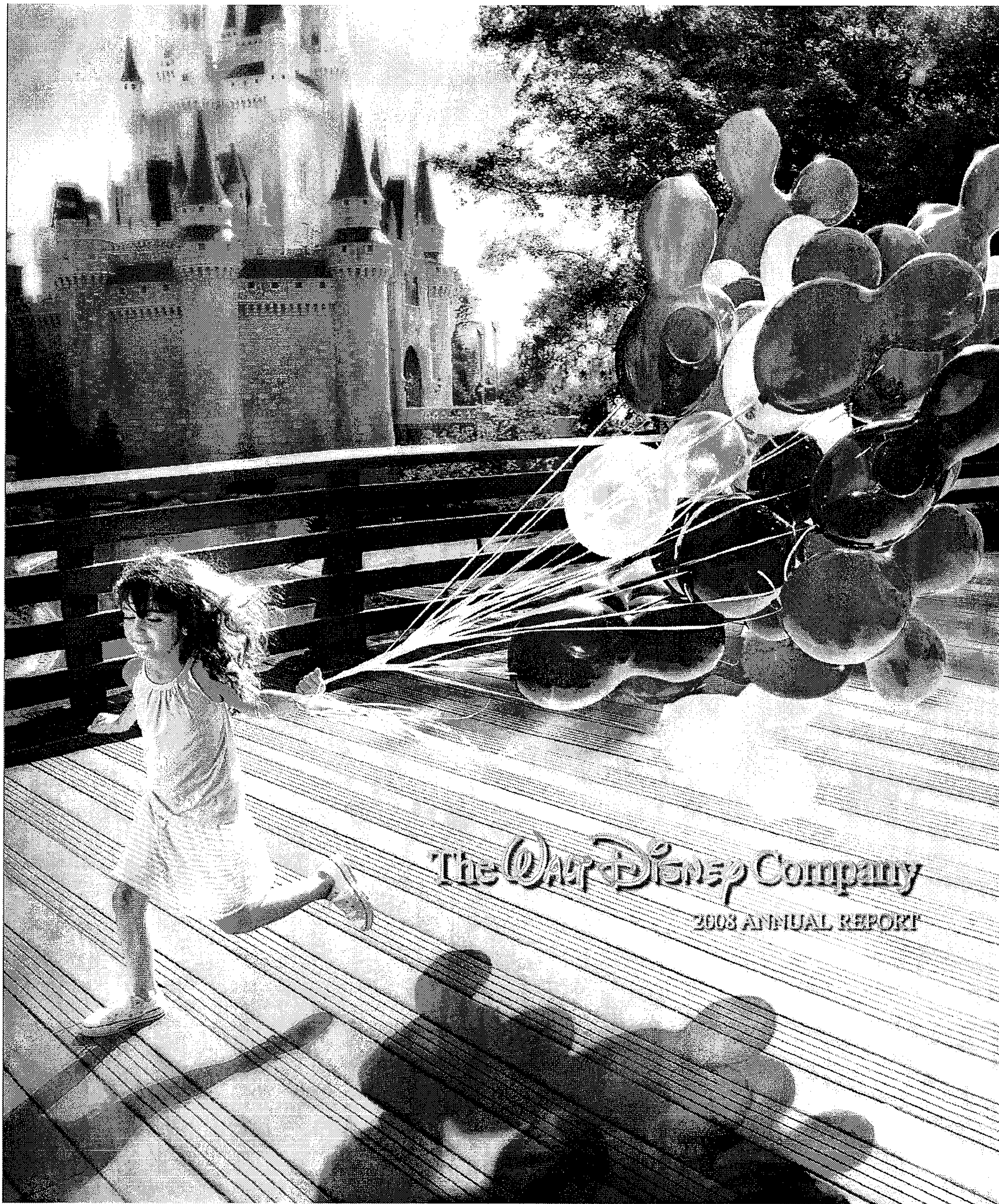
Clark v. The Walt Disney Company et al

Doc. 25 Att. 9



Dockets.Justia.com

TABLE OF CONTENTS

LETTER TO SHAREHOLDERS 2

FINANCIAL REVIEW 8

STUDIO ENTERTAINMENT 12

PARKS AND RESORTS 18

CONSUMER PRODUCTS 24

MEDIA NETWORKS 30

DISNEY INTERACTIVE MEDIA GROUP 48

WALT DISNEY INTERNATIONAL 50

CORPORATE RESPONSIBILITY 52

FINANCIAL SECTION 57

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM 99

FINANCIAL HIGHLIGHTS

($ in millions, except per share amounts)	2004[1][2]	2005[1][2]	2006[1][2]	2007[1][2]	2008[1]
Revenues					
Media Networks	$11,299	$12,722	$14,186	$15,104	**$16,116**
Parks and Resorts	7,750	9,023	9,925	10,626	**11,504**
Studio Entertainment	8,713	7,587	7,529	7,491	**7,348**
Consumer Products	2,414	2,042	2,107	2,289	**2,875**
	$30,176	$31,374	$33,747	$35,510	**$37,843**
Segment Operating Income[3]					
Media Networks	$ 2,378	$ 3,040	$ 3,481	$ 4,275	**$ 4,755**
Parks and Resorts	1,077	1,178	1,534	1,710	**1,897**
Studio Entertainment	661	206	728	1,195	**1,086**
Consumer Products	538	533	607	631	**718**
	$ 4,654	$ 4,957	$ 6,350	$ 7,811	**$ 8,456**
Diluted earnings per share from continuing operations before the cumulative effect of accounting change	$ 1.07	$ 1.19	$ 1.60	$ 2.24	**$ 2.28**
Earnings per share, discontinued operations	0.05	0.05	0.03	0.01	**—**
Cumulative effect of accounting change per share	—	(0.02)	—	—	**—**
Diluted earnings per share[4][5]	$ 1.12	$ 1.22	$ 1.64	$ 2.25	**$ 2.28**
Cash provided by continuing operating activities	$ 4,232	$ 4,139	$ 5,960	$ 5,398	**$ 5,446**
Free cash flow[3]	$ 2,811	$ 2,326	$ 4,668	$ 3,832	**$ 3,868**

[1] Beginning with the first quarter fiscal 2008 financial statements, the Company began reporting Hyperion Publishing in the Media Networks segment. Previously, Hyperion Publishing had been reported in the Consumer Products segment. Prior-period amounts (which are not material) have been reclassified to conform to the current year presentation.

[2] During fiscal 2007, the Company concluded the spin-off of the ABC Radio business and thus reports ABC Radio as discontinued operations for all periods presented.

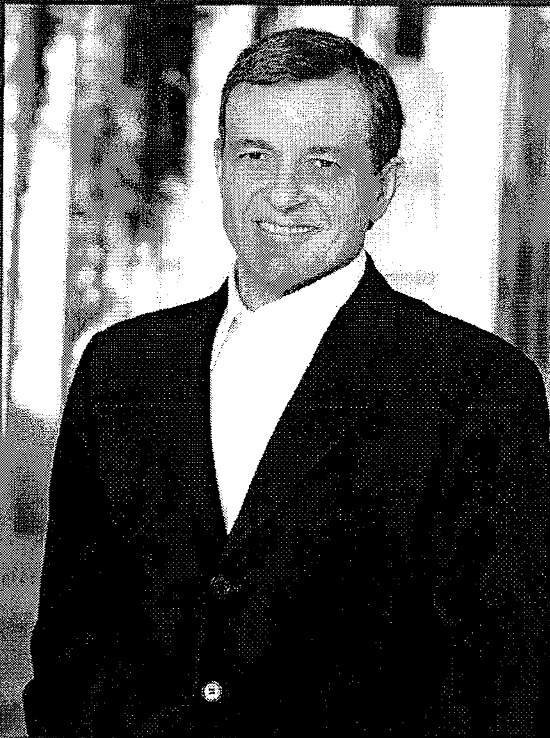
[3] Aggregate segment operating income and free cash flow are not financial measures defined by Generally Accepted Accounting Principles (GAAP). Reconciliations of non-GAAP financial measures to equivalent GAAP financial measures are available at the end of the Financial Review.

[4] Diluted earnings per share may not equal the sum of the column due to rounding.

[5] The fiscal 2008 results include an accounting gain related to the acquisition of the Disney Stores North America and a gain on the sale of movies.com (together $0.01 per diluted share), the favorable resolution of certain prior-year income tax matters ($0.03 per diluted share), and a bad debt charge for a receivable from Lehman Brothers ($0.03 per diluted share). These items collectively resulted in a net benefit of $0.01 per diluted share. The fiscal 2007 results include gains from the sales of E! Entertainment and *Us Weekly* ($0.31 per diluted share), the favorable resolution of certain prior-year income tax matters ($0.03 per diluted share), income from the discontinued operations of the ABC Radio business ($0.01 per diluted share), and an equity-based compensation plan modification charge ($0.01 per diluted share). Collectively, including the impact of rounding, these items resulted in a net benefit of $0.33 per diluted share.

LETTER TO SHAREHOLDERS

To the Shareholders and Cast Members of The Walt Disney Company:



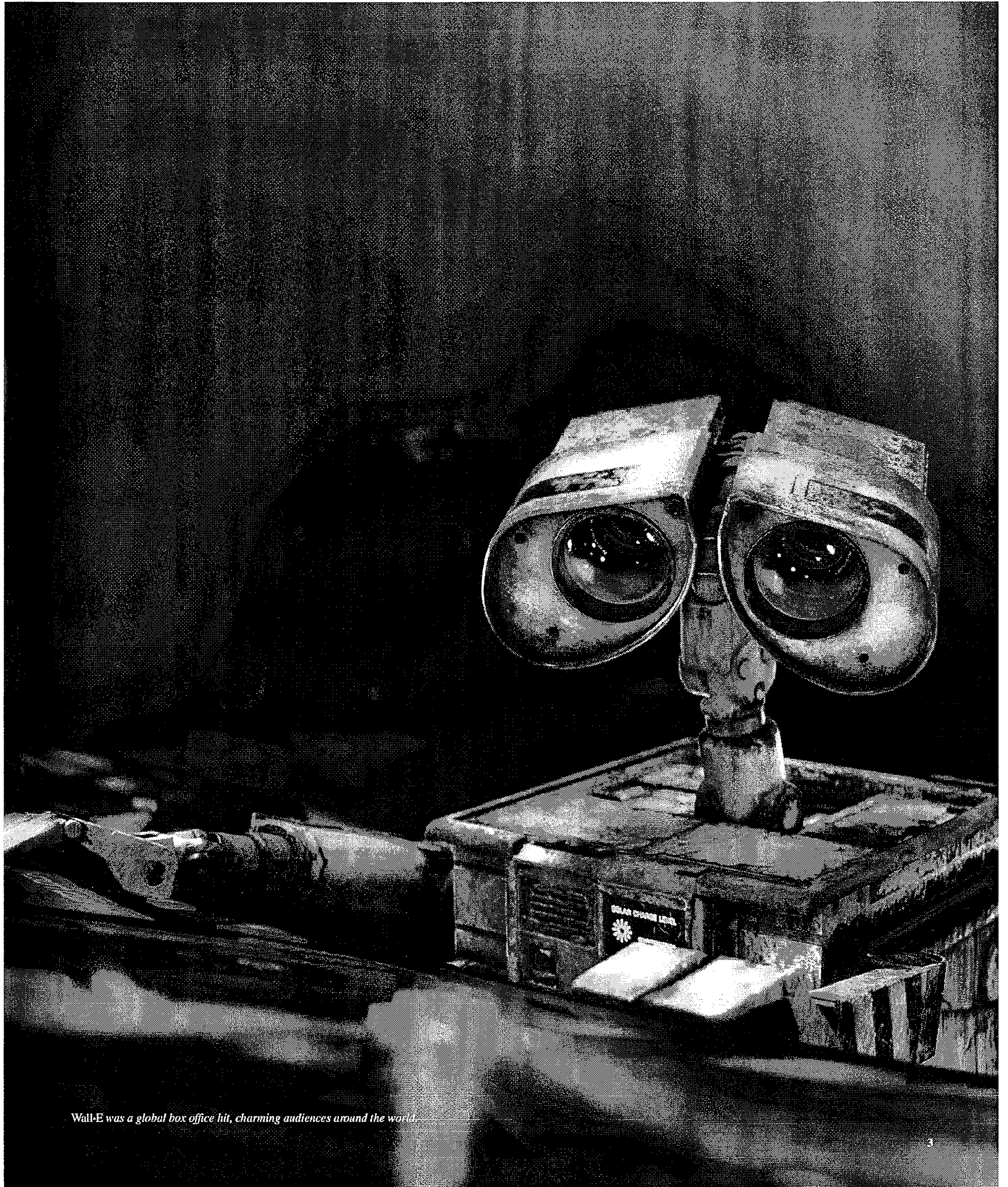
It has been a very long time since our country has faced the kind of economic turmoil we are currently experiencing, and The Walt Disney Company, while strong, is certainly not immune to the difficult market conditions that exist today. With consumers spending more carefully *and* spending less, and advertisers doing the same, our media, consumer products and theme park businesses all face significant business challenges.

I am confident our brands, products and people will pass the test that lies before them, but our businesses are all affected by an economic downdraft whose duration remains uncertain.

We will continue to focus on what creates the most value for our shareholders: delivering high-quality creative content and experiences; balancing respect for our legacy with the demand to be innovative; and maintaining the integrity of our people and products. As stewards of our great Company, we have reason to be optimistic. But we must also be realistic, and it is this blend of realism and optimism that is guiding us during this tumultuous time.

When signs of a weakening economy began to surface, our senior management team put in place measures to operate more efficiently and to invest even more prudently. We adopted marketing and pricing strategies designed to keep our products as attractive as possible, while at the same time underlining our commitment to quality. In this tough climate, even the most forceful measures are unlikely to compensate for the loss of business.

Robert A. Iger
President and Chief Executive Officer
The Walt Disney Company



Wall-E was a global box office hit, charming audiences around the world.

In fiscal 2008, despite an economy that weakened as the year progressed, we delivered strong creative and financial results, posting record revenue and earnings per share.

Highlighting our financial achievements, revenue hit an all-time high of $37.8 billion, a 7 percent increase over the previous year. Earnings per share, excluding certain items detailed in the footnote on page one, were $2.27, up 18 percent from the previous year.

As has been the case for many years, our financial success has been largely due to our creative achievements and in 2008, those achievements were numerous. I could mention many, but instead I'd like to highlight just three.

This past summer, Disney·Pixar once again enthralled audiences around the world with an original, unique and memorable film. *Wall·E* was a commercial, creative and technological success. Director and writer Andrew Stanton and his team created a film for the ages and for all ages, and we are extremely proud of their work.

As Americans turned out in record numbers to elect the 44th president of the United States, ABC News, led by anchors Charlie Gibson, Diane Sawyer and George Stephanopoulos, brought the right mixture of excellent reporting and thoughtful analysis to this memorable and historic election, capping months of insightful, interesting and energetic coverage of the American political process.

Thanks to our Imagineers, at our parks in California and Florida we opened *Toy Story Mania!*, an engaging attraction that combines the wonder and lovability of the *Toy Story* characters with breakthrough technology. The result is yet another theme park experience that distinguishes our Company and causes people to say: "What will they think of next?" or, "Only Disney can do that."

Beyond these individual achievements, we continued to create and support several key franchises. These are stories and characters that can be leveraged across many of our businesses, on many technological platforms, in many territories, and over long periods of time.

While we continue to break new creative ground, our substantial investment in such great Disney franchises as *Cars, Toy Story*, Princesses, Pirates, Mickey Mouse, Winnie the Pooh, *High School Musical* and Fairies continues to drive strong returns, differentiates us from our competitors and builds long-term shareholder value.

Not only do we possess a significant number of such franchises, but our ability to make the most of their success is unrivalled. This comes from a collection of great assets and a commitment to manage them as a whole that is worth far more than the sum of its parts. This defines Disney and, as we have been saying, creates the *Disney Difference*.

Combining breakthrough technology with the fun of an old-fashioned midway game, Toy Story Mania! *is a new Guest favorite.*

High School Musical 3: Senior Year *had the biggest opening weekend ever for a movie musical.*

ABC's Grey's Anatomy *continued to entertain viewers as one of TV's top primetime shows.*

We are proud of our businesses, but we balance that pride with keen awareness of the challenges they face, whether secular or cyclical. While we realize perfection is not something that can be delivered all of the time, we at least embrace the value of striving for perfection all of the time. This is true of all of our businesses, whether it be ESPN, ABC, ABC Family, Disney Channel, our Disney Parks and Resorts, Consumer Products, Studio Entertainment or Interactive Media Group.

Strategically, we continue to adhere to priorities established a few years ago. A commitment to high-quality creative work, a persistent focus on mastering new technology and selective investment in promising international markets are strategies that have worked for us, and we believe they will continue to position us well for the long term.

Moving forward, we will be taking a very pragmatic approach to new investments across the Company, pressing ahead only in those areas we believe offer the greatest opportunity for long-term growth and returns. We will continue to invest in our creative franchises and in developing our highly promising and fast growing video game business. We are also going ahead with the improvement and expansion of Disney's California Adventure at Disneyland Resort, new Disney Vacation Club properties including the Ko Olina project in Hawaii, and two new cruise ships that will be setting sail in 2011 and 2012.

Given the environment, we will likely see some interesting acquisition opportunities, and given the strength of our balance sheet, many could be enticing. Rest assured, though, no matter how inexpensive these opportunities may look, we will not relax our standards in terms of the quality of the assets we seek to purchase, their fit within our Company's businesses and core strategies, or their prospects for delivering strong returns.

We are committed to upholding the excellent reputation of the Disney name through continuous refinement and expansion of our social responsibility efforts. Last year, we took several steps in this area that we believe will benefit our employees and Cast Members, our Guests and consumers, our shareholders, our business partners and the communities in which we live and work.

We expanded globally our initiative to associate our brands and characters with healthier foods, bringing fresh Disney-branded fruits, vegetables and dairy products to families in dozens of countries. We've completed our first Company-wide greenhouse gas inventory and set reduction targets for emissions in order to minimize the Company's impact on the planet. And we celebrated the 25th anniversary of our Disney VoluntEARS program with employees contributing a record 495,000 hours on a wide range of projects benefiting children and caregivers around the world.

Kids of all ages met Tinker Bell and her friends in a new movie, an attraction at the parks, and within a new virtual world

Disney·Pixar's Up *will take audiences on a journey to a lost world with the two least likely people on earth.*

We will also soon be publishing our first comprehensive corporate responsibility report, which will provide greater detail and greater insight into how we approach crucial issues related to the environment, community, workplace, products and our responsibility to kids and families.

We are fortunate at Disney to have a very diverse board of directors, whose broad interests and experiences are helping to guide the Company in this complex environment. I'm especially grateful to John E. Pepper, Jr., our non-executive Chairman of the Board, and the wisdom, integrity and generosity of spirit that he brings to our Company.

We are also fortunate to have a truly outstanding and committed group of people working for this Company. I'm impressed and amazed on a daily basis by the passion they put into making sure our Guests and consumers not only have a special experience, but are transported from their everyday lives to worlds that could only be created by Disney.

So, on behalf of our employees and Cast Members, I'd like to thank you personally for your continued support. It's a real honor to uphold the Disney legacy and to continue to create memorable and magical experiences for kids of all ages. Together, we look forward to doing our very best for you every day, everywhere and in every way.

Robert A. Iger

Robert A. Iger
President and Chief Executive Officer
The Walt Disney Company

FINANCIAL REVIEW

At Disney, we strive to create exceptional entertainment content, experiences and products that are embraced by consumers around the world and to do so in a manner that delivers long-term shareholder value.

We believe the integrated manner in which we manage our brands and franchises gives us the opportunity to generate exceptional returns on our creative content. Our results over the past several years reflect the power of our brands and franchises and our ability to develop and leverage high-quality content across multiple creative platforms and global markets. This franchise development process has enabled us to build an extensive portfolio of brands, led by Disney and ESPN, and properties that include enduring characters like Mickey Mouse and Winnie the Pooh, as well as thriving new ones like Disney Fairies, *Cars*, *Toy Story*, *High School Musical* and *Hannah Montana*.

Our brands and integrated set of creative assets and businesses provide us with competitive advantages that we feel can deliver long-term value to our shareholders. Disney's overall business strategy is focused on leveraging and extending these advantages and consists of three major components: investing in the strength of our brands and the quality of our products; leveraging technology to provide consumers with entertainment when and where they want it; and expanding globally to better reach consumers around the world.

Although the U.S. and global economies have clearly deteriorated, we believe we are well positioned to weather the challenges presented by the current economic slowdown. In this challenging environment, we are maintaining financial discipline. At the same time, we remain focused on our core strategies and long-term growth priorities. Our strong balance sheet continues to provide us with the financial strength and flexibility to seize opportunities that can enhance our competitiveness and create superior returns.

We use three primary financial metrics to measure how well we are delivering value for our shareholders: earnings per share, return on invested capital (ROIC) and free cash flow. We're pleased with our fiscal 2008 results, a year in which we increased each of these key measures. Excluding certain items detailed below, we once again achieved double-digit growth in earnings per share.[1] Since strategic investment and economic cycles can sometimes influence near-term returns, we assess trends in financial metrics over time rather than looking only at short-term results. We are happy to note that an investment in Disney over the past five-year period has yielded a compound annual return of approximately 12%, almost twice the return of the S&P 500.

We recognize that allocating capital profitably and managing our business to drive creative *and* financial success are the most important ways that we serve the owners of our Company. Our first priority in allocating capital is to fund strategically attractive investments that can drive future growth and provide strong returns over time. These opportunities can include internal investment in existing and new businesses or acquisitions. We plan to continue expanding our creative pipeline of high-quality content and to strengthen our brands and reach on a global basis. These internal growth initiatives include investment in television, films, digital media and video game development. We will also continue to invest in developing local, Disney-branded content and expanding the reach of our Disney and ESPN-branded channels around the world. We recently released films made for China and India and currently have films in production for China, India and Russia.

In addition to internal reinvestments, we look for attractive external investment opportunities that meet our financial and strategic objectives. During the year, we made investments in content companies in India and China. We also made acquisitions to enhance our position in youth-oriented sports and the online sports community. In addition, we acquired three promising start-up companies which help position us to participate in growth opportunities on digital platforms.

BUSINESS SEGMENT PERFORMANCE

MEDIA NETWORKS

Media Networks was the largest driver of the Company's revenue and operating income growth this year, led by the strong performance of our cable networks. ESPN, the domestic Disney Channels and ABC Family each delivered solid increases in revenue and operating income.

As consumer choice in entertainment expands, quality content and strong brands like Disney and ESPN become increasingly valuable as a means of differentiating our products. For some time now, ESPN has focused on building its competitive advantage by capitalizing on its broad collection of sports rights across multiple platforms. ESPN continues to expand its scope and depth with recent agreements for college sports rights with the Southeastern Conference and the Bowl Championship Series, and for golf with the British Open Championship.

[1] The fiscal 2008 results include an accounting gain related to the acquisition of the Disney Stores North America and a gain on the sale of movies.com (together $0.01 per diluted share), the favorable resolution of certain prior-year income tax matters ($0.03 per diluted share), and a bad debt charge for a receivable from Lehman Brothers ($0.03 per diluted share). These items collectively resulted in a net benefit of $0.01 per diluted share. The fiscal 2007 results include gains from the sales of *E!* Entertainment and *Us Weekly* ($0.31 per diluted share), the favorable resolution of certain prior-year income tax matters ($0.03 per diluted share), income from the discontinued operations of the ABC Radio business ($0.01 per diluted share), and an equity-based compensation plan modification charge ($0.01 per diluted share). Collectively, including the impact of rounding, these items resulted in a net benefit of $0.33 per diluted share. Excluding these items, EPS in 2008 increased 18% to $2.27 from $1.92 in 2007.