WALT DISNEY CO/
Form 10-Q
February 08, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended	Commission File Number 1-11605
January 1, 2011	

Incorporated in Delaware	I.R.S. Employer Identification No. 95-4545390

500 South Buena Vista Street, Burbank, California 91521

(818) 560-1000

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

Yes X No

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

Yes X No

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

Large accelerated filer	X	Accelerated filer	___
Non-accelerated filer (do not check if smaller reporting company)	___	Smaller reporting company	___

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

Yes No X

There were 1,899,069,040 shares of common stock outstanding as of February 1, 2011.

PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited; in millions, except per share data)

	Quarter Ended	
	January 1, 2011	January 2, 2010
Revenues	**$ 10,716**	$ 9,739
Costs and expenses	**(8,776)**	(8,325)
Restructuring and impairment charges	**(12)**	(105)
Other income	**75**	27
Net interest expense	**(95)**	(103)
Equity in the income of investees	**156**	89
Income before income taxes	**2,064**	1,322
Income taxes	**(730)**	(478)
Net income	**1,334**	844
Less: Net income attributable to noncontrolling interests	**(32)**	
Net income attributable to The Walt Disney Company (Disney)	**$ 1,302**	$ 844
Earnings per share attributable to Disney:		
Diluted	**$ 0.68**	$ 0.44
Basic	**$ 0.69**	$ 0.45
Weighted average number of common and common equivalent shares outstanding:		
Diluted	**1,927**	1,903
Basic	**1,891**	1,867

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited; in millions, except per share data)

	January 1, 2011	October 2, 2010
ASSETS		
Current assets		
Cash and cash equivalents	**$ 3,039**	$ 2,722
Receivables	**7,028**	5,784
Inventories	**1,416**	1,442
Television costs	**833**	678
Deferred income taxes	**1,052**	1,018
Other current assets	**626**	581
Total current assets	**13,994**	12,225
Film and television costs	**4,636**	4,773
Investments	**2,491**	2,513
Parks, resorts and other property, at cost		
Attractions, buildings and equipment	**32,966**	32,875
Accumulated depreciation	**(18,601)**	(18,373)
	14,365	14,502
Projects in progress	**3,001**	2,180
Land	**1,120**	1,124
	18,486	17,806
Intangible assets, net	**5,193**	5,081
Goodwill	**24,121**	24,100
Other assets	**2,029**	2,708
Total assets	**$ 70,950**	$ 69,206
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	**$ 7,118**	$ 6,109
Current portion of borrowings	**2,822**	2,350
Unearned royalties and other advances	**2,807**	2,541
Total current liabilities	**12,747**	11,000
Borrowings	**9,933**	10,130
Deferred income taxes	**2,577**	2,630
Other long-term liabilities	**5,954**	6,104
Commitments and contingencies		
Disney Shareholders equity		
Preferred stock, $.01 par value		
Authorized 100 million shares, Issued none		
Common stock, $.01 par value		
Authorized 4.6 billion shares, Issued 2.7 billion shares	**29,271**	28,736
Retained earnings	**34,873**	34,327
Accumulated other comprehensive loss	**(1,887)**	(1,881)

	62,257	61,182
Treasury stock, at cost, 825.3 million shares at January 1, 2011 and 803.1 million shares at October 2, 2010	**(24,460)**	(23,663)
Total Disney Shareholders equity	**37,797**	37,519
Noncontrolling interests	**1,942**	1,823
Total equity	**39,739**	39,342
Total liabilities and equity	**$ 70,950**	$ 69,206

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited; in millions)

	Quarter Ended	
	January 1, 2011	January 2, 2010
OPERATING ACTIVITIES		
Net income	**$ 1,334**	$ 844
Depreciation and amortization	**447**	423
Gains on dispositions	**(75)**	(27)
Deferred income taxes	**(61)**	(6)
Equity in the income of investees	**(156)**	(89)
Cash distributions received from equity investees	**170**	92
Net change in film and television costs	**94**	36
Equity-based compensation	**128**	135
Impairment charges	**12**	39
Other	**84**	(70)
Changes in operating assets and liabilities:		
Receivables	**(1,313)**	(1,100)
Inventories	**13**	87
Other assets	**58**	102
Accounts payable and other accrued liabilities	**(290)**	56
Income taxes	**674**	393
Cash provided by operations	**1,119**	915
INVESTING ACTIVITIES		
Investments in parks, resorts and other property	**(1,213)**	(307)
Proceeds from dispositions	**556**	37
Acquisitions	**(163)**	(2,254)
Other	**(61)**	(16)
Cash used in investing activities	**(881)**	(2,540)
FINANCING ACTIVITIES		
Commercial paper borrowings, net	**496**	1,297
Reduction of borrowings	**(42)**	(79)
Repurchases of common stock	**(797)**	(25)
Exercise of stock options and other	**442**	233
Cash provided by financing activities	**99**	1,426
Impact of exchange rates on cash and cash equivalents	**(20)**	(14)
Increase/(decrease) in cash and cash equivalents	**317**	(213)
Cash and cash equivalents, beginning of period	**2,722**	3,417
Cash and cash equivalents, end of period	**$ 3,039**	$ 3,204

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(unaudited; in millions)

	Quarter Ended					
	January 1, 2011			January 2, 2010		
	Disney Shareholders	Non-controlling Interests	Total Equity	Disney Shareholders	Non-controlling Interests	Total Equity
Beginning Balance	$ 37,519	$ 1,823	$ 39,342	$ 33,734	$ 1,691	$ 35,425
Net income	1,302	32	1,334	844		844
Other comprehensive income:						
Market value adjustments for hedges and investments	(33)		(33)	16		16
Pension and postretirement medical adjustments	36		36	27		27
Foreign currency translation and other	(9)	(8)	(17)	4	(3)	1
Other comprehensive income	(6)	(8)	(14)	47	(3)	44
Comprehensive income	1,296	24	1,320	891	(3)	888
Equity compensation activity	535		535	344		344
Dividends	(756)		(756)	(653)		(653)
Common stock repurchases	(797)		(797)	(25)		(25)
Acquisition of Marvel				1,887	83	1,970
Distributions and other		95	95	2	7	9
Ending Balance	**$ 37,797**	**$ 1,942**	**$ 39,739**	**$ 36,180**	**$ 1,778**	**$ 37,958**

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. *Principles of Consolidation*

These Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. We believe that we have included all normal recurring adjustments necessary for a fair statement of the results for the interim period. Operating results for the quarter ended January 1, 2011 are not necessarily indicative of the results that may be expected for the year ending October 1, 2011. 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 2010 Annual Report on Form 10-K.

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

The 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 qualify as a variable interest entity (VIE). A VIE is consolidated in the financial statements if the Company is deemed to be the primary beneficiary of the VIE. The primary beneficiary is the party that has the power to direct activities that most significantly impact the activities of the VIE and has the obligation to absorb losses or the right to benefits from the VIE that could potentially be significant to the VIE. Euro Disney and Hong Kong Disneyland are VIEs, and given the nature of the Company s relationships with these entities which include management agreements, the Company has concluded it is the primary beneficiary and thus has consolidated Euro Disney and Hong Kong Disneyland.

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

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

2. *Segment Information*

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

Beginning in the first quarter of fiscal 2011, the Company made changes to certain transfer pricing arrangements between its business units. The most significant change was to the allocation of home video revenue and distribution costs between the Media Networks and Studio Entertainment segments for home video titles produced by the Media Networks segment and distributed by the Studio Entertainment segment. These changes will generally result in higher revenues, expenses and operating income at our Media Networks segment with offsetting declines at our Studio Entertainment segment.

	Quarter Ended	
	January 1, 2011	January 2, 2010
Revenues[1]:		
Media Networks	**$ 4,645**	$ 4,175
Parks and Resorts	**2,868**	2,662
Studio Entertainment	**1,932**	1,935
Consumer Products	**922**	746
Interactive Media	**349**	221
	$ 10,716	$ 9,739
Segment operating income (loss)[1]:		
Media Networks	**$ 1,066**	$ 724
Parks and Resorts	**468**	375
Studio Entertainment	**375**	243
Consumer Products	**312**	243
Interactive Media	**(13)**	(10)
	$ 2,208	$ 1,575

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

	Quarter Ended	
	January 1, 2011	January 2, 2010
Studio Entertainment	**$ 73**	$ 40
Consumer Products	**(72)**	(38)

Interactive Media	**(1)**	(2)
	$	$

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

	Quarter Ended	
	January 1, 2011	January 2, 2010
Segment operating income	**$ 2,208**	$ 1,575
Corporate and unallocated shared expenses	**(112)**	(72)
Restructuring and impairment charges	**(12)**	(105)
Other income	**75**	27
Net interest expense	**(95)**	(103)
Income before income taxes	**$ 2,064**	$ 1,322

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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3. *Acquisitions*

Playdom

On August 27, 2010, the Company acquired Playdom, Inc. (Playdom), a company that develops online social games. This acquisition is designed to strengthen the Company s digital gaming portfolio and provide access to a new customer base. Total consideration was approximately $563 million, subject to certain conditions and adjustments, of which approximately $115 million will be paid subject to vesting conditions and recognized as post-close compensation expense. Additional consideration of up to $200 million may be paid if Playdom achieves predefined revenues and earnings targets for calendar year 2012. The Company has recognized the fair value (determined by a probability weighting of the potential payouts) of the additional consideration as a liability and subsequent fair value changes, measured quarterly, up to the ultimate amount paid, will be recognized in earnings.

The Company is in the process of finalizing the valuation of the assets acquired and liabilities assumed.

Goodwill

The changes in the carrying amount of goodwill for the quarter ended January 1, 2011, are as follows:

	Media Networks	Parks and Resorts	Studio Entertainment	Consumer Products	Interactive Media	Total
Balance at Oct. 2, 2010	$ 15,737	$ 171	$ 5,268	$ 1,805	$ 1,119	$ 24,100
Acquisitions	3					3
Disposition	(17)					(17)
Other, net	(2)		9	(1)	29	35
Balance at Jan. 1, 2011	**$ 15,721**	**$ 171**	**$ 5,277**	**$ 1,804**	**$ 1,148**	**$ 24,121**

The carrying amount of goodwill at January 1, 2011 and October 2, 2010 includes accumulated impairments of $29 million at Interactive Media.

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.

Other Dispositions

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

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

5. *Borrowings*

During the quarter ended January 1, 2011, the Company s borrowing activity was as follows:

	October 2, 2010	Additions	Payments	Other Activity	**January 1, 2011**
Commercial paper borrowings	$ 1,190	$ 496	$	$	**$ 1,686**
U.S. medium-term notes	6,815			1	**6,816**
European medium-term notes	273			5	**278**
Other foreign currency denominated borrowings	965			25	**990**
Other [1]	651		(34)	(63)	**554**
Euro Disney borrowings[2]	2,113		(31)	(46)	**2,036**
Hong Kong Disneyland borrowings [3]	473			(78)	**395**
Total	$ 12,480	$ 496	$ (65)	$ (156)	**$ 12,755**

(1) The other activity is primarily market value adjustments for debt with qualifying hedges.

(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 is due to the conversion of the Government of the Hong Kong Special Administrative Region s (HKSAR) loan to equity pursuant to a capital realignment and expansion plan.

6. *Euro Disney and Hong Kong Disneyland*

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

The following table presents summarized balance sheet information for the Company as of January 1, 2011, reflecting the impact of consolidating the balance sheets of Euro Disney and Hong Kong Disneyland.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Cash and cash equivalents	$ 2,449	$ 590	$ 3,039
Other current assets	10,716	239	10,955
Total current assets	13,165	829	13,994
Investments	3,560	(1,069)	2,491
Fixed assets	14,383	4,103	18,486

Other assets	35,890	89	35,979
Total assets	$ 66,998	$ 3,952	$ 70,950
Current portion of borrowings	$ 2,659	$ 163	$ 2,822
Other current liabilities	9,425	500	9,925
Total current liabilities	12,084	663	12,747
Borrowings	7,665	2,268	9,933
Deferred income taxes and other long-term liabilities	8,387	144	8,531
Equity	38,862	877	39,739
Total liabilities and equity	$ 66,998	$ 3,952	$ 70,950

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The following table presents summarized income statement information of the Company for the quarter ended January 1, 2011, reflecting the impact of consolidating the income statements of Euro Disney and Hong Kong Disneyland.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Revenues	$ 10,178	$ 538	$ 10,716
Cost and expenses	(8,268)	(508)	(8,776)
Restructuring and impairment charges	(12)		(12)
Other income	75		75
Net interest expense	(70)	(25)	(95)
Equity in the income of investees	158	(2)	156
Income before income taxes	2,061	3	2,064
Income taxes	(729)	(1)	(730)
Net income	$ 1,332	$ 2	$ 1,334

The following table presents summarized cash flow statement information of the Company for the quarter ended January 1, 2011, reflecting the impact of consolidating the cash flow statements of Euro Disney and Hong Kong Disneyland.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Cash provided by operations	$ 1,165	$ (46)	$ 1,119
Investments in parks, resorts and other property	(1,153)	(60)	(1,213)
Other investing activities	249	83	332
Cash provided/(used) by financing activities	130	(31)	99
Impact of exchange rates on cash and cash equivalents	(7)	(13)	(20)
Increase/(decrease) in cash and cash equivalents	384	(67)	317
Cash and cash equivalents, beginning of period	2,065	657	2,722
Cash and cash equivalents, end of period	$ 2,449	$ 590	$ 3,039

7. *Pension and Other Benefit Programs*

The components of net periodic benefit cost are as follows:

	Pension Plans		Postretirement Medical Plans	
	January 1, 2011	January 2, 2010	**January 1, 2011**	January 2, 2010
Service cost	**$ 74**	$ 66	**$ 5**	$ 5
Interest cost	**103**	99	**17**	17
Expected return on plan assets	**(110)**	(104)	**(6)**	(6)
Amortization of prior year service costs	**3**	3	**(1)**	
Recognized net actuarial loss	**57**	39	**2**	2
Net periodic benefit cost	**$ 127**	$ 103	**$ 17**	$ 18

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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During the quarter ended January 1, 2011, the Company did not make any material contributions to its pension and postretirement medical plans. The Company expects pension and postretirement medical plan contributions in fiscal 2011 of approximately $450 million which is expected to include discretionary contributions above the minimum requirements. Final minimum funding requirements for fiscal 2011 will be determined based on January 1, 2011 funding actuarial valuation which will be available late in fiscal 2011.

8. *Earnings Per Share*

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

	Quarter Ended	
	January 1, 2011	January 2, 2010
Shares (in millions):		
Weighted average number of common shares outstanding (basic)	**1,891**	1,867
Weighted average dilutive impact of equity-based compensation awards	**36**	36
Weighted average number of common and common equivalent shares outstanding (diluted)	**1,927**	1,903
Awards excluded from diluted earnings per share		74

9. *Equity*

On December 1, 2010, the Company declared a $756 million dividend ($0.40 per share) related to fiscal 2010 for shareholders of record on December 13, 2010, which was paid on January 18, 2011. The Company paid a $653 million dividend ($0.35 per share) during the second quarter of fiscal 2010 related to fiscal 2009.

During the quarter ended January 1, 2011, the Company repurchased 22 million shares of its common stock for $797 million. As of January 1, 2011, the Company had remaining authorization in place to repurchase 77 million additional shares. The repurchase program does not have an expiration date.

The par value of the Company s outstanding common stock totaled approximately $27 million.

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

	January 1, 2011	October 2, 2010

Market value adjustments for investments and hedges	**$ (128)**	$ (95)
Foreign currency translation and other	**71**	80
Unrecognized pension and postretirement medical expense	**(1,830)**	(1,866)
Accumulated other comprehensive income (loss) [1]	**$ (1,887)**	$ (1,881)

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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	
	January 1, 2011	January 2, 2010
Stock options/rights	**$ 55**	$ 67
RSUs	**77**	68
Total equity-based compensation expense	**$ 132**	$ 135

Unrecognized compensation cost related to unvested stock options/rights and RSUs totaled approximately $211 million and $452 million, respectively, as of January 1, 2011.

In January 2011, the Company made equity compensation grants, which included its regular annual grant, consisting of 10.4 million stock options and 12.5 million RSUs, of which 0.4 million RSUs included market and/or performance conditions.

The weighted average grant date fair values of options issued during the quarter ended January 1, 2011, and January 2, 2010 were $10.13 and $8.00, respectively.

11. *Commitments and Contingencies*

Legal Matters

Celador International Ltd. v. The Walt Disney Company. 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 prorata should the Court of Appeals reduce the damages amount. On December 21, 2010, the Company s 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 intends to vigorously pursue 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

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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shortfall, the Company will be responsible to fund the shortfall. As of January 1, 2011, the remaining debt service obligation guaranteed by the Company was $366 million, of which $92 million was principal. To the extent that tax revenues exceed the debt service payments in subsequent periods, the Company would be reimbursed for any previously funded shortfalls. To date, tax revenues have exceeded the debt service payments for the Anaheim bonds.

ESPN STAR Sports, a joint venture in which ESPN owns a 50% equity interest, has an agreement for global programming rights to International Cricket Council events from 2007 through 2015. Under the terms of the agreement, ESPN and the other joint-venture partner have jointly guaranteed the programming rights obligation of approximately $0.8 billion over the remaining term of the agreement.

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 was $746 million, net of related allowance for credit losses of $4 million as of January 1, 2011. 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 was $420 million, net of related allowance for credit losses of $38 million, as of January 1, 2011. The activity in the period related to the allowance for credit losses was not material.

Income Taxes

During the quarter, the Company settled certain tax matters with various jurisdictions. As a result of these settlements, the Company reduced its unrecognized tax benefits by $72 million.

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 $37 million.

12. *New Accounting Pronouncements*

Revenue Arrangements with Multiple Deliverables

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

13

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Transfers and Servicing of Financial Assets

In June 2009, the FASB issued guidance on transfers and servicing of financial assets to eliminate the concept of a qualifying special-purpose entity, change the requirements for off balance sheet accounting for financial assets including limiting the circumstances where off balance sheet treatment for a portion of a financial asset is allowable, and require additional disclosures. The Company adopted the provisions of this transfers and servicing of financial assets guidance at the beginning of fiscal year 2011, and the adoption did not have a material impact on the Company s financial statements.

Variable Interest Entities

In June 2009, the FASB issued guidance to revise the approach to determine when a variable interest entity (VIE) should be consolidated. The new consolidation model for VIEs considers whether an entity has the power to direct the activities that most significantly impact the VIE s economic performance and shares in the significant risks and rewards of the entity. The guidance on VIE s requires companies to continually reassess VIEs to determine if consolidation is appropriate and requires additional disclosures. The Company adopted the provisions of this VIE guidance at the beginning of fiscal year 2011, and the adoption did not have a material impact on the Company s financial statements.

13. *Fair Value Measurements*

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

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

	Fair Value Measurement at January 1, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	$ 59	$ 25	$ 3	$ 87
Derivatives [1]				
Interest rate		179		179
Foreign exchange		437		437
Other derivatives		1		1
Residual Interests			47	47
Liabilities				

Derivatives [1]				
Interest rate		(17)		(17)
Foreign exchange		(372)		(372)
Total	$ 59	$ 253	$ 50	$ 362

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Fair Value Measurements at October 2, 2010			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	$ 42	$ 42	$ 2	$ 86
Derivatives [1]				
Interest rate		231		231
Foreign exchange		404		404
Residual Interests			54	54
Liabilities				
Derivatives [1]				
Interest rate		(22)		(22)
Foreign exchange		(490)		(490)
Other			(1)	(1)
Total	$ 42	$ 165	$ 55	$ 262

[1] The Company has a master netting arrangement by counterparty with respect to certain derivative contracts. Contracts in a liability position totaling $168 million and $206 million have been netted against contracts in an asset position in the Condensed Consolidated Balance Sheet at January 1, 2011 and October 2, 2010, respectively.

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

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

Level 3 residual interests consist of our residual interests in securitized vacation ownership mortgage receivables and are valued using a discounted cash flow model that considers estimated interest rates, discount rates, prepayment, and defaults. There were no material changes in the residual interests in the first quarter of fiscal 2011.

Fair Value of Financial Instruments

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

The fair values of cash and cash equivalents, receivables, and accounts payable approximated the carrying values. The estimated fair values of the Company s total borrowings (current and noncurrent), determined based on broker quotes or quoted market prices or interest rates for the same or similar instruments are $13.5 billion and $13.7 billion at January 1, 2011 and October 2, 2010, 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 continues to service the sold receivables and has a residual interest in those receivables. As of January 1, 2011, the outstanding principal amount for sold mortgage receivables was $291 million, and the carrying value of the Company s residual interest, which is recorded in other long-term assets, was $47 million.

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The Company repurchases defaulted mortgage receivables at their outstanding balance. The Company did not make material repurchases in the quarters ended January 1, 2011 or January 2, 2010. The Company generally has been able to sell the repurchased vacation ownership units for amounts that exceed the amounts at which they were repurchased.

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

14. *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 table summarizes the fair value of the Company s derivative positions as of January 1, 2011:

	Current Assets	Other Assets	Other Accrued Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	$ 87	$ 52	$ (179)	$ (127)
Interest rate	9	170		
Derivatives not designated as hedges				
Foreign exchange	100	198	(43)	(23)
Interest rate				(17)
Other	1			
Gross fair value of derivatives	197	420	(222)	(167)
Counterparty netting	(106)	(62)	106	62
Total Derivatives [(1)]	$ 91	$ 358	$ (116)	$ (105)

The following table summarizes the fair value of the Company s derivative positions as of October 2, 2010:

	Current Assets	Other Assets	Other Accrued Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	$ 78	$ 65	$ (210)	$ (104)
Interest rate	13	218		
Derivatives not designated as hedges				
Foreign exchange	80	181	(140)	(36)

Interest rate				(22)
Gross fair value of derivatives	171	464	(350)	(162)
Counterparty netting	(121)	(85)	130	76
Total Derivatives [1]	$ 50	$ 379	$ (220)	$ (86)

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

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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 January 1, 2011 and October 2, 2010, the total notional amount of the Company s pay-floating interest rate swaps was both $1.5 billion. The following table summarizes adjustments related to fair value hedges included in net interest expense in the Consolidated Statements of Income.

	Quarter Ended	
	January 1, 2011	January 2, 2010
Gain (loss) on interest rate swaps	**$ (53)**	$ (43)
Gain (loss) on hedged borrowings	**53**	43

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 January 1, 2011 and at October 2, 2010.

Foreign Exchange Risk Management

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

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

The Company designates foreign exchange forward and option contracts as cash flow hedges of firmly committed and forecasted foreign currency transactions. As of January 1, 2011 and October 2, 2010, the notional amounts of the Company s net foreign exchange cash flow hedges were $3.2 billion and $2.8 billion, respectively. Mark to market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of the foreign currency transactions. Gains and losses recognized related to ineffectiveness for the quarters ended January 1, 2011 and January 2, 2010 were not material. Deferred losses recorded in AOCI for contracts that will mature in the next twelve months totaled $92 million. The following table summarizes the pre-tax adjustments to AOCI for foreign exchange cash flow hedges.

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Quarter Ended	
	January 1, 2011	January 2, 2010
Gain (loss) recorded in AOCI	**$ (75)**	$ (14)
Reclassification of (gains) losses from AOCI into revenues and costs and expenses	**24**	27
Net change in AOCI	**$ (51)**	$ 13

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 January 1, 2011 and October 2, 2010 were $2.6 billion and $2.2 billion, respectively. During the quarters ended January 1, 2011 and January 2, 2010, the Company recognized a net gain of $20 million and a net loss of $4 million, respectively, in costs and expenses on these foreign exchange contracts which offset a net loss of $25 million and a net gain of $10 million on the related economic exposures for the quarters ended January 1, 2011 and January 2, 2010, respectively.

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 was not material at January 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 quality for hedge accounting. These contracts, which include pay fixed interest rate swaps, commodity swap contracts and credit default swaps, are intended to offset economic exposures of the Company and are carried at market value with any changes in value recorded in earnings.

The notional amounts of these contracts at January 1, 2011 and October 2, 2010 were $209 million and $218 million, respectively. For the quarters ended January 1, 2011 and January 2, 2010, the gain and loss recognized in income 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 Disney s credit rating. If the Company s credit ratings were to fall below investment grade, such counterparties would have the right to terminate our derivative contracts, which could lead to a net payment to or from the Company for the aggregate net value by counterparty of our derivative contracts. The aggregate fair value of derivative instruments with credit-risk-related contingent features in a net liability position by counterparty were $221 million and $306 million on January 1, 2011 and October 2, 2010, respectively.

15. *Restructuring and Impairment Charges*

The Company recorded $12 million of restructuring and impairment charges in the current quarter. In the prior-year quarter, restructuring and impairment charges totaling $105 million primarily related to organizational and cost structure initiatives at our Media Networks and Studio

Entertainment segments

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

including actions taken in connection with a change in Studio segment leadership. Restructuring charges of $66 million were primarily severance and related costs while impairment charges of $39 million consisted of write-offs of capitalized costs related to abandoned film projects.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

ORGANIZATION OF INFORMATION

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

Overview

Seasonality

Business Segment Results

Other Financial Information

Financial Condition

Commitments and Contingencies

Other Matters

Market Risk

OVERVIEW

Our summary consolidated results are presented below:

(in millions, except per share data)	Quarter Ended **January 1, 2011**	Quarter Ended January 2, 2010	% Change Better/ (Worse)
Revenues	**$ 10,716**	$ 9,739	10 %
Costs and expenses	**(8,776)**	(8,325)	(5) %
Restructuring and impairment charges	**(12)**	(105)	89 %
Other income	**75**	27	nm
Net interest expense	**(95)**	(103)	8 %
Equity in the income of investees	**156**	89	75 %
Income before income taxes	**2,064**	1,322	56 %
Income taxes	**(730)**	(478)	(53) %
Net income	**1,334**	844	58 %
Less: Net income attributable to noncontrolling interests	**(32)**		nm
Net income attributable to Disney	**$ 1,302**	$ 844	54 %
Diluted earnings per share	**$ 0.68**	$ 0.44	55 %

Quarter Results

Diluted earnings per share (EPS) increased 55% for the quarter driven by improved operating results. Improved operating results reflected higher advertising revenues at ESPN and the owned television stations, increased fees from Multi-channel Video Service Providers (MVSP) (Affiliate Fees), increased guest spending and volumes at our domestic and international parks and resorts, higher licensing revenue due to strength from *Toy Story* and Marvel merchandise, lower film cost write-downs, lower distribution and marketing costs and the success of *Toy Story 3* at our home entertainment business. These increases were partially offset by higher programming costs at ESPN and increased operating expenses at our domestic parks and resorts.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The Company recorded $12 million of restructuring and impairment charges in the current quarter and gains on the sale of Miramax and BASS totaling $75 million. The table below shows the pretax and after tax impact of these items.

	Benefit / (Expense)		
	Pretax	Tax Effect	After Tax
Restructuring and impairment charges	$ (12)	$ 31	$ 19
Gains on sales of businesses	75	(107)	(32)
	$ 63	$ (76)	$ (13)

Restructuring and impairment charges include an impairment related to assets that had tax basis significantly in excess of the book value resulting in a $31 million tax benefit on the restructuring and impairment charges. Our book value of Miramax included allocated goodwill totaling $217 million which is not tax deductible. Accordingly, the taxable gain on the sales of these businesses exceeded the $75 million book gain resulting in the tax expense of $107 million. These items collectively had no impact on EPS.

In the prior year quarter, the Company recorded restructuring and impairment charges totaling $105 million and a gain on the sale of an investment in a television service in Europe of $27 million. The charges primarily related to organizational and cost structure initiatives at our Media Networks and Studio Entertainment segments including actions taken in connection with a change in Studio segment leadership. Restructuring charges of $66 million were primarily severance and related costs while impairment charges of $39 million consisted of write-offs of capitalized costs related to abandoned film projects. These items collectively had a net adverse impact of $0.03 on EPS.

SEASONALITY

The Company s businesses are subject to the effects of seasonality. Consequently, the operating results for the quarter ended January 1, 2011 for each business segment, and for the Company as a whole, are not necessarily indicative of results to be expected for the full year.

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

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

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

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

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

BUSINESS SEGMENT RESULTS

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

(in millions)	Quarter Ended **January 1, 2011**	 January 2, 2010	%Change Better/ (Worse)
Revenues:			
Media Networks	**$ 4,645**	$ 4,175	11 %
Parks and Resorts	**2,868**	2,662	8 %
Studio Entertainment	**1,932**	1,935	%

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

d cash equivalents, which is the most directly comparable GAAP measure, to liquid assets (dollars in thousands):

38

e prime rate or (y) the federal funds effective rate plus 0.50% plus (ii) 0.50%. On September 30, 2007, the applicable interest rates on th

270,979	$
42,967	
1,508	
1,200	
316,654	$

40

presume the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The seco

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

/s/ ERNST & YOUNG LLP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

/s/ DELOITTE & TOUCHE LLP

TD AMERITRADE HOLDING CORPORATION

CONSOLIDATED BALANCE SHEETS
As of September 30, 2007 and September 29, 2006

See notes to consolidated financial statements.

TD AMERITRADE HOLDING CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended September 30, 2007, September 29, 2006 and September 30, 2

See notes to consolidated financial statements.

TD AMERITRADE HOLDING CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
For the Years Ended September 30, 2007, September 29, 2006 and September 30, 2

Treasury Stock

$

(

(

(

(2

$ (2

See notes to consolidated financial statements.

47

TD AMERITRADE HOLDING CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2007, September 29, 2006 and September 30, 2

See notes to consolidated financial statements.

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended September 30, 2007, September 29, 2006 and September 30, 2

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

.6 million ($1.0 million net of tax), respectively. Pro forma information regarding stock-based compensation expense, net income and e

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

t qualified for hedge accounting as of September 30, 2007.

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ot recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is mea

d Fiserv will enter into a transition services agreement under which Fiserv will service client accounts for up to six months (subject to e

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	September 29, 2006
	Accumulated Amortization
$	
$	

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Professional Services

$

$

t penalty.

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ater of (x) the prime rate or (y) the federal funds effective rate plus 0.50% plus (ii) 0.50%. On September 30, 2007, the applicable intere

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

redit issued under the secured or unsecured credit facilities as of September 30, 2007 and September 29, 2006. As of September 30, 200

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

60

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

tember 29, 2006 Minimum Net Capital Required		
	88,891	$
	26,146	
	77,548	
	1,000	
	193,585	$

he 1998 Plan, 15,502,818 shares of the Company s common stock are reserved for issuance to employees, consultants or non-employee

ares of common stock are issued following the end of the performance period.

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

83

67

62

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

database. The discovery was made as the result of an internal investigation of stock-related spam. Further, the Company commissioned f

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ng day and, pursuant to such guidelines, requires clients to deposit additional collateral, or to reduce positions, when necessary.

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

sis points and the cost of FDIC insurance premiums. TD Bank USA invests the swept client cash primarily in fixed-income securities ba

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

year terms (so long as certain related agreements are in effect), provided that following the first anniversary of the agreement, the agreem

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ification Agreement effectively protects the Company against fluctuations in TD s common stock price with respect to the SARs, so th

) restricted share units outstanding as of September 30, 2007 and September 29, 2006, respectively, with an approximate value of $13.9

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED BALANCE SHEETS
As of September 30, 2007 and September 29, 2006

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF INCOME
For the Years Ended September 30, 2007, September 29, 2006 and September 30, 2

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2007, September 29, 2006 and September 30, 2

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

575,201
311,072
200,431
0.34
0.33

488,701
201,716
128,110
0.21
0.21

MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL

nce with applicable laws and regulations. This assessment was based on criteria for effective internal control established in *Internal Co*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

tements.

Part III

PART IV

SIGNATURES

Joseph H. Moglia
Chief Executive Officer, Director
(Principal Executive Officer)

William J. Gerber
Executive Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)