WALT DISNEY CO/
Form 10-Q
May 06, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended
March 29, 2014

Commission File Number 1-11605

Incorporated in Delaware

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

500 South Buena Vista Street, Burbank, California 91521
(818) 560-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 1,731,844,061 shares of common stock outstanding as of April 30, 2014.

PART I. FINANCIAL INFORMATION
Item 1: Financial Statements
THE WALT DISNEY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited; in millions, except per share data)

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Revenues	$11,649	$10,554	$23,958	$21,895
Costs and expenses	(8,668)	(8,359)	(18,312)	(17,608)
Restructuring and impairment charges	(48)	(61)	(67)	(61)
Other income/(expense), net	(37)	10	(31)	(92)
Interest income/(expense), net	62	(54)	111	(126)
Equity in the income of investees	217	185	456	295
Income before income taxes	3,175	2,275	6,115	4,303
Income taxes	(1,119)	(654)	(2,155)	(1,244)
Net income	2,056	1,621	3,960	3,059
Less: Net income attributable to noncontrolling interests	(139)	(108)	(203)	(164)
Net income attributable to The Walt Disney Company (Disney)	$1,917	$1,513	$3,757	$2,895
Earnings per share attributable to Disney:				
Diluted	$1.08	$0.83	$2.11	$1.60
Basic	$1.10	$0.84	$2.14	$1.62
Weighted average number of common and common equivalent shares outstanding:				
Diluted	1,770	1,825	1,777	1,813
Basic	1,750	1,804	1,756	1,791
Dividends declared per share	$—	$—	$0.86	$0.75

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited; in millions)

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Net income	$2,056	$1,621	$3,960	$3,059
Other comprehensive income/(loss), net of tax:				
Market value adjustments for investments	(36)	5	(55)	22
Market value adjustments for hedges	(64)	111	(33)	170
Pension and postretirement medical plan adjustments	39	67	64	140
Foreign currency translation and other	(25)	(21)	(11)	(19)
Other comprehensive income/(loss)	(86)	162	(35)	313
Comprehensive income	1,970	1,783	3,925	3,372
Less: Net income attributable to noncontrolling interests	(139)	(108)	(203)	(164)
Less: Other comprehensive (income)/loss attributable to noncontrolling interests	24	(2)	16	(15)
Comprehensive income attributable to Disney	$1,855	$1,673	$3,738	$3,193

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited; in millions, except per share data)

	March 29, 2014	September 28, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$4,078	$3,931
Receivables	7,588	6,967
Inventories	1,343	1,487
Television costs and advances	937	634
Deferred income taxes	478	485
Other current assets	622	605
Total current assets	15,046	14,109
Film and television costs	5,067	4,783
Investments	2,750	2,849
Parks, resorts and other property		
Attractions, buildings and equipment	41,759	41,192
Accumulated depreciation	(23,294)	(22,459)
	18,465	18,733
Projects in progress	3,030	2,476
Land	1,186	1,171
	22,681	22,380
Intangible assets, net	7,262	7,370
Goodwill	27,350	27,324
Other assets	2,424	2,426
Total assets	$82,580	$81,241
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	$6,581	$6,803
Current portion of borrowings	4,695	1,512
Unearned royalties and other advances	3,886	3,389
Total current liabilities	15,162	11,704
Borrowings	10,909	12,776
Deferred income taxes	4,228	4,050
Other long-term liabilities	4,641	4,561
Commitments and contingencies (Note 11)		
Equity		
Preferred stock, $.01 par value Authorized – 100 million shares, Issued – none	—	—
Common stock, $.01 par value Authorized – 4.6 billion shares, Issued – 2.8 billion shares	33,942	33,440
Retained earnings	49,989	47,758
Accumulated other comprehensive loss	(1,206)	(1,187)
	82,725	80,011
Treasury stock, at cost, 1.1 billion shares at March 29, 2014 and 1.0 billion shares at September 28, 2013	(37,836)	(34,582)
Total Disney Shareholders' equity	44,889	45,429

Noncontrolling interests	2,751	2,721
Total equity	47,640	48,150
Total liabilities and equity	$82,580	$81,241

See Notes to Condensed Consolidated Financial Statements

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THE WALT DISNEY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited; in millions)

	Six Months Ended	
	March 29, 2014	March 30, 2013
OPERATING ACTIVITIES		
Net income	$3,960	$3,059
Depreciation and amortization	1,141	1,064
Gains on sales of investments and dispositions	(280)	(245)
Deferred income taxes	176	(247)
Equity in the income of investees	(456)	(295)
Cash distributions received from equity investees	361	367
Net change in film and television costs and advances	(663)	(571)
Equity-based compensation	208	208
Other	(29)	119
Changes in operating assets and liabilities:		
Receivables	(469)	(76)
Inventories	134	137
Other assets	(31)	(1)
Accounts payable and other accrued liabilities	(282)	17
Income taxes	(31)	(232)
Cash provided by operations	3,739	3,304
INVESTING ACTIVITIES		
Investments in parks, resorts and other property	(1,359)	(1,119)
Sales of investments/proceeds from dispositions	366	350
Acquisitions	(13)	(2,310)
Other	(5)	89
Cash used in investing activities	(1,011)	(2,990)
FINANCING ACTIVITIES		
Commercial paper borrowings/(repayments), net	2,316	(245)
Borrowings	138	3,878
Reduction of borrowings	(1,084)	(788)
Dividends	(1,508)	(1,324)
Repurchases of common stock	(3,254)	(1,894)
Proceeds from exercise of stock options	295	354
Other	659	329
Cash (used in)/provided by financing activities	(2,438)	310
Impact of exchange rates on cash and cash equivalents	(143)	(59)
Increase in cash and cash equivalents	147	565
Cash and cash equivalents, beginning of period	3,931	3,387
Cash and cash equivalents, end of period	$4,078	$3,952

See Notes to Condensed Consolidated Financial Statements

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THE WALT DISNEY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(unaudited; in millions)

	Quarter Ended					
	March 29, 2014			March 30, 2013		
	Disney Shareholders	Non-controlling Interests	Total Equity	Disney Shareholders	Non-controlling Interests	Total Equity
Beginning balance	$44,324	$2,972	$47,296	$41,016	$2,354	$43,370
Comprehensive income	1,855	115	1,970	1,673	110	1,783
Equity compensation activity	246	—	246	248	—	248
Common stock repurchases	(1,536)	—	(1,536)	(850)	—	(850)
Acquisition of Lucasfilm	—	—	—	2	—	2
Contributions	—	261	261	—	110	110
Distributions and other	—	(597)	(597)	—	(519)	(519)
Ending balance	$44,889	$2,751	$47,640	$42,089	$2,055	$44,144

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(unaudited; in millions)

	Six Months Ended March 29, 2014			March 30, 2013		
	Disney Shareholders	Non-controlling Interests	Total Equity	Disney Shareholders	Non-controlling Interests	Total Equity
Beginning balance	$45,429	$2,721	$48,150	$39,759	$2,199	$41,958
Comprehensive income	3,738	187	3,925	3,193	179	3,372
Equity compensation activity	484	—	484	500	—	500
Dividends	(1,508)	—	(1,508)	(1,324)	—	(1,324)
Common stock repurchases	(3,254)	—	(3,254)	(1,894)	—	(1,894)
Acquisition of Lucasfilm	—	—	—	1,855	6	1,861
Contributions	—	441	441	—	181	181
Distributions and other	—	(598)	(598)	—	(510)	(510)
Ending balance	$44,889	$2,751	$47,640	$42,089	$2,055	$44,144

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 presentation of the results for the interim period. Operating results for the quarter and six months ended March 29, 2014 are not necessarily indicative of the results that may be expected for the year ending September 27, 2014. 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 2013 Annual Report on Form 10-K.

The Company enters into relationships or investments with other entities in which it does not have majority ownership. 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 (as defined by ASC 810-10-25-38) or the right to receive benefits from the VIE that could potentially be significant to the VIE. Disneyland Paris, Hong Kong Disneyland Resort (HKDL) and Shanghai Disney Resort (collectively the International Theme Parks) are VIEs. Company subsidiaries (the Management Companies) have management agreements with the International Theme Parks, which provide the Management Companies, subject to certain protective rights of joint venture partners, with the ability to direct the day-to-day operating activities and the development of business strategies that we believe most significantly impact the economic performance of the International Theme Parks. In addition, the Management Companies receive management fees under these arrangements that we believe could be significant to the International Theme Parks. Therefore, although the Company has less than a 50% direct ownership interest in the International Theme Parks, the Company has consolidated the International Theme Parks 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. Equity in the income of investees included in segment operating results is as follows:

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Media Networks				
Cable Networks	$223	$195	$480	$372
Broadcasting	(6)	(10)	(24)	(23)
Equity in the income of investees included in segment operating income	$217	$185	$456	$349

During the six months ended March 30, 2013, the Company recorded a $55 million charge for our share of expense related to an equity redemption at Hulu LLC (Hulu Equity Redemption). This charge is recorded in "Equity in the

income of investees" in the Condensed Consolidated Statements of Income but has been excluded from segment operating income. See Note 3 for further discussion of the transaction.

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

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Revenues [1]:				
Media Networks	$5,134	$4,957	$10,424	$10,058
Parks and Resorts	3,562	3,302	7,159	6,693
Studio Entertainment	1,800	1,338	3,693	2,883
Consumer Products	885	763	2,011	1,776
Interactive	268	194	671	485
	$11,649	$10,554	$23,958	$21,895
Segment operating income (loss) [1]:				
Media Networks	$2,133	$1,862	$3,588	$3,076
Parks and Resorts	457	383	1,128	960
Studio Entertainment	475	118	884	352
Consumer Products	274	200	704	546
Interactive	14	(54)	69	(45)
	$3,353	$2,509	$6,373	$4,889

[1] Studio Entertainment segment revenues and operating income include an allocation of Consumer Products revenues, which is meant to reflect royalties on sales of merchandise based on certain 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		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Studio Entertainment	$58	$48	$121	$103
Consumer Products	(58)	(48)	(121)	(103)
	$—	$—	$—	$—

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

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Segment operating income	$3,353	$2,509	$6,373	$4,889
Corporate and unallocated shared expenses	(155)	(129)	(271)	(252)
Restructuring and impairment charges	(48)	(61)	(67)	(61)
Other income/(expense), net	(37)	10	(31)	(92)
Interest income/(expense), net	62	(54)	111	(126)
Hulu Equity Redemption	—	—	—	(55)
Income before income taxes	$3,175	$2,275	$6,115	$4,303

3. Acquisitions

Maker Studios

In March 2014, the Company entered into an agreement to acquire all the outstanding shares of Maker Studios, Inc. (Maker), a leading network of online video content on YouTube. Maker shareholders will receive total consideration of approximately $500 million and may receive an earn-out of up to $450 million if Maker achieves certain

performance targets for calendar years 2014 and 2015. A portion of the consideration will be recognized as compensation expense in the Company's Condensed Consolidated Statements of Income. The transaction is subject to customary closing conditions and is expected to close in the third quarter of fiscal 2014.

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

Lucasfilm

On December 21, 2012, the Company acquired Lucasfilm Ltd. LLC (Lucasfilm), a privately held entertainment company. This acquisition will allow Disney to utilize Lucasfilm's content across our multiple platforms, businesses and markets, which we believe will generate growth as well as significant long-term value.

Under the terms of the merger agreement, Disney issued 37.1 million shares and made a cash payment of $2.2 billion. Based on the $50.00 per share closing price of Disney shares on December 21, 2012, the transaction had a value of $4.1 billion.

The following table summarizes our allocation of the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed. The excess of the purchase price over those fair values and the related deferred taxes was allocated to goodwill, which is not deductible for tax purposes.

(in billions)	Estimated Fair Value
Intangible assets	$2.6
Goodwill	2.3
Deferred income tax liability	(0.8)
	$4.1

Intangible assets primarily consist of intellectual property based on the Star Wars franchise with an estimated useful life of approximately 40 years. The goodwill reflects the value to Disney from leveraging Lucasfilm intellectual property across our distribution channels, taking advantage of Disney's established global reach.

Hulu

On October 5, 2012, Hulu LLC (Hulu) redeemed Providence Equity Partners' 10% equity interest in Hulu for $200 million, increasing the Company's ownership interest in Hulu from 29% to 32%. In connection with the transaction, Hulu incurred a charge of approximately $174 million primarily related to employee equity-based compensation and borrowed $338 million under a five-year term loan, which was guaranteed by the Company and the other partners. The Company's share of the charge totaled $55 million and was recorded in equity in the income of investees in the first quarter of fiscal 2013.

In July 2013, Fox Entertainment Group, NBCUniversal and the Company agreed to provide Hulu with $750 million in cash to fund Hulu's operations and investments for future growth, of which the Company's share is $257 million. To date, the Company has contributed $134 million, increasing its ownership to 33%, and will continue to guarantee its share of Hulu's $338 million term loan.

The Company accounts for its interest in Hulu as an equity method investment.

Goodwill

The changes in the carrying amount of goodwill for the six months ended March 29, 2014 are as follows:

	Media Networks	Parks and Resorts	Studio Entertainment	Consumer Products	Interactive	Total
Balance at September 28, 2013	$16,071	$253	$6,591	$2,942	$1,467	$27,324
Acquisitions	—	—	—	—	—	—
Dispositions	—	—	—	—	—	—
Other, net [1]	44	23	53	22	(116)	26
Balance at March 29, 2014	$16,115	$276	$6,644	$2,964	$1,351	$27,350

[1] Includes the reallocation of $120 million of goodwill from the Interactive segment to other operating segments as a result of restructuring the Interactive segment.

The carrying amount of goodwill at March 29, 2014 and September 28, 2013 includes accumulated impairments of $29 million at Interactive.

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

4. Dispositions and Other Income/(Expense)

Other income/(expense) includes the following:

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Venezuela foreign currency loss	$(143)	$—	$(143)	$—
Gain on sale of property	77	—	77	—
Celador litigation charge	—	—	—	(321)
Gain on sale of equity interest in ESPN STAR Sports	—	—	—	219
Other [(1)]	29	10	35	10
Other income/(expense), net	$(37)	$10	$(31)	$(92)

(1) Includes income of $29 million representing a portion of a settlement of an affiliate contract dispute in the current year.

Venezuela foreign currency loss

The Company has operations in Venezuela, including film and television distribution and merchandise licensing and has net monetary assets of approximately 1.0 billion Venezuelan bolivares (BsF), which primarily consist of cash. The Venezuelan government (Government) has foreign currency exchange controls, which centralize the purchase and sale of all foreign currency at an official rate determined by the Government, currently 6.3 BsF per U.S. dollar. Although the Company has historically been unable to repatriate its cash at the official rate, we have translated our net monetary assets at the official rate through December 28, 2013. In January 2014, the Government announced that currency arising from certain transactions could be exchanged at an alternative rate (SICAD 1), which fluctuates based on Government-run auctions. The last SICAD 1 auction rate prior to March 29, 2014 was 10.8 BsF per U.S. dollar. The ability to convert currency in the SICAD 1 market is dependent on market factors and Government discretion, and the Company does not believe it can successfully convert material amounts of currency at this rate. In March 2014, the Government launched a new currency exchange market (SICAD 2), which allowed entities to submit a daily application to exchange foreign currency with financial institutions that are registered with the Venezuelan central bank. Foreign currency exchange rates under SICAD 2 fluctuate daily, and the rate on March 29, 2014 was 50.9 BsF per U.S. dollar. The ability to convert in the SICAD 2 market is also dependent on market factors including the availability of U.S. dollars. Although a small portion of the Company's cash may be eligible to be exchanged at SICAD 1, the majority is only eligible for exchange at SICAD 2. Accordingly, the Company has translated its BsF denominated net monetary assets at the SICAD 2 rate resulting in a loss of $143 million.

Celador litigation charge

In connection with the Company's litigation with Celador International Ltd., the Company recorded a $321 million charge in the first quarter of fiscal 2013.

ESPN STAR Sports

On November 7, 2012, the Company sold its 50% equity interest in ESPN STAR Sports (ESS) to the joint venture partner of ESS for $335 million resulting in a gain of $219 million ($125 million after tax and allocation to noncontrolling interest).

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

5. Borrowings

During the six months ended March 29, 2014, the Company's borrowing activity was as follows:

	September 28, 2013	Additions	Payments	Other Activity[1]	March 29, 2014
Commercial paper borrowings	$—	$2,316	$—	$—	$2,316
U.S. medium-term notes	13,155	—	(1,000)	5	12,160
European medium-term notes and other foreign currency denominated borrowings	509	138	(79)	(14)	554
HKDL borrowings	275	—	(12)	(7)	256
Other	349	—	(12)	(19)	318
Total	$14,288	$2,454	$(1,103)	$(35)	$15,604

[1] Primarily market value adjustments for debt with qualifying hedges and foreign currency translation adjustments.

The Company has bank facilities with a syndicate of lenders to support commercial paper borrowings. The following is a summary of the bank facilities at March 29, 2014:

	Committed Capacity	Capacity Used	Unused Capacity
Facility expiring March 2015	$1,500	$—	$1,500
Facility expiring June 2017	2,250	—	2,250
Facility expiring March 2019	2,250	—	2,250
Total	$6,000	$—	$6,000

On March 14, 2014, the Company refinanced bank facilities scheduled to expire in March 2014 and February 2015. The facilities now expire in March 2015 and March 2019, respectively. All of the above 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 floor that vary with the Company's debt rating assigned by Moody's Investors Service and Standard and Poor's. The spread above LIBOR can range from 0.23% to 1.63%. The Company also has the ability to issue up to $800 million of letters of credit under the facility expiring in March 2019, which if utilized, reduces available borrowings under this facility. The facilities contain only one financial covenant, relating to interest coverage, which the Company met on March 29, 2014 by a significant margin, and specifically exclude certain entities, including the International Theme Parks, from any representations, covenants, or events of default.

Interest income/(expense)

Interest and investment income and interest expense are reported net in the Condensed Consolidated Statements of Income and consist of the following (net of capitalized interest):

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Interest expense	$(67)	$(83)	$(148)	$(175)
Interest and investment income	129	29	259	49
Interest income/(expense), net	$62	$(54)	$111	$(126)

Interest and investment income includes gains and losses on the sale of available-for-sale and non-publicly traded cost method investments, investment impairments and interest earned on cash and cash equivalents and certain receivables. During the quarter and six months ended March 29, 2014, net gains on available-for-sale investments totaled $92 million and $151 million, respectively. During the six months ended March 29, 2014, net gains on non-publicly traded

cost method investments totaled $46 million. There were no gains on non-publicly traded cost method investments during the quarter ended March 29, 2014 and gains in the quarter and six months ended March 30, 2013 were not material.

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

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 HKDL and a 43% ownership interest in the operations of Shanghai Disney Resort, all of which are VIEs consolidated in the Company’s financial statements. See Note 1 for the Company's policy on consolidating VIEs.

The following tables present summarized balance sheet information for the Company as of March 29, 2014 and September 28, 2013, reflecting the impact of consolidating the International Theme Parks balance sheets.

	As of March 29, 2014		
	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash and cash equivalents	$3,205	$873	$4,078
Other current assets	10,692	276	10,968
Total current assets	13,897	1,149	15,046
Investments/Advances	6,715	(3,965)	2,750
Parks, resorts and other property	16,917	5,764	22,681
Other assets	42,063	40	42,103
Total assets	$79,592	$2,988	$82,580
Current portion of borrowings	$4,691	$4	$4,695
Other current liabilities	9,897	570	10,467
Total current liabilities	14,588	574	15,162
Borrowings	10,657	252	10,909
Deferred income taxes and other long-term liabilities	8,705	164	8,869
Equity	45,642	1,998	47,640
Total liabilities and equity	$79,592	$2,988	$82,580

	As of September 28, 2013		
	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash and cash equivalents	$3,325	$606	$3,931
Other current assets	9,896	282	10,178
Total current assets	13,221	888	14,109
Investments/Advances	6,415	(3,566)	2,849
Parks, resorts and other property	17,117	5,263	22,380
Other assets	41,879	24	41,903
Total assets	$78,632	$2,609	$81,241
Current portion of borrowings	$1,512	$—	$1,512
Other current liabilities	9,622	570	10,192
Total current liabilities	11,134	570	11,704
Borrowings	12,501	275	12,776
Deferred income taxes and other long-term liabilities	8,466	145	8,611
Equity	46,531	1,619	48,150

Total liabilities and equity	$78,632	$2,609	$81,241

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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 six months ended March 29, 2014, reflecting the impact of consolidating the International Theme Parks income statements.

	Before International Theme Parks Consolidation[1]	International Theme Parks and Adjustments	Total
Revenues	$22,923	$1,035	$23,958
Cost and expenses	(17,204)	(1,108)	(18,312)
Restructuring and impairment charges	(67)	—	(67)
Other income/(expense), net	(31)	—	(31)
Interest income/(expense), net	131	(20)	111
Equity in the income of investees	410	46	456
Income before income taxes	6,162	(47)	6,115
Income taxes	(2,155)	—	(2,155)
Net income	$4,007	$(47)	$3,960

(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 $39 million of royalties and management fees recognized for the six months ended March 29, 2014.

The following table presents summarized cash flow statement information of the Company for the six months ended March 29, 2014, reflecting the impact of consolidating the International Theme Parks cash flow statements.

	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash provided by operations	$3,725	$14	$3,739
Investments in parks, resorts and other property	(708)	(651)	(1,359)
Cash (used in)/provided by other investing activities	(117)	465	348
Cash (used in)/provided by financing activities	(2,879)	441	(2,438)
Impact of exchange rates on cash and cash equivalents	(141)	(2)	(143)
Change in cash and cash equivalents	(120)	267	147
Cash and cash equivalents, beginning of period	3,325	606	3,931
Cash and cash equivalents, end of period	$3,205	$873	$4,078

Disneyland Paris

The Company has provided Disneyland Paris €1.7 billion ($2.3 billion) of intercompany loans and a line of credit totaling €250 million ($344 million). The balance outstanding under the line of credit was €100 million ($137 million) at March 29, 2014.

Hong Kong Disneyland Resort

In July 2009, the Company entered into a capital realignment and expansion plan for HKDL with the Government of the Hong Kong Special Administrative Region (HKSAR), HKDL's majority shareholder. The expansion cost approximately $0.5 billion, was completed in 2013 and was financed equally by the Company and HKSAR. As a result the Company's equity interest in HKDL increased from 43% to 48%.

In addition, HKSAR holds a right to receive additional shares over time if HKDL exceeds certain return on asset performance targets. The amount of additional shares HKSAR can receive varies to the extent certain performance targets are exceeded but is capped on both an annual and cumulative basis. Based on the number of shares currently outstanding, these additional shares could decrease the Company's equity interest to no less than 38% over a period no shorter than 18 years. HKDL may begin to exceed the performance targets in fiscal 2014, in which case HKSAR would be entitled to receive

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additional equity interests beginning in 2015. The maximum additional interest which HKSAR can receive in 2015 would reduce the Company's equity interest by approximately 1 percentage point.

In February 2014, HKDL announced a plan to build a third hotel at the resort expected to open in fiscal 2017 at a cost of approximately $550 million, subject to HKSAR Legislative Council approval. In connection with the construction of the hotel, the Company will provide approximately $219 million of equity contributions and HKSAR will convert an equal amount of its outstanding loan to HKDL into equity. Additionally, the Company and HKSAR will provide shareholder loans of up to approximately $149 million and $104 million, respectively. The loans will mature on dates from fiscal 2022 through fiscal 2025 and bear interest at a rate of three month HIBOR plus 2%.

Shanghai Disney Resort

In fiscal 2011, the Company and Shanghai Shendi (Group) Co., Ltd. (Shendi) received Chinese central government approval of an agreement to build and operate a Disney Resort (Shanghai Disney Resort) in the Pudong district of Shanghai for a planned investment of approximately 29 billion yuan ($4.7 billion). Shanghai Disney Resort is owned by a joint venture in which Shendi owns 57% and the Company owns 43%. An additional joint venture, in which the Company has a 70% interest and Shendi a 30% interest, is responsible for creating, constructing and operating Shanghai Disney Resort. Construction on the project, which includes a theme park, two hotels and a retail, dining and entertainment area, began in April 2011, and the resort is currently targeted to open by the end of calendar 2015.

In March 2014, the Company and Shendi received Chinese central government approval of an agreement to increase the planned investment by approximately 5 billion yuan ($0.8 billion), primarily to fund additional attractions, entertainment and other offerings to increase capacity at the theme park. The total investment in Shanghai Disney Resort will be funded in accordance with each partner’s ownership percentage, with approximately 67% from equity contributions and 33% from shareholder loans.

7. Pension and Other Benefit Programs

The components of net periodic benefit cost are as follows:

	Pension Plans				Postretirement Medical Plans			
	Quarter Ended		Six Months Ended		Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Service costs	$71	$86	$142	$172	$2	$5	$5	$9
Interest costs	122	108	244	217	17	16	33	33
Expected return on plan assets	(162)	(150)	(323)	(301)	(9)	(7)	(18)	(15)
Amortization of prior-year service costs	3	3	7	5	(1)	—	(1)	(1)
Recognized net actuarial loss/(gain)	37	104	73	208	(2)	10	(4)	20
Net periodic benefit cost	$71	$151	$143	$301	$7	$24	$15	$46

During the six months ended March 29, 2014, the Company did not make any material contributions to its pension and postretirement medical plans. The Company expects total pension and postretirement medical plan contributions in fiscal 2014 of approximately $275 million to $325 million. Final minimum pension plan funding requirements for fiscal 2014 will be determined based on our January 1, 2014 funding actuarial valuation, which will be available in the fourth quarter of fiscal 2014.

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		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Shares (in millions):				
Weighted average number of common and common equivalent shares outstanding (basic)	1,750	1,804	1,756	1,791
Weighted average dilutive impact of Awards	20	21	21	22
Weighted average number of common and common equivalent shares outstanding (diluted)	1,770	1,825	1,777	1,813
Awards excluded from diluted earnings per share	6	9	8	5

9. Equity

On December 4, 2013, the Company declared a $0.86 per share dividend ($1.5 billion) related to fiscal 2013 for shareholders of record on December 16, 2013, which was paid on January 16, 2014. The Company paid a $0.75 per share dividend ($1.3 billion) during the first quarter of fiscal 2013 related to fiscal 2012.

During the six months ended March 29, 2014, the Company repurchased 45 million shares of its common stock for $3.3 billion. As of March 29, 2014, the Company had remaining authorization in place to repurchase 116 million additional shares. The repurchase program does not have an expiration date.

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The following table summarizes the changes in each component of accumulated other comprehensive income (loss) (AOCI) including our proportional share of equity method investee amounts, net of 37% estimated tax:

	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
	Investments, net	Cash Flow Hedges			
Balance at Dec. 28, 2013	$76	$114	$(1,246)	$(88)	$(1,144)
Quarter Ended March 29, 2014:					
Unrealized gains (losses) arising during the period	22	(43)	15	(1)	(7)
Reclassifications of net (gains) losses to net income	(58)	(21)	24	—	(55)
Balance at March 29, 2014	$40	$50	$(1,207)	$(89)	$(1,206)
Balance at Dec. 29, 2012	$20	$7	$(3,161)	$6	$(3,128)
Quarter Ended March 30, 2013:					
Unrealized gains (losses) arising during the period	12	120	(6)	(23)	103
Reclassifications of net (gains) losses to net income	(7)	(9)	73	—	57
Balance at March 30, 2013	$25	$118	$(3,094)	$(17)	$(2,968)
Balance at Sept. 28, 2013	$95	$83	$(1,271)	$(94)	$(1,187)
Six Months Ended March 29, 2014:					
Unrealized gains (losses) arising during the period	40	(2)	15	5	58
Reclassifications of net (gains) losses to net income	(95)	(31)	49	—	(77)
Balance at March 29, 2014	$40	$50	$(1,207)	$(89)	$(1,206)
Balance at Sept. 29, 2012	$3	$(52)	$(3,234)	$17	$(3,266)
Six Months Ended March 30, 2013:					
Unrealized gains (losses) arising during the period	29	185	(6)	(40)	168
Reclassifications of net (gains) losses to net income	(7)	(15)	146	6	130
Balance at March 30, 2013	$25	$118	$(3,094)	$(17)	$(2,968)

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Details about AOCI components reclassified to net income are as follows:

Gains/(losses) in net income:	Affected line item in the Condensed Consolidated Statements of Income:	Quarter Ended March 29, 2014	Quarter Ended March 30, 2013	Six Months Ended March 29, 2014	Six Months Ended March 30, 2013
Investments, net	Interest income/(expense), net	$92	$11	$151	$11
Estimated tax	Income taxes	(34)	(4)	(56)	(4)
		58	7	95	7
Cash flow hedges	Primarily revenue	33	14	49	24
Estimated tax	Income taxes	(12)	(5)	(18)	(9)
		21	9	31	15
Pension and postretirement medical expense	Primarily included in the computation of net periodic benefit cost (see Note 7)	(38)	(115)	(78)	(231)
Estimated tax	Income taxes	14	42	29	85
		(24)	(73)	(49)	(146)
Foreign currency translation and other	Other income/(expense), net	—	—	—	(10)
Estimated tax	Income taxes	—	—	—	4
		—	—	—	(6)
Total reclassifications for the period		$55	$(57)	$77	$(130)

At March 29, 2014, the Company held available-for-sale investments in net unrecognized gain positions totaling $64 million and no investments in significant unrecognized loss positions. At September 28, 2013, the Company held available-for-sale investments in net unrecognized gain positions totaling $156 million and no investments in significant unrecognized loss positions.

10. Equity-Based Compensation

Compensation expense related to stock options, stock appreciation rights and restricted stock units (RSUs) is as follows:

	Quarter Ended March 29, 2014	Quarter Ended March 30, 2013	Six Months Ended March 29, 2014	Six Months Ended March 30, 2013
Stock options/rights [(1)]	$26	$28	$51	$53
RSUs	86	84	160	160
Total equity-based compensation expense [(2)]	$112	$112	$211	$213
Equity-based compensation expense capitalized during the period	$15	$15	$29	$29

(1) Includes stock appreciation rights.

(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 six months ended March 29, 2014,

amortization of previously capitalized equity-based compensation totaled $14 million and $27 million, respectively. During the quarter and six months ended March 30, 2013, amortization of previously capitalized equity-based compensation totaled $13 million and $37 million, respectively.

Unrecognized compensation cost related to unvested stock options/rights and RSUs totaled approximately $190 million and $648 million, respectively, as of March 29, 2014.

The weighted average grant date fair values of options issued during the six months ended March 29, 2014 and March 30, 2013 were $19.16 and $12.37, respectively.

During the six months ended March 29, 2014, the Company made equity compensation grants consisting of 5.6 million stock options and 5.1 million RSUs, of which 0.3 million RSUs included market and/or performance conditions.

11. Commitments and Contingencies

Legal Matters

Beef Products, Inc. v. American Broadcasting Companies, Inc. On September 13, 2012, plaintiffs filed an action in South Dakota state court against certain subsidiaries and employees of the Company and others, asserting claims for defamation arising from alleged false statements and implications, statutory and common law product disparagement, and tortious interference with existing and prospective business relationships. The claims arise out of ABC News reports published in March and April 2012 that discussed the subject of labeling requirements for production processes related to a product one plaintiff produces that is added to ground beef before sale to consumers. Plaintiffs seek actual and consequential damages in excess of $400 million, statutory damages (including treble damages) pursuant to South Dakota's Agricultural Food Products Disparagement Act, and punitive damages. On July 9, 2013, the Company moved in state court to dismiss all claims and on March 27, 2014, the state court dismissed certain common law disparagement counts as preempted by South Dakota’s produce disparagement statute, but denied the motion on the remaining claims. On April 23, 2014, the Company petitioned the South Dakota Supreme Court to allow a discretionary appeal seeking reversal of the state court's order permitting the remaining common law disparagement claims to proceed and also seeking reversal of its decision to allow certain claims to proceed as defamation claims. At this time, the Company is not able to predict the ultimate outcome of this matter, nor can it estimate the range of possible loss.

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 believe that the Company has incurred a probable, material loss by reason of any of the above 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 March 29, 2014, the remaining debt service obligation guaranteed by the Company was $339 million, of which $72 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 these bonds.

Long-Term Receivables and the Allowance for Credit Losses

The Company has accounts receivable with original maturities greater than one year related to the sale of television program rights within the Media Networks segment and 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 from the sale of television programs based upon a number of factors, including historical experience and the financial condition of individual companies with which we do business. The balance of television program sales receivables recorded in other non-current assets, net of an immaterial allowance for credit losses, was $0.9 billion as of March 29, 2014. 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 from sales of its vacation ownership units based primarily on historical collection experience. Estimates of uncollectible amounts also consider 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 5%, was approximately $0.7 billion as of March 29, 2014. The activity in the current period related to the allowance for credit losses was not material.

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Income Taxes

During the six months ended March 29, 2014, the Company decreased its gross unrecognized tax benefits by $197 million to $923 million. The majority of the decrease was a reclassification to deferred tax liabilities.

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 $186 million, of which $51 million would reduce our income tax expense and effective tax rate if recognized.

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 and is 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 in the following tables by fair value measurement Level:

	Fair Value Measurement at March 29, 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	$106	$—	$—	$106
Derivatives [(1)]				
Interest rate	—	146	—	146
Foreign exchange	—	276	—	276
Liabilities				
Derivatives [(1)]				
Interest rate	—	(85)	—	(85)
Foreign exchange	—	(275)	—	(275)
Total recorded at fair value	$106	$62	$—	$168
Fair value of borrowings	$—	$15,044	$928	$15,972

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	Fair Value Measurement at September 28, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	$305	$—	$—	$305
Derivatives [(1)]				
Interest rate	—	170	—	170
Foreign exchange	—	267	—	267
Liabilities				
Derivatives [(1)]				
Interest rate	—	(94)	—	(94)
Foreign exchange	—	(201)	—	(201)
Total recorded at fair value	$305	$142	$—	$447
Fair value of borrowings	$—	$13,630	$914	$14,544

(1) The Company has master netting arrangements by counterparty with respect to certain derivative contracts. Contracts in a liability position totaling $211 million and $171 million have been netted against contracts in an asset position in the Condensed Consolidated Balance Sheets at March 29, 2014 and September 28, 2013, respectively.

The fair values of Level 2 derivatives are primarily determined by internal discounted cash flow 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 borrowings, which include HKDL borrowings and other foreign currency denominated borrowings, are generally valued based on historical market transactions, prevailing market interest rates and the Company's current borrowing cost and credit risk.

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.

13. Derivative Instruments

The Company manages its exposure to various risks relating to 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 Company’s derivative positions measured at fair value are summarized in the following tables:

	As of March 29, 2014			
	Current Assets	Other Assets	Other Accrued Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	$140	$116	$(97)	$(41)
Interest rate	—	146	(85)	—
Derivatives not designated as hedges				
Foreign exchange	20	—	(84)	(53)
Gross fair value of derivatives	160	262	(266)	(94)
Counterparty netting	(148)	(63)	167	44

Total derivatives [1]	$12	$199	$(99)	$(50)

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	As of September 28, 2013			
	Current Assets	Other Assets	Other Accrued Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	$146	$106	$(68)	$(24)
Interest rate	—	170	(94)	—
Derivatives not designated as hedges				
Foreign exchange	15	—	(82)	(27)
Gross fair value of derivatives	161	276	(244)	(51)
Counterparty netting	(137)	(34)	143	28
Total derivatives [1]	$24	$242	$(101)	$(23)

[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 both March 29, 2014 and September 28, 2013, the total notional amount of the Company's pay-floating interest rate swaps was $5.6 billion. The following table summarizes adjustments related to fair value hedges included in "Interest income/(expense), net" in the Condensed Consolidated Statements of Income.

	Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Gain (loss) on interest rate swaps	$15	$(38)	$(16)	$(64)
Gain (loss) on hedged borrowings	(15)	38	16	64

In addition, during the quarter and six months ended March 29, 2014, the Company realized net benefits of $22 million and $44 million, respectively, in net interest expense related to the pay-floating interest rate swaps. During the quarter and six months ended March 30, 2013, the Company realized net benefits of $21 million and $38 million, respectively, in net interest expense related to the pay-floating interest rate swaps.

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 gains or losses from these cash flow hedges are deferred in 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 March 29, 2014 or at September 28, 2013.

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 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,

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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 March 29, 2014 and September 28, 2013, the notional amounts of the Company's net foreign exchange cash flow hedges were $5.1 billion and $4.3 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 six months ended March 29, 2014 and March 30, 2013 were not material. Net deferred gains recorded in AOCI for contracts that will mature in the next twelve months totaled $29 million.

Foreign exchange risk management contracts with respect to foreign currency denominated assets and liabilities are not designated as hedges and do not qualify for hedge accounting. The notional amounts of these foreign exchange contracts at March 29, 2014 and September 28, 2013 were $4.8 billion and $4.3 billion, respectively. The following table summarizes the net foreign exchange gains or losses recognized on foreign currency denominated assets and liabilities and the offsetting net foreign exchange gains or losses on the related foreign exchange contracts for the quarters and six months ended March 29, 2014 and March 30, 2013 by the corresponding line item in which they are recorded in the Condensed Consolidated Statements of Income.

	Costs and Expenses				Interest Income/(Expense), net			
	Quarter Ended		Six Months Ended		Quarter Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Net gains (losses) on foreign currency denominated assets and liabilities	$(5)	$(145)	$4	$(107)	$6	$71	$18	$153
Net gains (losses) on foreign exchange risk management contracts not designated as hedges	(22)	142	(44)	94	(11)	(67)	(21)	(151)
Net gains (losses)	$(27)	$(3)	$(40)	$(13)	$(5)	$4	$(3)	$2

In addition to the amounts in this table, the Company recorded a $143 million foreign currency translation loss on net monetary assets denominated in Venezuelan BsF in the second quarter of fiscal 2014 that is reported in "Other income/(expense), net" (see Note 4 to the Condensed Consolidated Financial Statements).

Commodity Price Risk Management

The Company is subject to the volatility of commodities prices and the Company 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 at March 29, 2014 and September 28, 2013 were not material. The related gains or losses recognized in earnings were not material for the six months ended March 29, 2014 and March 30, 2013.

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 include 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 fair value of these contracts at March 29, 2014 and September 28, 2013 were not material. The related gains or losses recognized in earnings were not material for the six months ended March 29, 2014 and March 30, 2013.

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 values of derivative instruments with credit-risk-related contingent features in a net liability position by counterparty were $149 million and $124 million on March 29, 2014 and September 28, 2013, respectively. The Company had posted collateral of $69 million and $54 million related to these derivative contracts at March 29, 2014 and September 28, 2013, respectively.

14. Restructuring and Impairment Charges

The Company recorded $48 million and $67 million of restructuring and impairment charges in the current quarter and six-month period, respectively, driven by severance costs related to organizational and cost structure initiatives across various of our businesses. The Company recorded $61 million of restructuring charges in the prior-year six-month period, which was recorded in the prior-year second quarter, for severance and contract termination costs.

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:

	Quarter Ended		% Change	Six Months Ended		% Change
(in millions, except per share data)	March 29, 2014	March 30, 2013	Better/ (Worse)	March 29, 2014	March 30, 2013	Better/ (Worse)
Revenues	$11,649	$10,554	10 %	$23,958	$21,895	9 %
Costs and expenses	(8,668)	(8,359)	(4) %	(18,312)	(17,608)	