	(32)
	$ 29	$ (63)	$ (34)

SEASONALITY

The Company s businesses are subject to the effects of seasonality. Consequently, the operating results for the quarter and nine months ended June 30, 2012 for each business segment, and for the Company as a whole, are not necessarily indicative of results to be expected for the full year.

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

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

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

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

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

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

BUSINESS SEGMENT RESULTS

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

	Quarter Ended		% Change	**Nine Months Ended**		% Change
(in millions)	**June 30, 2012**	July 2, 2011	Better/ (Worse)	**June 30, 2012**	July 2, 2011	Better/ (Worse)
Revenues:						
Media Networks	**$ 5,084**	$ 4,949	3%	**$ 14,555**	$ 13,916	5%
Parks and Resorts	**3,441**	3,170	9%	**9,495**	8,668	10%
Studio Entertainment	**1,625**	1,620	%	**4,423**	4,892	(10)%
Consumer Products	**742**	685	8%	**2,369**	2,233	6%
Interactive	**196**	251	(22)%	**654**	759	(14)%
	$ 11,088	$ 10,675	4%	**$ 31,496**	$ 30,468	3%
Segment operating income (loss):						
Media Networks	**$ 2,126**	$ 2,094	2%	**$ 5,048**	$ 4,684	8%
Parks and Resorts	**630**	519	21%	**1,405**	1,132	24%
Studio Entertainment	**313**	49	>100%	**642**	501	28%
Consumer Products	**209**	155	35%	**670**	609	10%
Interactive	**(42)**	(86)	51%	**(140)**	(214)	35%
	$ 3,236	$ 2,731	18%	**$ 7,625**	$ 6,712	14%

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

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

(in millions)	Quarter Ended June 30, 2012	Quarter Ended July 2, 2011	% Change Better/ (Worse)	Nine Months Ended June 30, 2012	Nine Months Ended July 2, 2011	% Change Better/ (Worse)
Segment operating income	**$ 3,236**	$ 2,731	18%	**$ 7,625**	$ 6,712	14%
Corporate and unallocated shared expenses	**(107)**	(101)	(6)%	**(334)**	(335)	%
Restructuring and impairment charges	**(7)**	(34)	79%	**(51)**	(46)	(11)%
Other income			%	**184**	75	>100%
Net interest expense	**(93)**	(88)	(6)%	**(278)**	(266)	(5)%
Income before income taxes	**$ 3,029**	$ 2,508	21%	**$ 7,146**	$ 6,140	16%

Depreciation expense is as follows:

(in millions)	Quarter Ended June 30, 2012	Quarter Ended July 2, 2011	% Change Better/ (Worse)	Nine Months Ended June 30, 2012	Nine Months Ended July 2, 2011	% Change Better/ (Worse)
Media Networks						
Cable Networks	**$ 36**	$ 34	(6)%	**$ 107**	$ 99	(8)%
Broadcasting	**26**	25	(4)%	**74**	76	3%
Total Media Networks	**62**	59	(5)%	**181**	175	(3)%
Parks and Resorts						
Domestic	**232**	219	(6)%	**689**	628	(10)%
International	**77**	83	7%	**234**	241	3%
Total Parks and Resorts	**309**	302	(2)%	**923**	869	(6)%
Studio Entertainment	**16**	12	(33)%	**42**	42	%
Consumer Products	**14**	11	(27)%	**41**	36	(14)%
Interactive	**4**	3	(33)%	**12**	12	%
Corporate	**50**	37	(35)%	**141**	111	(27)%
Total depreciation expense	**$ 455**	$ 424	(7)%	**$ 1,340**	$ 1,245	(8)%

Amortization of intangible assets is as follows:

(in millions)	Quarter Ended June 30, 2012	Quarter Ended July 2, 2011	% Change Better/ (Worse)	Nine Months Ended June 30, 2012	Nine Months Ended July 2, 2011	% Change Better/ (Worse)
Media Networks	**$ 9**	$ 2	>(100)%	**$ 13**	$ 6	>(100)%
Parks and Resorts			%			%

Studio Entertainment	**34**	25	(36)%	**72**	56	(29)%
Consumer Products	**15**	15	%	**45**	43	(5)%
Interactive	**9**	10	10%	**25**	29	14%
Total amortization of intangible assets	**$ 67**	$ 52	(29)%	**$ 155**	$ 134	(16)%

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Media Networks

Operating results for the Media Networks segment are as follows:

(in millions)	Quarter Ended **June 30, 2012**	 July 2, 2011	% Change Better/ (Worse)
Revenues			
Affiliate Fees	**$ 2,565**	$ 2,566	%
Advertising	**2,020**	1,913	6%
Other	**499**	470	6%
Total revenues	**5,084**	4,949	3%
Operating expenses	**(2,429)**	(2,329)	(4)%
Selling, general, administrative and other	**(628)**	(649)	3%
Depreciation and amortization	**(71)**	(61)	(16)%
Equity in the income of investees	**170**	184	(8)%
Operating Income	**$ 2,126**	$ 2,094	2%

Revenues

Affiliate Fees were essentially flat as an increase of 6% from higher contractual rates and subscriber growth at both ESPN and the domestic Disney Channels were offset by a 5% reduction in revenue recognition due to a change in the provisions related to annual programming commitments in a MVSP contract at Cable Networks, which shifted the recognition of affiliate revenue to the first and second quarter of the current year as compared to recognition in the third quarter of the prior year.

Higher advertising revenues were due to an increase of $115 million, or 13%, at Cable Networks from $859 million to $974 million, partially offset by a decrease of $8 million at Broadcasting from $1,054 million to $1,046 million. Advertising revenue growth at Cable Networks was driven by an increase of 4% due to higher rates, an increase of 3% due to higher units sold and an increase of 3% due to higher ratings at ESPN, all of which included the impact of the timing of NBA games due to the NBA lockout which shifted games into the third quarter of the current year. The change in revenues at Broadcasting resulted from lower ratings at the ABC Television Network, largely offset by higher rates.

The increase in other revenues reflected higher revenue from the sale of ABC Studios productions and higher royalties from MVSP distribution of our programs.

Costs and Expenses

Operating expenses include programming and production costs, which increased $85 million from $1,971 million to $2,056 million. At Cable Networks, an increase in programming and production costs of $100 million was primarily due to the timing of NBA games and contractual rate increases for NBA and Major League Baseball programming. At Broadcasting, the $15 million decrease in programming and production costs reflected the absence of *The Oprah Winfrey Show* at our local television stations.

The decrease in selling, general, administrative and other costs and expenses is primarily due to lower marketing costs at ABC Family reflecting fewer series premieres in the current year quarter.

Equity in the Income of Investees

Income from equity investees was $170 million for the current quarter compared to $184 million in the prior-year quarter. The decrease in income from equity investees was primarily due to higher operating costs at Hulu.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Segment Operating Income

Segment operating income increased 2%, or $32 million, to $2.1 billion. The increase was primarily due to increases at the domestic Disney Channels and our local television stations, partially offset by a decrease at ESPN.

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

(in millions)	Quarter Ended **June 30, 2012**	July 2, 2011	% Change Better/ (Worse)
Revenues			
Cable Networks	**$ 3,610**	$ 3,516	3%
Broadcasting	**1,474**	1,433	3%
	$ 5,084	$ 4,949	3%
Segment operating income			
Cable Networks	**$ 1,858**	$ 1,844	1%
Broadcasting	**268**	250	7%
	$ 2,126	$ 2,094	2%

Restructuring and impairment charges

The Company recorded charges of $1 million in both the current and prior-year quarters, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income.

Parks and Resorts

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

(in millions)	Quarter Ended **June 30, 2012**	July 2, 2011	% Change Better/ (Worse)
Revenues			
Domestic	**$ 2,789**	$ 2,532	10%
International	**652**	638	2%
Total revenues	**3,441**	3,170	9%
Operating expenses	**(2,032)**	(1,913)	(6)%
Selling, general, administrative and other	**(470)**	(436)	(8)%
Depreciation and amortization	**(309)**	(302)	(2)%
Operating Income	**$ 630**	$ 519	21%

Revenues

Parks and Resorts revenues increased 9%, or $271 million due to an increase of $257 million at our domestic operations and an increase of $14 million at our international operations.

Revenue growth of 10% at our domestic operations reflected a 5% increase from higher average guest spending and a 4% increase from volume. Increased guest spending was due to higher average ticket prices, food, beverage and merchandise spending and daily hotel room rates. Higher volume was driven by the addition of the *Disney Fantasy* cruise ship which launched in March 2012.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Revenue growth of 2% at our international operations reflected a 4% increase from higher average guest spending, a 4% increase from higher royalty revenue from Tokyo Disney Resort and a 1% increase from higher attendance at Disneyland Paris and Hong Kong Disneyland Resort. These increases were partially offset by a 7% decrease due to the impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Euro. Higher guest spending was primarily due to higher daily hotel room rates. The increase at Tokyo Disney Resort reflected the loss of income from the March 2011 earthquake and tsunami in Japan which resulted in a temporary suspension of operations at the resort and a reduction in volume after reopening in the prior-year quarter.

The following table presents supplemental park and hotel statistics:

	Domestic Quarter Ended		International [(2)] Quarter Ended		Total Quarter Ended	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011	**June 30, 2012**	July 2, 2011
Parks						
Increase/ (decrease)						
Attendance	**1%**	2%	**3%**	7%	**1%**	3%
Per Capita Guest Spending	**8%**	8%	**4%**	4%	**7%**	7%
Hotels [(1)]						
Occupancy	**79%**	81%	**89%**	91%	**81%**	83%
Available Room Nights (in thousands)	**2,455**	2,407	**614**	615	**3,069**	3,022
Per Room Guest Spending	**$ 279**	$ 262	**$ 343**	$ 317	**$ 293**	$ 274

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

(2) Per capita guest spending and per room guest spending exclude the impact of foreign currency translation. The Euro to U.S. Dollar weighted average foreign currency exchange rate was $1.29 and $1.44 for the quarters ended June 30, 2012 and July 2, 2011, respectively.

Costs and Expenses

Operating expenses include operating labor which increased by $74 million from $923 million to $997 million and cost of sales which increased $25 million from $312 million to $337 million. Higher operating labor was driven by new guest offerings and labor cost inflation. The increase in cost of sales was driven by higher volumes. Operating expenses also increased due to costs associated with new guest offerings, including fuel, supplies and entertainment, and investments in systems infrastructure. New guest offerings included the *Disney Fantasy,* the expansion of Disney California Adventure at Disneyland Resort and our new hotel and vacation club resort in Hawaii. These increases were partially offset by the favorable impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Euro.

The increase in selling, general, administrative and other costs was driven by marketing of new guest offerings and resort expansions and labor and other cost inflation.

Segment Operating Income

Segment operating income increased 21%, or $111 million, to $630 million due to increases at Tokyo Disney Resort, Disney Cruise Line and our domestic parks and resorts.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Quarter Ended June 30, 2012	Quarter Ended July 2, 2011	% Change Better/ (Worse)
Revenues			
Theatrical distribution	**$ 834**	$ 665	25%
Home entertainment	**239**	431	(45)%
Television distribution and other	**552**	524	5%
Total revenues	**1,625**	1,620	%
Operating expenses	**(746)**	(914)	18%
Selling, general, administrative and other	**(516)**	(620)	17%
Depreciation and amortization	**(50)**	(37)	(35)%
Operating Income	**$ 313**	$ 49	>100%

Revenues

The increase in theatrical distribution revenue was primarily due to the strong performance of Marvel s *The Avengers* in the current quarter compared to *Pirates of the Caribbean: On Stranger Tides* and *Thor* in the prior-year quarter. Other key titles included *Brave* in the current quarter and *Cars 2* in the prior-year quarter.

Lower home entertainment revenue reflected a 44% decrease due to a decline in unit sales reflecting lower performance of current quarter titles and lower catalog sales. Significant current quarter titles included *John Carter* and *The Muppets* while the prior-year quarter included *Tron: Legacy* and *Tangled.*

The increase in television distribution and other revenue was driven by higher sales in international television distribution due to stronger performing titles available in the current quarter compared to the prior-year quarter.

Costs and Expenses

Operating expense included a decrease of $137 million in film cost amortization, from $571 million to $434 million driven by a lower amortization rate for Marvel s *The Avengers* in the current quarter compared to the amortization rate for *Pirates of the Caribbean: On Stranger Tides* in the prior-year quarter, lower home entertainment sales volume and lower film cost write-downs. Operating expenses also include cost of goods sold and distribution costs which decreased $31 million, from $343 million to $312 million driven by a decline in home entertainment unit sales.

The decrease in selling, general, administrative and other costs was primarily due to lower marketing expenses at our theatrical and home entertainment businesses due to fewer major releases in the current year quarter.

Segment Operating Income

Segment operating income increased $264 million to $313 million due to improved theatrical and television distribution results, partially offset by a decrease in home entertainment results.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Restructuring and impairment charges

The Company recorded credits of $3 million and charges of $30 million related to the Studio Entertainment segment in the current and prior-year quarters, respectively, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income. The prior-year quarter charges were for severance and facilities costs related to organizational and cost structure initiatives.

Consumer Products

Operating results for the Consumer Products segment are as follows:

(in millions)	Quarter Ended **June 30, 2012**	 July 2, 2011	% Change Better/ (Worse)
Revenues			
Licensing and publishing	**$ 501**	$ 459	9%
Retail and other	**241**	226	7%
Total revenues	**742**	685	8%
Operating expenses	**(307)**	(308)	%
Selling, general, administrative and other	**(197)**	(196)	(1)%
Depreciation and amortization	**(29)**	(26)	(12)%
Operating Income	**$ 209**	$ 155	35%

Revenues

The 9% increase in licensing and publishing revenue was driven by an increase in licensing revenue while publishing revenue was flat to the prior-year quarter. The increase at licensing was due to a lower revenue share with Studio Entertainment and higher licensing revenue in Japan as a result of the impact in the prior year from the earthquake and tsunami. The lower revenue share with Studio Entertainment reflected a higher mix of revenues from properties subject to the revenue share in the prior-year quarter driven by sales of *Cars* merchandise.

Higher retail and other revenue reflected a 7% increase from our retail business driven by new stores in North America and Europe, increased online sales and higher comparable store sales in North America.

Costs and Expenses

Operating expenses included an increase of $9 million in cost of goods sold, from $115 million to $124 million, driven by increased sales volume at our retail business. The increase was largely offset by lower third-party royalty expense and a decrease in distribution expense.

Segment Operating Income

Segment operating income increased 35% to $209 million due to increases at our licensing and retail businesses.

Restructuring and impairment charges

The Company recorded charges totaling $8 million in the current quarter related to the Consumer Products segment, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income. The current quarter charges were for severance related to organizational and cost structure initiatives. There were no charges recorded in the prior-year quarter.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Interactive

Operating results for the Interactive segment are as follows:

	Quarter Ended		% Change
(in millions)	**June 30, 2012**	July 2, 2011	Better/ (Worse)
Revenues			
Game sales and subscriptions	**$ 137**	$ 199	(31)%
Advertising and other	**59**	52	13%
Total revenues	**196**	251	(22)%
Operating expenses	**(128)**	(188)	32%
Selling, general, administrative and other	**(97)**	(136)	29%
Depreciation and amortization	**(13)**	(13)	%
Operating Loss	**$ (42)**	$ (86)	51%

Revenues

The decrease in game sales and subscriptions revenue reflected a 43% decrease from a decline in console game unit sales reflecting fewer titles in release in the current quarter and stronger performing titles in the prior-year quarter. Current quarter titles included *Brave* while the prior-year quarter included *Lego Pirates of the Caribbean* and *Cars 2.* The decrease was partially offset by higher recognition of minimum guarantees for licensed video games and improved social games performance in the current quarter.

Higher advertising and other revenue was driven by our mobile phone service in Japan due to increased subscribers and higher rates.

Costs and Expenses

Lower operating expense included a decrease in product development costs from $89 million to $80 million driven by decreased console game development and a decrease in cost of sales from $99 million to $48 million driven by lower unit sales of console games. The decrease in operating expenses also reflected higher cost allocations to other Company businesses related to website design and maintenance services.

The decrease in selling, general, administrative and other expenses was driven by lower marketing costs at our console games business due to fewer releases in the current quarter and lower acquisition accounting impacts at our social games business, which had a higher adverse impact on the prior-year quarter.

Segment Operating Loss

Segment operating loss was $42 million compared to $86 million in the prior-year quarter driven by improved results at our social games and online businesses.

Restructuring and impairment charges

The Company recorded charges totaling $1 million and $7 million in the current and prior-year quarters, respectively, related to the Interactive segment, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income. The prior-year quarter charges were due to severance related to organizational and cost structure initiatives.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

BUSINESS SEGMENT RESULTS Nine Month Results

Media Networks

Operating results for the Media Networks segment are as follows:

	Nine Months Ended		% Change
(in millions)	**June 30, 2012**	July 2, 2011	Better/ (Worse)
Revenues			
Affiliate Fees	**$ 6,775**	$ 6,368	6%
Advertising	**6,079**	5,902	3%
Other	**1,701**	1,646	3%
Total revenues	**14,555**	13,916	5%
Operating expenses	**(7,854)**	(7,649)	(3)%
Selling, general, administrative and other	**(1,911)**	(1,865)	(2)%
Depreciation and amortization	**(194)**	(181)	(7)%
Equity in the income of investees	**452**	463	(2)%
Operating Income	**$ 5,048**	$ 4,684	8%

Revenues

The 6% increase in Affiliate Fees reflected increases of 5% from higher contractual rates and 1% from subscriber growth at Cable Networks.

Higher advertising revenues were due to an increase of $234 million at Cable Networks from $2,705 million to $2,939 million, partially offset by a decrease of $57 million at Broadcasting from $3,197 million to $3,140 million. The increase at Cable Networks was driven by a 5% increase from higher rates and a 3% increase due to higher units sold, partially offset by a 1% decrease due to ratings at ESPN. The decrease at Broadcasting reflected a 2% decrease due to lower local television political advertising revenues and a 5% decrease due to lower ratings at the ABC Television Network, partially offset by a 5% increase due to higher rates at the ABC Television Network.

The increase in other revenues reflected sales of Disney Channel and ABC Family programs and higher royalties from MVSP distribution of our programs, partially offset by lower sales of ABC Studios productions driven by *Brothers and Sisters* and *Lost.*

Costs and Expenses

Operating expenses include programming and production costs which increased $131 million from $6,582 million to $6,713 million. At Cable Networks, an increase in programming and production spending of $239 million was primarily due to higher sports rights costs driven by contractual rate increases for college sports and NFL. At Broadcasting, programming and production costs decreased $108 million driven by lower production cost amortization due to decreased sales of ABC Studios productions and the absence of *The Oprah Winfrey Show* at our local television stations.

The increase in selling, general and administrative and other costs and expenses includes higher marketing costs at the ABC Television Network and the international Disney Channels.

Equity in the Income of Investees

Income from equity investees decreased by $11 million from $463 million to $452 million. The decrease was due to higher programming and marketing costs at Hulu and higher equity losses at UTV, partially offset by increased affiliate and advertising revenues at A&E Television Networks.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Segment Operating Income

Segment operating income increased 8%, or $364 million, to $5 billion due to increases at ESPN, the domestic Disney Channels and the ABC Television Network, partially offset by a decrease at the local television stations.

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

(in millions)	Nine Months Ended June 30, 2012	Nine Months Ended July 2, 2011	% Change Better/ (Worse)
Revenues			
Cable Networks	**$ 10,086**	$ 9,410	7%
Broadcasting	**4,469**	4,506	(1)%
	$ 14,555	$ 13,916	5%
Segment operating income			
Cable Networks	**$ 4,325**	$ 3,972	9%
Broadcasting	**723**	712	2%
	$ 5,048	$ 4,684	8%

Restructuring and impairment charges

The Company recorded charges of $11 million related to Media Networks in the current nine month period, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income. The current nine month period charges were due to severance related to organizational and cost structure initiatives. There were no charges recorded in the prior-year nine month period.

Parks and Resorts

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

(in millions)	Nine Months Ended June 30, 2012	Nine Months Ended July 2, 2011	% Change Better/ (Worse)
Revenues			
Domestic	**$ 7,687**	$ 6,938	11%
International	**1,808**	1,730	5%
Total revenues	**9,495**	8,668	10%
Operating expenses	**(5,821)**	(5,418)	(7)%
Selling, general, administrative and other	**(1,346)**	(1,249)	(8)%
Depreciation and amortization	**(923)**	(869)	(6)%
Operating Income	**$ 1,405**	$ 1,132	24%

Revenues

Parks and Resorts revenues increased 10%, or $827 million due to increases of $749 million at our domestic operations and $78 million at our international operations.

Revenue growth of 11% at our domestic operations reflected a 5% increase from higher average guest spending at our domestic parks and resorts and a 5% increase due to higher volume. The volume increase was driven by higher passenger cruise ship days from the *Disney Dream* and the *Disney Fantasy* which launched in January 2011 and March 2012, respectively, increased attendance at our domestic parks and higher hotel occupied room nights from our Hawaii resort which opened in August 2011. Guest spending increased due to higher average ticket prices, food, beverage and merchandise spending, and daily hotel room rates.

Revenue growth of 5% at our international operations reflected a 4% increase from higher average guest spending, a 3% increase from higher royalty revenue from Tokyo Disney Resort and a 1% increase from higher attendance at Hong Kong Disneyland Resort. These increases were partially offset by a decrease of 3% from the unfavorable impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Euro and a decrease of 1% from lower hotel occupancy at Disneyland Paris. Higher guest spending was primarily due to higher daily hotel room rates and average ticket prices. The increase at Tokyo Disney Resort reflected the prior-year impact from the earthquake and tsunami in Japan.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The following table presents supplemental park and hotel statistics:

	Domestic Nine Months Ended		International [2] Nine Months Ended		Total Nine Months Ended	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011	**June 30, 2012**	July 2, 2011
Parks						
Increase/(decrease)						
Attendance	**3%**	1%	**3%**	6%	**3%**	3%
Per Capita Guest Spending	**7%**	7%	**3%**	2%	**6%**	6%
Hotels [1]						
Occupancy	**82%**	82%	**84%**	87%	**82%**	83%
Available Room Nights (in thousands)	**7,307**	7,209	**1,847**	1,845	**9,154**	9,054
Per Room Guest Spending	**$ 261**	$ 246	**$ 300**	$ 280	**$ 269**	$ 253

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

(2) Per capita guest spending and per room guest spending exclude the impact of foreign currency translation. The Euro to U.S. Dollar weighted average foreign currency exchange rate was $1.31 and $1.39 for the nine months ended June 30, 2012 and July 2, 2011, respectively.

Costs and Expenses

Operating expenses include operating labor which increased by $233 million from $2,642 million to $2,875 million and cost of sales which increased by $44 million from $898 million to $942 million. Higher operating labor was driven by labor cost inflation and new guest offerings. The increase in cost of sales was driven by higher volumes. Operating expenses also increased due to costs associated with new guest offerings, including fuel, supplies and entertainment, and investments in systems infrastructure. New guest offerings included the *Disney Dream* and *Disney Fantasy,* our new hotel and vacation club resort in Hawaii, and the expansion of Disney California Adventure at Disneyland Resort. These increases were partially offset by a favorable impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Euro and the collection of business interruption insurance proceeds related to the prior-year earthquake and tsunami in Japan.

The increase in selling, general, administrative and other costs was driven by labor and other cost inflation and marketing of new guest offerings and resort expansions.

Segment Operating Income

Segment operating income increased 24%, or $273 million, to $1.4 billion due to increases at our domestic parks and resorts, Tokyo Disney Resort, Disney Cruise Line and Hong Kong Disneyland Resort, partially offset by a decrease at Disneyland Paris.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Nine Months Ended June 30, 2012	Nine Months Ended July 2, 2011	% Change Better/ (Worse)
Revenues			
Theatrical distribution	**$ 1,193**	$ 1,284	(7)%
Home entertainment	**1,669**	2,011	(17)%
Television distribution and other	**1,561**	1,597	(2)%
Total revenues	**4,423**	4,892	(10)%
Operating expenses	**(2,162)**	(2,509)	14%
Selling, general, administrative and other	**(1,505)**	(1,784)	16%
Depreciation and amortization	**(114)**	(98)	(16)%
Operating Income	**$ 642**	$ 501	28%

Revenues

Lower theatrical distribution revenue reflected fewer Disney branded titles in wide release in the current period. The decrease was partially offset by the strong performance of Marvel s *The Avengers* in the current period compared to *Thor* in the prior-year period. Key Disney branded titles in the prior year included *Pirates of the Caribbean: On Stranger Tides, Tangled, Tron: Legacy,* and *Cars 2* while the current period included *John Carter, Brave* and *The Muppets.*

The decrease in home entertainment revenue reflected a 17% decrease due to a decline in unit sales reflecting the performance of the current-period titles and lower catalog sales. Significant titles in the current period included *Cars 2* and *Pirates of the Caribbean: On Stranger Tides* while the prior-year period included *Toy Story 3* and *Tangled.* Additionally, *Pirates of the Caribbean: On Stranger Tides* was released in the fourth quarter of fiscal 2011 in certain key international markets.

Costs and Expenses

Operating expenses included a decrease of $245 million in film cost amortization, from $1,463 million to $1,218 million driven by fewer Disney branded theatrical titles in release and lower home entertainment sales volume, partially offset by amortization for Marvel s *The Avengers* and higher film cost write-downs in the current period. Operating expenses also include cost of goods sold and distribution costs which decreased $102 million, from $1,046 million to $944 million driven by a decline in home entertainment unit sales.

The decrease in selling, general, administrative and other costs was primarily due to lower theatrical marketing expenses driven by fewer Disney branded titles in the current period and decreased marketing spend at our home entertainment business.

Segment Operating Income

Segment operating income increased 28% to $642 million primarily due to improved results at our theatrical business partially offset by decreased home entertainment results.

Restructuring and impairment charges

The Company recorded charges of $4 million and $31 million in the current and prior-year nine month periods, respectively, related to the Studio Entertainment segment, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income. The prior-year nine month period charges were for severance and facilities costs related to organizational and cost structure initiatives.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Consumer Products

Operating results for the Consumer Products segment are as follows:

(in millions)	Nine Months Ended June 30, 2012	July 2, 2011	% Change Better/ (Worse)
Revenues			
Licensing and publishing	**$ 1,464**	$ 1,373	7%
Retail and other	**905**	860	5%
Total revenues	**2,369**	2,233	6%
Operating expenses	**(1,009)**	(984)	(3)%
Selling, general, administrative and other	**(604)**	(561)	(8)%
Depreciation and amortization	**(86)**	(79)	(9)%
Operating Income	**$ 670**	$ 609	10%

Revenues

The 7% increase in licensing and publishing revenue reflected a 5% increase from licensing revenue driven by the performance of Spider-Man, Avengers, Minnie and Mickey merchandise, higher recognition of minimum guarantees and a 2% increase from a favorable impact of foreign currency translation primarily as a result of the weakening of the U.S. dollar against the Japanese Yen.

Higher retail and other revenue reflected a 5% increase from our retail business driven by new stores in North America and Europe, increased online sales due to promotional events, and higher comparable store sales in North America. The increase was partially offset by lower comparable store sales in Europe.

Costs and Expenses

Operating expenses included an increase of $18 million in cost of goods sold, from $433 million to $451 million, driven by increased sales volume at our retail business. Operating expenses also increased 2% due to higher labor and occupancy costs driven by the expansion of the Disney English business in China and new retail stores in North America and Europe. These increases were partially offset by lower third-party royalty expense in the current period.

The increase in selling, general, administrative and other expenses was driven by higher marketing and promotions expense and an unfavorable foreign currency impact at our licensing business driven by the weakening of the U.S. dollar against the Japanese Yen.

Segment Operating Income

Segment operating income increased 10% to $670 million due to an increase at our licensing business.

Restructuring and impairment charges

The Company recorded charges totaling $15 million in the current nine month period related to the Consumer Products segment, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income. The current nine month period charges were due to severance related to organizational and cost structure initiatives. There were no charges recorded in the prior-year nine month period.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Interactive

Operating results for the Interactive segment are as follows:

(in millions)	Nine Months Ended June 30, 2012	July 2, 2011	% Change Better/ (Worse)
Revenues			
Game sales and subscriptions	**$ 484**	$ 603	(20)%
Advertising and other	**170**	156	9%
Total revenues	**654**	759	(14)%
Operating expenses	**(425)**	(505)	16%
Selling, general, administrative and other	**(332)**	(427)	22%
Depreciation and amortization	**(37)**	(41)	10%
Operating Loss	**$ (140)**	$ (214)	35%

Revenues

The decrease in game sales and subscriptions revenue reflected a 30% decrease from lower console game unit sales and a 4% decrease from lower net effective pricing of console games reflecting the strong performance of *Lego Pirates of the Caribbean*, *Cars 2* and *Epic Mickey* in the prior-year period. The decrease was partially offset by a 13% increase from higher social games revenue reflecting improved title performance in the current period and lower acquisition accounting impacts, which were adverse to the prior-year period.

Higher advertising and other revenue was driven by our mobile phone service in Japan due to higher rates.

Costs and Expenses

Operating expenses included a $24 million decrease in product development costs from $256 million to $232 million driven by decreased console game development. Operating expenses also include cost of sales, which decreased by $56 million from $249 million to $193 million driven by lower console game sales volume, partially offset by an increase at social games associated with revenue growth.

The decrease in selling, general, administrative and other costs was primarily due to lower marketing costs at our console games business driven by fewer releases in the current period, lower acquisition accounting expenses at our social games business, and higher cost allocations to other Company businesses related to website design and maintenance services.

Segment Operating Loss

Segment operating loss decreased 35% to $140 million driven by improved results at our social games and online businesses partially offset by a decrease at our console games business.

Restructuring and impairment charges

The Company recorded charges totaling $9 million and $19 million in the current and prior-year periods, respectively, related to the Interactive segment, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income. The current nine month period charges were driven by the impairment of an investment. The prior-year nine month charges were due to severance related to organizational and cost structure initiatives.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

OTHER FINANCIAL INFORMATION

Corporate and Unallocated Shared Expenses

Corporate and unallocated shared expense is as follows:

	Quarter Ended		% Change	Nine Months Ended		% Change
(in millions)	**June 30, 2012**	July 2, 2011	Better/ (Worse)	**June 30, 2012**	July 2, 2011	Better/ (Worse)
Corporate and unallocated shared expense	**$ 107**	$ 101	(6)%	**$ 334**	$ 335	%

Net Interest Expense

Net interest expense is as follows:

	Quarter Ended		% Change	Nine Months Ended		% Change
(in millions)	**June 30, 2012**	July 2, 2011	Better/ (Worse)	**June 30, 2012**	July 2, 2011	Better/ (Worse)
Interest expense	**$ (115)**	$ (113)	(2)%	**$ (357)**	$ (324)	(10)%
Interest and investment income	**22**	25	(12)%	**79**	58	36%
Net interest expense	**$ (93)**	$ (88)	(6)%	**$ (278)**	$ (266)	(5)%

The increase in interest expense for the quarter and nine months was primarily due to higher average debt balances, partially offset by lower effective interest rates.

The increase in interest and investment income for the nine months was driven by lower write-downs of investments.

Income Taxes

The effective income tax rate is as follows:

	Quarter Ended		Change	Nine Months Ended		Change
	June 30, 2012	July 2, 2011	Better/ (Worse)	**June 30, 2012**	July 2, 2011	Better/ (Worse)
Effective Income Tax Rate	32.8%	33.7%	0.9 ppt	33.1%	34.7%	1.6 ppt

The effective income tax rate for the quarter decreased to 32.8% from 33.7% primarily due to an increase in earnings from foreign operations subject to tax at rates lower than the federal statutory income tax rate.

The effective income tax rate for the nine months decreased to 33.1% from 34.7% due to the absence of the impact in the prior-year of the gain on the sale of Miramax and an increase in earnings from foreign operations subject to tax at rates lower than the federal statutory income tax rate. Our book value of Miramax included non-deductible goodwill such that the taxable gain on the sale of Miramax resulted in tax expense that exceeded the book gain causing an increase in the prior-year effective tax rate. These decreases from the impacts of the Miramax gain and foreign earnings were partially offset by an increase due to the absence of a benefit in the prior-year period related to an impairment charge. The prior-year non-recurring impairment charge related to assets that had tax basis in excess of the book value resulting in a tax benefit that exceeded the pre-tax impairment charge causing a decrease in the prior-year effective tax rate.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Noncontrolling Interests

Net income attributable to noncontrolling interests is as follows:

(in millions)	Quarter Ended June 30, 2012	Quarter Ended July 2, 2011	% Change Better/ (Worse)	Nine Months Ended June 30, 2012	Nine Months Ended July 2, 2011	% Change Better/ (Worse)
Net income attributable to noncontrolling interests	**$ 205**	$ 187	(10)%	**$ 345**	$ 287	(20)%

The increase in net income attributable to noncontrolling interests for the three months was due to lower recognition of royalties and management fees from Disneyland Paris. The increase in net income attributable to noncontrolling interests for the nine months was due to improved operating results at ESPN and Hong Kong Disneyland Resort. Net income attributable to noncontrolling interests is determined based on income after royalties, financing costs and income taxes.

FINANCIAL CONDITION

The change in cash and cash equivalents is as follows:

(in millions)	Nine Months Ended June 30, 2012	Nine Months Ended July 2, 2011	Change Better/ (Worse)
Cash provided by operations	**$ 6,431**	$ 4,890	$ 1,541
Cash used in investing activities	**(3,470)**	(2,167)	(1,303)
Cash used in financing activities	**(1,680)**	(2,032)	352
Impact of exchange rates on cash and cash equivalents	**(92)**	106	(198)
Increase in cash and cash equivalents	**$ 1,189**	$ 797	$ 392

Operating Activities

Cash provided by operations increased 32% to $6.4 billion for the current nine month period compared to the prior-year nine month period. The increase was due to higher net operating cash receipts driven by higher revenues at Parks and Resorts and Media Networks and lower operating cash payments at Corporate and Studio Entertainment. The lower operating cash payments at Corporate were driven by lower pension contributions and the timing of accounts payable disbursements. Lower operating cash payments at Studio Entertainment were driven by lower marketing expenses, cost of goods sold and distribution costs. These cash flow increases were partially offset by higher operating cash payments at Parks and Resorts and higher income tax payments. The increase in cash payments at Parks and Resorts was driven by labor cost inflation, costs for resort expansion and new guest offerings and investments in systems infrastructure.

Film and Television Costs

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

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The Company s film and television production and programming activity for the nine months ended June 30, 2012 and July 2, 2011 are as follows:

	Nine Months Ended	
(in millions)	**June 30, 2012**	July 2, 2011
Beginning balances:		
Production and programming assets	**$ 5,031**	$ 5,451
Programming liabilities	**(866)**	(990)
	4,165	4,461
Spending:		
Film and television production	**2,528**	2,392
Broadcast programming	**3,700**	3,575
	6,228	5,967
Amortization:		
Film and television production	**(2,505)**	(2,730)
Broadcast programming	**(3,538)**	(3,453)
	(6,043)	(6,183)
Change in film and television production and programming costs	**185**	(216)
Other non-cash activity	**164**	30
Ending balances:		
Production and programming assets	**5,117**	5,005
Programming liabilities	**(603)**	(730)
	$ 4,514	$ 4,275

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Investing Activities

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

During the nine months ended June 30, 2012 and July 2, 2011, investments in parks, resorts and other properties were as follows:

	Nine Months Ended	
(in millions)	**June 30, 2012**	July 2, 2011
Media Networks		
Cable Networks	**$ 88**	$ 79
Broadcasting	**42**	86
Total Media Networks	**130**	165
Parks and Resorts		
Domestic	**1,840**	1,799
International	**459**	270
Total Parks and Resorts	**2,299**	2,069
Studio Entertainment	**49**	86
Consumer Products	**46**	63
Interactive	**16**	16
Corporate	**311**	162
Total investment in parks, resorts and other property	**$ 2,851**	$ 2,561

Capital expenditures for the Parks and Resorts segment are principally for theme park and resort expansion, new rides and attractions, cruise ships, recurring capital and capital improvements, and systems infrastructure. The increase was due to resort expansion and new guest offerings at Walt Disney World Resort and Disneyland Paris and construction costs at Shanghai Disney Resort.

Capital expenditures at Media Networks primarily reflect investments in facilities and equipment for expanding and upgrading broadcast centers, production facilities and television station facilities.

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

Other Investing Activities

During the current nine months, acquisitions totaled $737 million primarily due to the acquisition of an incremental 43% interest in UTV and a 49% interest in Seven TV network in Russia.

The prior-year nine months included proceeds from dispositions totaling $564 million primarily due to the sale of Miramax. Acquisitions in the prior year totaled $172 million due to payments related to the acquisition of Playdom, Inc.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Financing Activities

Cash used by financing activities was $1.7 billion for the current nine month period compared to $2.0 billion for the prior-year nine month period. The net use of cash in the current nine months was driven by repurchases of common stock and dividend payments totaling $3.1 billion, partially offset by net borrowings of $1.0 billion and proceeds from exercises of stock options of $0.8 billion. The decrease in cash used in financing activities of $0.4 billion versus the prior-year was primarily due to a decrease of $1.0 billion in repurchases of common stock and an increase of $0.2 billion in net borrowings compared to the prior-year nine months, partially offset by an increase of $0.3 billion in dividend payments and a $0.3 billion decrease in proceeds from exercises of stock options.

During the nine months ended June 30, 2012, the Company s borrowing activity was as follows:

(in millions)	October 1, 2011	Additions	Payments	Other Activity	**June 30, 2012**
Commercial paper borrowings	$ 1,583	$	$ (558)	$	**$ 1,025**
U.S. medium-term notes	8,400	2,977	(1,268)	5	**10,114**
European medium-term notes and other foreign currency denominated borrowings [(1)]	1,111	272	(198)	196	**1,381**
Other [(1)]	572	2	(82)	55	**547**
Disneyland Paris borrowings [(2)]	1,981		(140)	(150)	**1,691**
Hong Kong Disneyland borrowings [(3)]	330			(65)	**265**
Total	$ 13,977	$ 3,251	$ (2,246)	$ 41	**$ 15,023**

(1) The other activity is primarily borrowings assumed in the acquisition of UTV.
(2) The other activity is primarily the impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Euro.
(3) The other activity reflects the conversion of a portion of the Government of the Hong Kong Special Administrative Region s loan to equity pursuant to a capital realignment and expansion plan.

The Company s bank facilities as of June 30, 2012 were as follows:

(in millions)	Committed Capacity	Capacity Used	Unused Capacity
Bank facilities expiring February 2015	$ 2,250	$	$ 2,250
Bank facilities expiring June 2017	2,250		2,250
Total	$ 4,500	$	$ 4,500

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 0.26% to 1.93%. The Company also has the ability to issue up to $800 million of letters of credit under the facility expiring in February 2015, which if utilized, reduces available borrowings under this facility. As of June 30, 2012, $251 million of letters of credit had been issued of which none were issued under this facility.

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

On November 30, 2011, the Company declared a $0.60 per share dividend ($1.1 billion) related to fiscal 2011 for shareholders of record on December 16, 2011, which was paid on January 18, 2012. The Company paid a $0.40 per share dividend ($756 million) during the second quarter of fiscal 2011 related to fiscal 2010.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

During the nine months ended June 30, 2012, the Company repurchased 53 million shares of its common stock for $2,042 million. As of June 30, 2012, the Company had remaining authorization in place to repurchase 251 million additional shares. The repurchase program does not have an expiration date.

We believe that the Company s financial condition is strong and that its cash balances, other liquid assets, operating cash flows, access to debt and equity capital markets and borrowing capacity, taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects. However, the Company s operating cash flow and access to the capital markets can be impacted by macroeconomic factors outside of its control. In addition to macroeconomic factors, the Company s borrowing costs can be impacted by short- and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on the Company s performance as measured by certain credit metrics such as interest coverage and leverage ratios. As of June 30, 2012, Moody s Investors Service s long- and short-term debt ratings for the Company were A2 and P-1, respectively, with stable outlook; Standard & Poor s long- and short-term debt ratings for the Company were A and A-1, respectively, with stable outlook; and Fitch s long- and short-term debt ratings for the Company were A and F-1, respectively, with stable outlook. The Company s bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on June 30, 2012, by a significant margin. The Company s bank facilities also specifically exclude certain entities, such as Disneyland Paris, Hong Kong Disneyland Resort and Shanghai Disney Resort, from any representations, covenants or events of default.

Disneyland Paris debt agreements contain annual financial performance objectives and limits on investing and financing activities. In fiscal 2011, Disneyland Paris did not meet its annual performance objectives and deferred 25 million of royalties and management fees payable to the Company and 20 million of interest payable to a French state bank. Additionally, as a result of the fact that the performance objectives were not met, certain of Disneyland Paris investment activities were further limited by the debt agreements.

Disneyland Paris is also subject to certain financial covenants and was in compliance with such covenants for fiscal year 2011 with the assistance of the Company s agreement, as permitted under the debt agreements, to defer an additional 9 million of royalties payable to the Company into subordinated long-term borrowings.

On January 6, 2012, Disneyland Paris obtained its lenders agreement to increase the recurring annual investment budget for fiscal year 2012 up to 100 million and to launch a multi-year expansion of the Walt Disney Studios Park, which includes a new attraction. In connection with lenders approval, Disneyland Paris obtained a standby revolving credit facility of 150 million from the Company, which expires on September 30, 2018. The new facility is in addition to an existing 100 million facility provided by the Company which expires on September 30, 2014.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

COMMITMENTS AND CONTINGENCIES

Legal Matters

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

Guarantees

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

Tax Matters

As disclosed in Note 10 to the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K, the Company has exposure for certain tax matters.

Contractual Commitments

Refer to Note 15 in the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K for information regarding the Company s contractual commitments.

OTHER MATTERS

Accounting Policies and Estimates

We believe that the application of the following accounting policies, which are important to our financial position and results of operations, require significant judgments and estimates on the part of management. For a summary of our significant accounting policies, including the accounting policies discussed below, see Note 2 to the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K.

Film and Television Revenues and Costs

We expense film and television production, participation and residual costs over the applicable product life cycle based upon the ratio of the current period s revenues to the estimated remaining total revenues (Ultimate Revenues) for each production. If our estimate of Ultimate Revenues decreases, amortization of film and television costs may be accelerated. Conversely, if our estimate of Ultimate Revenues increase, film and television cost amortization may be slowed. For film productions, Ultimate Revenues include revenues from all sources that will be earned within ten years from the date of the initial theatrical release. For television series, Ultimate Revenues include revenues that will be earned within ten years from delivery of the first episode, or if still in production, five years from delivery of the most recent episode, if later.

With respect to films intended for theatrical release, the most sensitive factor affecting our estimate of Ultimate Revenues (and therefore affecting future film cost amortization and/or impairment) is domestic theatrical performance. Revenues derived from other markets subsequent to the domestic theatrical release (e.g., the home entertainment or international theatrical markets) have historically been highly correlated with domestic theatrical performance. Domestic theatrical performance varies primarily based upon the public interest and demand for a particular film, the popularity of competing films at the time of release and the level of marketing effort. Upon a film s release and determination of domestic theatrical performance, the Company s estimates of revenues from succeeding windows and markets are revised based on historical relationships and an analysis of current market trends. The most sensitive factor affecting our estimate of Ultimate Revenues for released films is the extent of home entertainment sales achieved. Home entertainment sales vary based on the number and quality of competing home video products, as well as the manner in which retailers market and price our products.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

With respect to television series or other television productions intended for broadcast, the most sensitive factor affecting estimates of Ultimate Revenues is the program s rating and the strength of the advertising market. Program ratings, which are an indication of market acceptance, directly affect the Company s ability to generate advertising revenues during the airing of the program. In addition, television series with greater market acceptance are more likely to generate incremental revenues through the eventual sale of the program rights in the syndication, international and home entertainment markets. Alternatively, poor ratings may result in a television series cancellation, which would require the immediate write-off of any unamortized production costs. A significant decline in the advertising market would also negatively impact our estimates.

We expense the cost of television broadcast rights for acquired movies, series and other programs based on the number of times the program is expected to be aired or on a straight-line basis over the useful life, as appropriate. Amortization of those television programming assets being amortized on a number of airings basis may be accelerated if we reduce the estimated future airings and slowed if we increase the estimated future airings. The number of future airings of a particular program is impacted primarily by the program s ratings in previous airings, expected advertising rates and availability and quality of alternative programming. Accordingly, planned usage is reviewed periodically and revised if necessary. We amortize rights costs for multi-year sports programming arrangements during the applicable seasons based on the estimated relative value of each year in the arrangement. The estimated values of each year are based on our projection of revenues over the contract period which include advertising revenue and an allocation of affiliate revenue. If the annual contractual payments related to each season approximate each season s relative value, we expense the related contractual payment during the applicable season. If planned usage patterns or estimated relative values by year were to change significantly, amortization of our sports rights costs may be accelerated or slowed.

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

Revenue Recognition

The Company has revenue recognition policies for its various operating segments that are appropriate to the circumstances of each business. See Note 2 to the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K for a summary of these revenue recognition policies.

We reduce home entertainment and software product revenues for estimated future returns of merchandise and for customer programs and sales incentives. These estimates are based upon historical return experience, current economic trends and projections of customer demand for and acceptance of our products. If we underestimate the level of returns and concessions in a particular period, we may record less revenue in later periods when returns exceed the estimated amount. Conversely, if we overestimate the level of returns and concessions for a period, we may have additional revenue in later periods when returns and concessions are less than estimated.

We recognize revenues from advance theme park ticket sales when the tickets are used. For non-expiring, multi-day tickets, we recognize revenue over a five-year time period based on estimated

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

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

Pension and Postretirement Medical Plan Actuarial Assumptions

The Company s pension and postretirement medical benefit obligations and related costs are calculated using a number of actuarial assumptions. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement which we evaluate annually. Refer to the 2011 Annual Report on Form 10-K for estimated impacts of changes in these assumptions. Other assumptions include the healthcare cost trend rate and employee demographic factors such as retirement patterns, mortality, turnover and rate of compensation increase.

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

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

Goodwill, Intangible Assets, Long-Lived Assets and Investments

The Company is required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and if current events or circumstances require, on an interim basis. Goodwill is allocated to various reporting units, which are generally an operating segment or one level below the operating segment. The Company compares the fair value of each reporting unit to its carrying amount to determine if there is potential goodwill impairment. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than the carrying value of the goodwill.

To determine the fair value of our reporting units, we generally use a present value technique (discounted cash flow) corroborated by market multiples when available and as appropriate. We apply what we believe to be the most appropriate valuation methodology for each of our reporting units. The discounted cash flow analyses are sensitive to our estimates of future revenue growth and margins for these businesses. We include in the projected cash flows an estimate of the revenue we believe the reporting unit would receive if the intellectual property developed by the reporting unit that is being used by other reporting units was licensed to an unrelated third party at its fair market value. These amounts are not necessarily the same as those included in segment operating results. We believe our estimates of fair value are consistent with how a marketplace participant would value our reporting units.

In times of adverse economic conditions in the global economy, the Company s long-term cash flow projections are subject to a greater degree of uncertainty than usual. If we had established different reporting units or utilized different valuation methodologies or assumptions, the impairment test results could differ, and we could be required to record impairment charges.

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

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The Company tests long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison of cash flows expected to be generated over the useful life of an asset group against the carrying value of the asset group. An asset group is established by identifying the lowest level of cash flows generated by a group of assets that are largely independent of the cash flows of other assets and could include assets used across multiple businesses or segments. If the carrying value of the asset group exceeds the estimated undiscounted future cash flows, an impairment would be measured as the difference between the fair value of the group s long-lived assets and the carrying value of the group s long-lived assets. The impairment is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts, but only to the extent the carrying value of each asset is above its fair value. For assets held for sale, to the extent the carrying value is greater than the asset s fair value less costs to sell, an impairment loss is recognized for the difference. Determining whether a long-lived asset is impaired requires various estimates and assumptions, including whether a triggering event has occurred, the identification of the asset groups, estimates of future cash flows and the discount rate used to determine fair values. If we had established different asset groups or utilized different valuation methodologies or assumptions, the impairment test results could differ, and we could be required to record impairment charges.

The Company has cost and equity investments. The fair value of these investments is dependent on the performance of the investee companies, as well as volatility inherent in the external markets for these investments. In assessing potential impairment of these investments, we consider these factors, as well as the forecasted financial performance of the investees and market values, where available. If these forecasts are not met or market values indicate an other-than-temporary decline in value, impairment charges may be required.

Allowance for Doubtful Accounts

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

Contingencies and Litigation

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

Income Tax Audits

As a matter of course, the Company is regularly audited by federal, state and foreign tax authorities. From time to time, these audits result in proposed assessments. Our determinations regarding the recognition of income tax benefits are made in consultation with outside tax and legal

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

counsel where appropriate and are based upon the technical merits of our tax positions in consideration of applicable tax statutes and related interpretations and precedents and upon the expected outcome of proceedings (or negotiations) with taxing and legal authorities. The tax benefits ultimately realized by the Company may differ from those recognized in our financial statements based on a number of factors, including the Company s decision to settle rather than litigate a matter, relevant legal precedents related to similar matters and the Company s success in supporting its filing positions with taxing authorities.

MARKET RISK

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

Policies and Procedures

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

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

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 and expenses. The Company utilizes option strategies and forward contracts that provide for the purchase or sale of foreign currencies to hedge probable, but not firmly committed, transactions. The Company also uses forward and option contracts to hedge foreign currency assets and liabilities. The principal foreign currencies hedged are the Euro, British pound, Japanese yen and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings to U.S. dollar denominated borrowings. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its forecasted foreign exchange exposures generally for periods not to exceed four years. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related exposures. The economic or political conditions in a country could reduce our ability to hedge exposure to currency fluctuations in the country or our ability to repatriate revenue from the country.

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

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

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

Item 4. Controls and Procedures

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

Based on their evaluation as of June 30, 2012, the principal executive officer and principal financial officer of the Company have concluded that the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

There have been no changes in our internal controls over financial reporting during the third quarter of fiscal 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

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

Changes in U.S., global, or regional economic conditions could have an adverse effect on the profitability of some or all of our businesses.

A decline in economic activity in the United States and other regions of the world in which we do business can adversely affect demand for any of our businesses, thus reducing our revenue and earnings. The most recent decline in economic conditions reduced spending at our parks and resorts, purchase of and prices for advertising on our broadcast and cable networks and owned stations, performance of our home entertainment releases, and purchases of Company-branded consumer products, and similar impacts can be expected should such conditions recur. A decline in economic conditions could also reduce attendance at our parks and resorts or prices that MVSPs pay for our cable programming. Recent instability in European economies presents risks of similar impacts in our European operations. Economic conditions can also impair the ability of those with whom we do business to satisfy their obligations to us. In addition, an increase in price levels generally, or in price levels in a particular sector such as the energy sector, could result in a shift in consumer demand away from the entertainment and consumer products we offer, which could also adversely affect our revenues and, at the same time, increase our costs. Changes in exchange rates for foreign currencies may reduce international demand for our products, increase our labor or supply costs in non-United States markets, or reduce the United States dollar value of revenue we receive from other markets, and economic or political conditions in a country could reduce our ability to hedge exposure to currency fluctuations in the country or our ability to repatriate revenue from the country.

Additional factors are discussed in the 2011 Annual Report on Form 10-K under the Item 1A, Risk Factors.

PART II. OTHER INFORMATION (continued)

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about Company purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended June 30, 2012**:**

Period	Total Number of Shares Purchased [1]	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs[2]
April 1, 2012 April 30, 2012	4,492,015	$ 42.36	4,409,700	256 million
May 1, 2012 May 31, 2012	3,304,382	43.72	3,217,148	252 million
June 1, 2012 June 30, 2012	1,051,633	46.82	978,500	251 million
Total	8,848,030	43.40	8,605,348	251 million

(1) 242,682 shares were purchased on the open market to provide shares to participants in the Walt Disney Investment Plan (WDIP) and Employee Stock Purchase Plan (ESPP). These purchases were not made pursuant to a publicly announced repurchase plan or program.

(2) Under a share repurchase program implemented effective June 10, 1998, the Company is authorized to repurchase shares of its common stock. On March 22, 2011, the Company s Board of Directors increased the repurchase authorization to a total of 400 million shares as of that date. The repurchase program does not have an expiration date.

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ITEM 6. Exhibits

See Index of Exhibits.

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SIGNATURE

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

THE WALT DISNEY COMPANY
(Registrant)

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

Senior Executive Vice President and Chief Financial Officer

August 7, 2012

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
10.2	Five-Year Credit Agreement dated as of June 8, 2012	Exhibit 10.1 to the Current Report on Form 8-K of the Company dated June 11, 2012
10.3	Amended and Restated 2011 Stock Incentive Plan	Exhibit 10.1 to the Current Report on Form 8-K of the Company dated March 16, 2012
12.1	Statement Regarding Ratio of Earnings to Fixed Charges	Filed herewith
31(a)	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31(b)	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32(a)	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*	Furnished
32(b)	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*	Furnished
101	The following materials from the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, (iv) the Condensed Consolidated Statements of Equity and (v) related notes	Filed

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