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Form 10-Q
February 05, 2019
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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 December 29, 2018

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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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 1,490,776,763 shares of common stock outstanding as of January 30, 2019.

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	
	December 29, 2018	December 30, 2017
Revenues:		
Services	**$12,866**	$ 12,984
Products	**2,437**	2,367
Total revenues	**15,303**	15,351
Costs and expenses:		
Cost of services (exclusive of depreciation and amortization)	**(7,564)**	(7,324)
Cost of products (exclusive of depreciation and amortization)	**(1,437)**	(1,405)
Selling, general, administrative and other	**(2,152)**	(2,087)
Depreciation and amortization	**(732)**	(742)
Total costs and expenses	**(11,885)**	(11,558)
Restructuring and impairment charges	**—**	(15)
Other income	**—**	53
Interest expense, net	**(63)**	(129)
Equity in the income of investees	**76**	43
Income before income taxes	**3,431**	3,745
Income taxes	**(645)**	728
Net income	**2,786**	4,473
Less: Net (income) loss attributable to noncontrolling interests	**2**	(50)
Net income attributable to The Walt Disney Company (Disney)	**$2,788**	$ 4,423
Earnings per share attributable to Disney:		
Diluted	**$1.86**	$ 2.91
Basic	**$1.87**	$ 2.93
Weighted average number of common and common equivalent shares outstanding:		
Diluted	**1,498**	1,521
Basic	**1,490**	1,512
Dividends declared per share	**$0.88**	$ 0.84

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended	
	December 29, 2018	December 30, 2017
Net income	**$2,786**	$ 4,473
Other comprehensive income/(loss), net of tax:		
Market value adjustments for investments	**—**	(1)
Market value adjustments for hedges	**(9)**	18
Pension and postretirement medical plan adjustments	**53**	61
Foreign currency translation and other	**(21)**	87
Other comprehensive income	**23**	165
Comprehensive income	**2,809**	4,638
Net (income) loss attributable to noncontrolling interests, including redeemable noncontrolling interests	**2**	(50)
Other comprehensive (income) attributable to noncontrolling interests	**(2)**	(41)
Comprehensive income attributable to Disney	**$2,809**	$ 4,547

See Notes to Condensed Consolidated Financial Statements

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

	December 29, 2018	September 29, 2018
ASSETS		
Current assets		
Cash and cash equivalents	**$ 4,455**	$ 4,150
Receivables	**10,123**	9,334
Inventories	**1,357**	1,392
Television costs and advances	**824**	1,314
Other current assets	**778**	635
Total current assets	**17,537**	16,825
Film and television costs	**8,177**	7,888
Investments	**2,970**	2,899
Parks, resorts and other property		
Attractions, buildings and equipment	**55,385**	55,238
Accumulated depreciation	**(31,069)**	(30,764)
	24,316	24,474
Projects in progress	**4,336**	3,942
Land	**1,145**	1,124
	29,797	29,540
Intangible assets, net	**6,747**	6,812
Goodwill	**31,289**	31,269
Other assets	**3,424**	3,365
Total assets	**$ 99,941**	$ 98,598
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	**$ 10,696**	$ 9,479
Current portion of borrowings	**3,489**	3,790
Deferred revenue and other	**3,434**	4,591
Total current liabilities	**17,619**	17,860
Borrowings	**17,176**	17,084
Deferred income taxes	**3,177**	3,109
Other long-term liabilities	**6,452**	6,590
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests	**1,124**	1,123
Equity		
Preferred stock	**—**	—
Common stock, $0.01 par value, Authorized – 4.6 billion shares, Issued – 2.9 billion shares	**36,799**	36,779
Retained earnings	**84,887**	82,679
Accumulated other comprehensive loss	**(3,782)**	(3,097)
	117,904	116,361
Treasury stock, at cost, 1.4 billion shares	**(67,588)**	(67,588)
Total Disney Shareholders' equity	**50,316**	48,773
Noncontrolling interests	**4,077**	4,059
Total equity	**54,393**	52,832
Total liabilities and equity	**$ 99,941**	$ 98,598

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended	
	December 29, 2018	December 30, 2017
OPERATING ACTIVITIES		
Net income	**$2,786**	$ 4,473
Depreciation and amortization	**732**	742
Deferred income taxes	**46**	(1,726)
Equity in the income of investees	**(76)**	(43)
Cash distributions received from equity investees	**170**	170
Net change in film and television costs and advances	**468**	34
Equity-based compensation	**92**	94
Other	**61**	139
Changes in operating assets and liabilities:		
Receivables	**(1,078)**	(1,378)
Inventories	**32**	65
Other assets	**25**	(29)
Accounts payable and other liabilities	**(1,289)**	(1,160)
Income taxes	**130**	856
Cash provided by operations	**2,099**	2,237
INVESTING ACTIVITIES		
Investments in parks, resorts and other property	**(1,195)**	(981)
Other	**(141)**	(62)
Cash used in investing activities	**(1,336)**	(1,043)
FINANCING ACTIVITIES		
Commercial paper borrowings/(payments), net	**(302)**	1,140
Borrowings	**—**	1,025
Reduction of borrowings	**—**	(1,330)
Repurchases of common stock	**—**	(1,313)
Proceeds from exercise of stock options	**37**	50
Other	**(146)**	(156)
Cash used in financing activities	**(411)**	(584)
Impact of exchange rates on cash, cash equivalents and restricted cash	**(44)**	21
Change in cash, cash equivalents and restricted cash	**308**	631
Cash, cash equivalents and restricted cash, beginning of period	**4,155**	4,064
Cash, cash equivalents and restricted cash, end of period	**$4,463**	$ 4,695

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended							
	Equity Attributable to Disney							
	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Disney Equity	Non-controlling Interests [1]	Total Equity
Balance at September 29, 2018	1,488	$ 36,779	$ 82,679	$ (3,097)	$ (67,588)	$ 48,773	$ 4,059	$ 52,832
Comprehensive income	—	—	2,788	21	—	2,809	(1)	2,808
Equity compensation activity	2	20	—	—	—	20	—	20
Dividends	—	—	(1,310)	—	—	(1,310)	—	(1,310)
Contributions	—	—	—	—	—	—	20	20
Adoption of new accounting standards:								
Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	—	—	691	(691)	—	—	—	—
Intra-Entity Transfers of Assets Other Than Inventory	—	—	129	—	—	129	—	129
Revenues from Contracts with Customers	—	—	(116)	—	—	(116)	—	(116)
Other	—	—	22	(15)	—	7	—	7
Distributions and other	—	—	4	—	—	4	(1)	3
Balance at December 29, 2018	**1,490**	**$ 36,799**	**$ 84,887**	**$ (3,782)**	**$ (67,588)**	**$ 50,316**	**$ 4,077**	**$ 54,393**
Balance at September 30, 2017	1,517	$ 36,248	$ 72,606	$ (3,528)	$ (64,011)	$ 41,315	$ 3,689	$ 45,004
Comprehensive income	—	—	4,423	124	—	4,547	97	4,644
Equity compensation activity	3	6	—	—	—	6	—	6
Common stock repurchases	(13)	—	—	—	(1,313)	(1,313)	—	(1,313)
Dividends	—	—	(1,266)	—	—	(1,266)	—	(1,266)
Distributions and other	—	—	—	—	—	—	8	8
Balance at December 30, 2017	1,507	$ 36,254	$ 75,763	$ (3,404)	$ (65,324)	$ 43,289	$ 3,794	$ 47,083

[1] Excludes redeemable noncontrolling interest

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 ended December 29, 2018 are not necessarily indicative of the results that may be expected for the year ending September 28, 2019.

These financial statements should be read in conjunction with the Company's 2018 Annual Report on Form 10-K.

The Company enters into relationships or investments with other entities that may be variable interest entities (VIE). A VIE is consolidated in the financial statements if the Company has the power to direct activities that most significantly impact the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant (as defined by ASC 810-10-25-38) to the VIE. Hong Kong Disneyland Resort and Shanghai Disney Resort (together the Asia Theme Parks) are VIEs in which the Company has less than 50% equity ownership. Company subsidiaries (the Management Companies) have management agreements with the Asia 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 Asia Theme Parks. In addition, the Management Companies receive management fees under these arrangements that we believe could be significant to the Asia Theme Parks. Therefore, the Company has consolidated the Asia 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results may differ from those estimates.

Reclassifications

Certain reclassifications have been made in fiscal 2018 financial statements and notes to conform to the fiscal 2019 presentation.

2. *Description of Business and Segment Information*

Our operating segments report separate financial information, which is evaluated regularly by the Chief Executive Officer in order to decide how to allocate resources and to assess performance.

Effective in fiscal 2019, the Company started reporting its results in the following operating segments:

- Media Networks;
- Parks, Experiences & Consumer Products;
- Studio Entertainment; and
- Direct-to-Consumer & International

The Parks, Experiences & Consumer Products segment reflects the combination of the former Parks & Resorts and Consumer Products & Interactive Media segments. Certain businesses that were previously reported in Media Networks, Studio Entertainment and Consumer Products & Interactive Media are now reported in Direct-to-Consumer & International (DTCI). Fiscal 2018 segment operating results have been recast to align with the fiscal 2019 presentation.

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

DESCRIPTION OF BUSINESS
Media Networks
- Significant operations:

Disney, ESPN and Freeform branded domestic cable networks
ABC branded broadcast television network and eight owned domestic television stations
Television programming, production and distribution
A 50% equity investment in A+E Television Networks (A+E), which operates a variety of cable channels including A&E, HISTORY and Lifetime

- Significant revenues:

Affiliate fees - Fees charged to multi-channel video programming distributors (i.e. cable, satellite, telecommunications and digital over-the-top (e.g. Hulu, YouTube TV) service providers) ("MVPDs") and to television stations affiliated with the ABC Network for the right to deliver our programming to their customers
Advertising - Sales of ad time/space on our domestic networks and related platforms, except non-ratings-based advertising on digital platforms ("ratings-based ad sales"), and the sale of time on our domestic television stations. Ratings-based ad sales are generally determined using viewership measured with Nielsen ratings. Non-ratings-based advertising on digital platforms will be reported by DTCI as discussed in the DTCI section
TV/SVOD distribution - Licensing fees and other revenues for the right to use our television programs and productions and content transactions with other Company segments ("program sales")

- Significant expenses:

Operating expenses consisting primarily of programming and production costs, participations and residuals expense, technical support costs, operating labor, and distribution costs
Selling, general and administrative costs
Depreciation and amortization

Parks, Experiences & Consumer Products
- Significant operations:

Parks & Experiences:
Theme parks and resorts, which include: Walt Disney World Resort in Florida; Disneyland Resort in California; Disneyland Paris; and 47% and 43% interests in Hong Kong Disneyland Resort and Shanghai Disney Resort, respectively, all of which are consolidated in our results. Additionally, the Company licenses our intellectual property to a third party to operate Tokyo Disney Resort
Disney Cruise Line, Disney Vacation Club and Aulani, a Disney Resort & Spa in Hawaii
Consumer Products:
Licensing of our trade names, characters, visual, literary and other intellectual properties to various manufacturers, game developers, publishers and retailers throughout the world
Sale of branded merchandise through retail, online and wholesale businesses, and development and publishing of books, magazines, comic books and games. As of the end of fiscal 2018, the Company had substantially exited the vertical games development business

- Significant revenues:

Theme park admissions - Sales of tickets for admission to our theme parks
Parks & Experiences merchandise, food and beverage - Sales of merchandise, food and beverages at our theme parks and resorts and cruise ships
Resorts and vacations - Sales of room nights at hotels, sales of cruise vacations and sales and rentals of vacation club properties
Merchandise licensing and retail
Merchandise licensing - Royalties from intellectual property licensing

Retail - Sales of merchandise at The Disney Stores and through branded internet shopping sites, as well as, to wholesalers (including sales of published materials and games)
Parks licensing and other - Revenues from sponsorships and co-branding opportunities, real estate rent and sales, and royalties from Tokyo Disney Resort

THE WALT DISNEY COMPANY
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- Significant expenses:

Operating expenses consisting primarily of operating labor, costs of goods sold, infrastructure costs, supplies, commissions and entertainment offerings. Infrastructure costs include information systems expense, repairs and maintenance, utilities and fuel, property taxes, retail occupancy costs, insurance, and transportation
Selling, general and administrative costs
Depreciation and amortization

Studio Entertainment

- Significant operations:

Motion picture production and distribution under the Walt Disney Pictures, Pixar, Marvel, Lucasfilm and Touchstone banners
Development, production and licensing of live entertainment events on Broadway and around the world (“Stage plays”)

- Significant revenues:

Theatrical distribution - Rentals from licensing our motion pictures to theaters
Home entertainment - Sale of our motion pictures to retailers and distributors in physical (DVD and Blu-ray) and electronic formats
TV/SVOD distribution and other - Licensing fees and other revenue for the right to use our motion picture productions, content transactions with other Company segments, ticket sales from stage plays and fees from licensing our intellectual properties for use in live entertainment productions

- Significant expenses:

Operating expenses consisting primarily of amortization of production, participations and residuals costs, distribution costs and costs of sales
Selling, general and administrative costs
Depreciation and amortization

Direct-to-Consumer & International

- Significant operations:

Disney and ESPN branded international television networks and channels (“International Channels”)
Direct-to-consumer (DTC) businesses:
ESPN+ streaming service, which was launched in April 2018
Disney+ streaming service, which we plan to launch in late 2019
Other Company branded digital content distribution platforms and services
BAMTech LLC (BAMTech) (owned 75% by the Company since September 25, 2017), which provides streaming technology services
Equity investments:
A 30% interest in Hulu, which aggregates acquired television and film entertainment content and original content produced by Hulu and distributes it digitally to internet-connected devices
A 21% effective ownership in Vice Group Holdings, Inc. (Vice), which is a media company that targets millennial audiences. Vice operates Viceland, which is owned 50% by Vice and 50% by A+E

- Significant revenues:

Affiliate fees - Fees charged to MVPDs for the right to deliver our International Channels to their customers
Advertising - Sales of ad time/space on our International Channels. Sales of non-ratings based ad time/space on digital platforms (“addressable ad sales”). In general, addressable ad sales are delivered using technology that allows for dynamic insertion of advertisements into video content, which can be targeted to specific viewer groups
Subscription fees and other - Fees charged to customers/subscribers for our DTC streaming and other services and fees charged for streaming technology services

- Significant expenses:

Operating expenses consisting primarily of programming and production costs (including programming, production and branded digital content obtained from other Company segments), technical support costs, operating labor and distribution costs

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

Selling, general and administrative costs		
Depreciation and amortization		

SEGMENT INFORMATION

Segment operating results reflect earnings before corporate and unallocated shared expenses, restructuring and impairment charges, other income, interest expense, income taxes and noncontrolling interests. Segment operating income includes equity in the income of investees. Corporate and unallocated shared expenses principally consist of corporate functions, executive management and certain unallocated administrative support functions.

Intersegment content transactions (e.g. feature films aired on the ABC Television Network) are presented "gross" (i.e. the segment producing the content reports revenue and profit from intersegment transactions in a manner similar to the reporting of third-party transactions, and the required eliminations are reported on a separate "Eliminations" line when presenting a summary of our segment results). Previously, these transactions were reported "net", and the intersegment revenue was eliminated in the results of the segment producing the content. Fiscal 2018 intersegment content transactions have been recast to align with the fiscal 2019 presentation.

Segment revenues and segment operating income are as follows:

	Quarter Ended	
	December 29, 2018	December 30, 2017
Revenues [1]:		
Media Networks	**$5,921**	$ 5,555
Parks, Experiences & Consumer Products	**6,824**	6,527
Studio Entertainment	**1,824**	2,509
Direct-to-Consumer & International	**918**	931
Eliminations[2]	**(184)**	(171)
	$15,303	$ 15,351
Segment operating income [1]:		
Media Networks	**$1,330**	$ 1,243
Parks, Experiences & Consumer Products	**2,152**	1,954
Studio Entertainment	**309**	825
Direct-to-Consumer & International	**(136)**	(42)
Eliminations	**—**	6
	$3,655	$ 3,986

(1) Studio Entertainment revenues and operating income include an allocation of Parks, Experiences & Consumer Products revenues, which is meant to reflect royalties on sales of merchandise based on film properties. The increase to Studio Entertainment revenues and operating income and corresponding decrease to Parks, Experiences & Consumer Products revenues and operating income was $154 million and $171 million for the quarters ended December 29, 2018 and December 30, 2017, respectively.

(2) Intersegment content transactions are as follows:

(in millions)	Quarter Ended	
	December 29, 2018	December 30, 2017
Revenues		
Studio Entertainment:		
Content transactions with Media Networks	**$(21)**	$ (31)
Content transactions with Direct-to-Consumer & International	**(18)**	(8)
Media Networks:		
Content transactions with Direct-to-Consumer & International	**(145)**	(132)

Total revenues	**$(184)**	$ (171)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Equity in the income/(loss) of investees is included in segment operating income as follows:

	Quarter Ended	
	December 29, 2018	December 30, 2017
Media Networks	**$179**	$ 159
Parks, Experiences & Consumer Products	**(12)**	(7)
Direct-to-Consumer & International	**(91)**	(109)
Equity in the income / (loss) of investees	**$76**	$ 43

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

	Quarter Ended	
	December 29, 2018	December 30, 2017
Segment operating income	**$3,655**	$ 3,986
Corporate and unallocated shared expenses	**(161)**	(150)
Restructuring and impairment charges	**—**	(15)
Other income	**—**	53
Interest expense, net	**(63)**	(129)
Income before income taxes	**$3,431**	$ 3,745

3. *Revenues*

On September 30, 2018, the Company adopted Financial Accounting Standards Board (FASB) guidance, which replaced the existing accounting standards for revenue recognition with a single comprehensive five-step model ("new revenue standard"). The core principle is to recognize revenue upon the transfer of control of goods or services to customers at an amount that reflects the consideration expected to be received. We adopted the new revenue standard using the modified retrospective method, therefore results for reporting periods beginning after September 30, 2018 are presented under the new revenue standard, while prior period amounts have not been adjusted and continue to be reported in accordance with our historic accounting. Upon adoption, we elected to apply the new revenue standard to all contracts and we recorded a net reduction to opening retained earnings of $116 million.

The most significant changes to the Company's revenue recognition policies resulting from the adoption of the new revenue standard are as follows:

- For television and film content licensing agreements with multiple availability windows with the same licensee, the Company now defers more revenue to future windows than under the previous accounting guidance.
- For licenses of character images, brands and trademarks with minimum guaranteed license fees, the excess of the minimum guaranteed amount over actual amounts earned based on a percentage of the licensee's underlying sales ("minimum guarantee shortfall") is now recognized straight-line over the remaining license period once an expected shortfall is identified. Previously, shortfalls were recognized at the end of the contract period.
- For licenses that include multiple television and film titles with a minimum guaranteed license fee across all titles that earns out against the aggregate fees based on the licensee's underlying sales, the Company now allocates the minimum guaranteed license fee to each title at contract inception and recognizes the allocated license fee as revenue when the title is made available to the customer. License fees earned in excess of the allocated minimum guaranteed amount by title are deferred until the aggregate contractual minimum guarantee is exceeded and then recognized as revenue as earned based on the licensee's underlying sales. Previously, license fees were recognized as earned based on the licensee's underlying sales with any shortfalls recognized at the end of the contract period.
-

For renewals or extensions of license agreements for television and film content, revenues are now recognized when the licensed content becomes available under the renewal or extension. Previously, revenues were recognized when the agreement was renewed or extended.

The adoption of the new revenue standard resulted in certain reclassifications on the Condensed Consolidated Balance Sheet. The primary changes are the reclassification of sales returns reserves (previously reported as a reduction of receivables)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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to other accrued liabilities ($163 million at December 29, 2018) and the reclassification of refundable customer advances (previously reported as deferred revenues) to other accrued liabilities ($739 million at December 29, 2018). The cumulative effect of adoption at September 29, 2018 and the impact at December 29, 2018 (had we not applied the new revenue standard) on the Condensed Consolidated Balance Sheet is as follows:

	September 29, 2018			December 29, 2018		
	Fiscal 2018 Ending Balances as Reported	Effect of Adoption	Q1 2019 Opening Balances	Balances Assuming Historical Accounting	Q1 2019 Impact of New Revenue Standard	Q1 2019 Ending Balances as Reported
Assets						
Receivables - current/non-current	$11,262	$(241)	$11,021	$12,030	$(102)	$11,928
Film and television costs and advances - current/non-current	9,202	48	9,250	8,968	33	9,001
Liabilities						
Accounts payable and other accrued liabilities	9,479	1,039	10,518	9,799	897	10,696
Deferred revenue and other	4,591	(1,082)	3,509	4,342	(908)	3,434
Deferred income taxes	3,109	(34)	3,075	3,208	(31)	3,177
Equity	52,832	(116)	52,716	54,420	(27)	54,393

The impact on the Condensed Consolidated Statement of Income for the quarter ended December 29, 2018, due to the adoption of the new revenue standard is as follows:

	Quarter ended December 29, 2018		
	Results Assuming Historical Accounting	Impact of New Revenue Standard	Reported
Revenues	$15,109	$ 194	$15,303
Cost and Expenses	(11,806)	(79)	(11,885)
Income Taxes	(619)	(26)	(645)
Net Income	2,697	89	2,786

The most significant impacts were at the Media Networks and Parks, Experiences & Consumer Products segments, both of which reflected a change in the timing of revenue recognition on contracts with minimum guarantees.

Summary of Significant Revenue Recognition Accounting Policies

The Company generates revenue from the sale of both services and products. Revenue is recognized when control of the services or products is transferred to the customer. The amount of revenue recognized reflects the consideration the Company expects to receive in exchange for the services or products.

The Company has three broad categories of service revenues: licenses of rights to use our intellectual property, sales to guests at our Parks and Experiences businesses, and advertising. The Company's primary product revenues include the sale of food, beverage and merchandise at our parks, resorts and retail stores and the sale of film and television productions in physical formats (DVD and Blu-ray).

The new revenue standard defines two types of licenses of intellectual property ("IP"): IP that has "standalone functionality," which is called functional IP, and all other IP, which is called symbolic IP. Revenue related to the license of functional IP is generally recognized upon delivery (availability) of the IP to the customer. The substantial

majority of the Company's film and television content distribution activities at the Media Networks, Studio Entertainment and DTCI segments is considered licensing of functional IP. Revenue related to the license of symbolic IP is generally recognized over the term of the license. The Company's primary revenue stream derived from symbolic IP is the licensing of trade names, characters, visual and literary properties at the Parks, Experiences & Consumer Products segment.

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More detailed information about the revenue recognition policies for our key revenues is as follows:

- Affiliate fees - Fees charged to affiliates (i.e., MVPDs or television stations) for the right to deliver our television network programming on a continuous basis to their customers are recognized as the programming is provided based on contractually specified per subscriber rates and the actual number of the affiliate's customers receiving the programming.

Affiliate contracts may include a minimum guaranteed license fee. For these contracts, the guaranteed license fee is recognized ratably over the guaranteed period and any fees earned in excess of the guarantee are recognized as earned once the minimum guarantee has been exceeded.

Affiliate agreements may also include a license to use the network programming for on demand viewing. As the fees charged under these contracts are generally based on a contractually specified per subscriber rate for the number of underlying subscribers of the affiliate, revenues are recognized as earned.

- Subscription fees - Fees charged to customers/subscribers for our DTC streaming and other services are recognized ratably over the term of the subscription.
- Advertising - Sales of advertising time/space on our television networks, digital platforms, and television stations are recognized as revenue, net of agency commissions, when commercials are aired on television or delivered online. The performance obligation in advertising agreements is the delivery of ad time/space and may include a guaranteed number of impressions. When a contract contains a guaranteed number of impressions and the guaranteed number of impressions is not met ("ratings shortfall"), revenues are not recognized for the ratings shortfall until the guaranteed impressions are provided through the delivery of additional advertising time/space.
- Theme park admissions - Sales of theme park tickets are recognized when the tickets are used. Sales of annual passes are recognized ratably over the period for which the pass is available for use.
- Resorts and vacations - Sales of hotel room nights and cruise vacations and rentals of vacation club properties are recognized as the services are provided to the guest. Sales of vacation club properties are recognized when title to the property transfers to the customer.
- Merchandise, food and beverage - Sales of merchandise, food and beverages at our theme parks and resorts, cruise ships and Disney Stores are recognized at the time of sale. Sales from our branded internet shopping sites and to wholesalers are recognized upon delivery. We estimate returns and customer incentives based upon historical return experience, current economic trends and projections of consumer demand for our products.
- TV/SVOD distribution licensing - Fees charged for the right to use our television and motion picture productions are recognized as revenue when the content is available for use by the licensee. Contractual license fees may be for a fixed amount, based on performance in previous distribution windows (e.g., box office receipts) or based on underlying sales of the licensee.

TV/SVOD distribution contracts may contain more than one title and/or provide that certain titles are only available for use during defined periods of time during the contract term. In these instances, each title and/or period of availability is generally considered a separate performance obligation. For these contracts, license fees are allocated to each title and period of availability at contract inception based on relative standalone selling price using management's best estimate. Revenue is recognized when the content is made available for use by the licensee.

For TV/SVOD licenses that include multiple titles subject to an aggregate minimum guaranteed license fee across all titles, the minimum guaranteed license fee is allocated to each title at contract inception and recognized as revenue when the title is available for use by the licensee. License fees earned in excess of the allocated minimum guarantee are deferred until the aggregate contractual minimum guaranteed license fee has been exceeded with the excess then recognized as earned.

When the term of an existing agreement is renewed or extended, revenues are recognized when the licensed content becomes available under the renewal or extension.

- Theatrical distribution licensing - Fees charged for licensing of our motion pictures to theaters are recognized as revenue based on the contractual royalty rate applied to the theater's underlying sales from exhibition of the film.

- Merchandise licensing - Fees charged for the use of our trade names and characters in connection with the sale of a licensee’s products are recognized as revenue as the products are sold by the licensee applying a contractual royalty rate to the licensee sales. For licenses with minimum guaranteed license fees, the excess of the minimum guaranteed

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amount over actual royalties earned from licensee sales (shortfall) is recognized straight-line over the remaining license period once an expected shortfall is probable.

- Home entertainment - Sales of our motion pictures to retailers and distributors in physical formats (DVD and Blu-ray) are recognized as revenue on the later of the delivery date or the date that the product can be sold by retailers. We reduce home entertainment revenues for estimated future returns of merchandise and sales incentives based upon historical return experience, current economic trends and projections of consumer demand for our products. Sales of our motion pictures in electronic formats are recognized as revenue when the product is available for use by the consumer.
- Taxes - Taxes collected from customers and remitted to governmental authorities are excluded from revenue.
- Shipping and handling - Fees collected from customers for shipping and handling are recorded as revenue upon delivery of the product to the consumer. The related shipping expenses are recorded in cost of products upon delivery of the product to the customer.

The following table presents our revenues by segment and major source:

	Quarter Ended December 29, 2018					
	Media Networks	Parks, Experiences & Consumer Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
Affiliate fees	$3,075	$ —	$ —	$ 323	$ —	$ 3,398
Advertising	2,023	2	—	417		2,442
Theme park admissions	—	1,933	—	—	—	1,933
Resort and vacations	—	1,531	—	—	—	1,531
Retail and wholesale sales of merchandise, food and beverage	—	2,122	—	—	—	2,122
TV/SVOD distribution licensing	722	—	605	34	(184)	1,177
Theatrical distribution licensing	—	—	373	—	—	373
Merchandise licensing	—	741	154	15	—	910
Home entertainment	—	—	425	28	—	453
Other	101	495	267	101	—	964
Total revenues	$5,921	$ 6,824	$ 1,824	$ 918	$ (184)	$ 15,303

	Quarter Ended December 30, 2017[1]					
	Media Networks	Parks, Experiences & Consumer Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
Affiliate fees	$2,867	$ —	$ —	$ 338	$ —	$ 3,205
Advertising	1,963	2	—	411	—	2,376
Theme park admissions	—	1,832	—	—	—	1,832
Resort and vacations	—	1,463	—	—	—	1,463
Retail and wholesale sales of merchandise, food and beverage	—	2,059	—	—	—	2,059
TV/SVOD distribution licensing	624	—	519	25	(171)	997
Theatrical distribution licensing	—	—	1,169	—	—	1,169
Merchandise licensing	—	776	171	18	—	965
Home entertainment	—	—	361	30	—	391

Other	101	395	289	109	—	894
Total revenues	$5,555	$ 6,527	$ 2,509	$ 931	$ (171)	$ 15,351

(1) The table presents our revenues by segment and major source under historical accounting.

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The following table presents our revenues by segment and primary geographical markets:

	Quarter Ended December 29, 2018					
	Media Networks	Parks, Experiences & Consumer Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
United States and Canada	$ 5,509	$ 5,142	$ 1,038	$ 404	$ (164)	$ 11,929
Europe	152	1,065	413	180	(15)	1,795
Asia Pacific	79	551	286	118	(5)	1,029
Latin America	181	66	87	216	—	550
Total revenues	$ 5,921	$ 6,824	$ 1,824	$ 918	$ (184)	$ 15,303

The amount of revenue recognized for the three months ended December 29, 2018 from performance obligations satisfied (or partially satisfied) in previous periods is $378 million, which primarily relates to revenues based on theatrical and TV/SVOD distribution licensee sales in the current quarter on titles made available to the licensee in previous quarters.

As of December 29, 2018, revenue expected to be recognized in the future for unsatisfied performance obligations is $13.3 billion, which primarily relates to content to be delivered in the future under existing agreements with television station affiliates and TV/SVOD licensees. Of this amount, we expect to recognize approximately $4.2 billion in the remainder of fiscal 2019, $3.6 billion in fiscal 2020, $2.3 billion in fiscal 2021, and $3.3 billion thereafter. These amounts include only fixed consideration or minimum guarantees and do not include amounts related to (i) contracts with an original expected term of one year or less (such as most advertising contracts) or (ii) licenses of IP that are based on sales of the licensee.

Payment terms vary by the type and location of our customers and the products or services offered. For certain products or services and customer types, we require payment before the products or services are provided to the customer; in other cases, after appropriate credit evaluations, payment is due in arrears. Advertising contracts, which are generally short term, are billed monthly with payments generally due within 30 days. Payments due under affiliate arrangements are calculated monthly and are generally due within 45 days of month end. Home entertainment terms generally include payment within 60 to 90 days of availability date to the customer. Licensing payment terms vary by contract but are generally collected in advance or over the license term. The Company has accounts receivable with original maturities greater than one year related to the sale of film and television program rights and vacation club properties (see note 12). These receivables are discounted to present value based on a discount rate reflective of a separate financing transaction at contract inception. Therefore, the related revenues are recognized at the discounted amount.

When the timing of the Company’s revenue recognition is different from the timing of customer payments, the Company recognizes either a contract asset (customer payment is subsequent to revenue recognition and subject to the Company satisfying additional performance obligations) or deferred revenue (customer payment precedes the Company satisfying the performance obligations). Consideration due under contracts with payment in arrears are recognized as accounts receivable. Deferred revenues are recognized as revenue as (or when) the Company performs under the contract. Contract assets, accounts receivable and deferred revenues from contracts with customers are as follows:

	December 29, 2018	September 30, 2018
Contract assets	**$ 146**	$ 89
Accounts Receivable		

Current	**9,543**	8,553
Non-current	**1,561**	1,640
Allowance for doubtful accounts	**(230)**	(226)
Deferred revenues		
Current	**2,968**	2,926
Non-current	**514**	609

Contract assets relate to certain multi-season TV/SVOD licensing contracts. Activity for the quarter ended December 29, 2018 related to contract assets and the allowance for doubtful accounts was not material.
Deferred revenue primarily relates to nonrefundable consideration received in advance for (i) licensing contracts, theme park annual passes, theme park tickets and vacation packages and (ii) the deferral of advertising revenues due to ratings

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shortfalls. For the three months ended December 29, 2018, $1.6 billion of revenues primarily related to theme park admissions and vacation packages included in the deferred revenue balance at the beginning of the period were recognized. The decrease in deferred revenues due to the revenues recognized was partially offset by the receipt of additional prepaid parks admissions, non-refundable travel deposits and advances on certain licensing arrangements.

4. *Acquisitions*

Twenty-First Century Fox

On December 14, 2017, the Company and Twenty-First Century Fox, Inc. ("21CF") announced a definitive agreement (the "Original Merger Agreement") for the Company to acquire 21CF.

On June 20, 2018, the Company, TWDC Holdco 613 Corp ("New Disney"), a direct wholly owned subsidiary of the Company, and 21CF entered into an Amended and Restated Agreement and Plan of Merger ("Amended Merger Agreement") for New Disney to acquire 21CF. The Amended Merger Agreement amends and restates the Original Merger Agreement in its entirety.

Prior to the acquisition, 21CF will transfer a portfolio of its news, sports and broadcast businesses, including the Fox News Channel, Fox Business Network, Fox Broadcasting Company, Fox Sports, Fox Television Stations Group, FS1, FS2, Fox Deportes, Big Ten Network and certain other assets and liabilities into a newly formed subsidiary ("New Fox") (the "New Fox Separation") and distribute all of the issued and outstanding common stock of New Fox to shareholders of 21CF (other than holders that are subsidiaries of 21CF) on a pro rata basis (the "New Fox Distribution"). Prior to the New Fox Distribution, New Fox will pay 21CF a dividend in the amount of $8.5 billion. As the New Fox Separation and the New Fox Distribution will be taxable to 21CF at the corporate level, the dividend is intended to fund the taxes resulting from the New Fox Separation and New Fox Distribution and certain other transactions contemplated by the Amended Merger Agreement (the "Transaction Tax"). On October 3, 2018, 21CF entered into an agreement to sell its existing 39% interest in Sky plc ("Sky") to Comcast at a price of £17.28 per each Sky share for a total sales price of approximately £11.6 billion ($15.1 billion). 21CF will retain all assets and liabilities not transferred to New Fox, which will include the 21CF film and television studios, certain cable networks (including FX and Nat Geo), 21CF's international television businesses and the proceeds from the sale of its interest in Sky.

Following the New Fox Separation and the New Fox Distribution, WDC Merger Enterprises I, Inc., a wholly owned subsidiary of New Disney will be merged with and into the Company, with the Company continuing as the surviving corporation (the "Disney Merger"), and WDC Merger Enterprises II, Inc., a wholly owned subsidiary of New Disney, will be merged with and into 21CF, with 21CF continuing as the surviving corporation (the "21CF Merger and together with the Disney Merger, the "Mergers"). As a result of the Mergers, the Company and 21CF will become direct wholly owned subsidiaries of New Disney, which will be renamed "The Walt Disney Company" concurrently with the Mergers. Each share of Disney stock issued and outstanding immediately prior to the Disney Merger will be converted into one share of New Disney stock of the same class.

The Boards of Directors of the Company and 21CF have approved the transaction. On July 27, 2018, the Amended Merger Agreement was adopted by the requisite vote of 21CF's shareholders, and the stock issuance was approved by the requisite vote of the Company's shareholders. The consummation of the transaction is subject to various conditions, including, among others, (i) the consummation of the New Fox Separation, (ii) the receipt of certain tax opinions with respect to the treatment of the transaction under U.S. and Australian tax laws, and (iii) the receipt of certain regulatory approvals and governmental consents. The closing of the acquisition is expected to occur in the first half of calendar year 2019.

Pursuant to a consent decree with the DOJ, we are required to sell 21CF's Regional Sports Networks (the "RSNs") (the "RSN Divestiture"). Under the consent decree, the Company will have at least 90 days from the date of the acquisition to complete the RSN Divestiture, with the possibility that the DOJ can grant extensions of time up to another 90 days; and the DOJ must approve the purchaser(s) and terms and conditions of the RSN Divestiture. The decree is subject to the normal court approval process.

On November 6, 2018, the European Commission approved the acquisition on the condition that the Company divest its interests in certain cable channels in the European Economic Area that are controlled by A+E, including History, H2, Crime & Investigation, Blaze and Lifetime ("the EEA Channels"). A+E is owned 50% by the Company, and the Company plans to comply by divesting its interests in the entities that operate the EEA Channels while retaining its 50% ownership of A +E apart from the A+E entities operating the EEA Channels.

Upon consummation of the transaction, each issued and outstanding share of 21CF common stock (other than (i) treasury shares, (ii) shares held by 21CF subsidiaries and (iii) shares held by 21CF shareholders who have not voted in favor of the 21CF Merger and perfected and not withdrawn a demand for appraisal rights under Delaware law) will be exchanged for an amount (the "Per Share Value"), payable at the election of the holder thereof in either cash or shares of New Disney common stock. The Per Share Value is equal to fifty percent (50%) of the sum of (i) $38.00 plus (ii) the value of a number of shares of

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the Company's common stock equal to an "exchange ratio" (determined based on the volume weighted average price of Disney common stock over the fifteen consecutive trading day period ending on (and including) the trading day that is three trading days prior to the date of the effective time of the 21CF Merger ("Average Company Stock Price")). If the Average Company Stock Price is greater than $114.32, then the exchange ratio will be 0.3324. If the Average Company Stock Price is less than $93.53, then the exchange ratio will be 0.4063. If the Average Company Stock Price is greater than or equal to $93.53 but less than or equal to $114.32, then the exchange ratio will be an amount equal to $38.00 divided by the Average Company Stock Price. The merger consideration is subject to automatic proration and adjustment to ensure that the aggregate cash consideration (before giving effect to the adjustment for the Transaction Tax) is equal to $35.7 billion.

The merger consideration may be subject to an adjustment based on the final estimate of the Transaction Tax. The merger consideration in the Amended Merger Agreement was set based on an estimate of $8.5 billion for the Transaction Tax and will be adjusted immediately prior to consummation of the transaction if the final estimate of the Transaction Tax at closing is more than $8.5 billion or less than $6.5 billion. Such adjustment could increase or decrease the merger consideration, depending on whether the final estimate is lower or higher, respectively, than $6.5 billion or $8.5 billion. Additionally, if the final estimate of the Transaction Tax is lower than $8.5 billion, the Company will make a cash payment to New Fox reflecting the difference between such amount and $8.5 billion, up to a maximum cash payment of $2.0 billion.

As described in an 8-K filed by the Company on October 5, 2018, based on the estimated number of shares of 21CF common stock outstanding as of September 27, 2018 and assuming an Average Company Stock Price of $111.6013 (which was the volume weighted average price of the Company's stock over the 15-trading day period ending on September 27, 2018), and assuming no adjustment for the Transaction Tax, New Disney would be required to issue approximately 319 million shares of New Disney common stock to 21CF shareholders. New Disney will record the merger consideration based upon the cash paid, which will be funded from New Disney borrowings, plus the value of New Disney common stock issued to 21CF shareholders, which will be determined by the number of shares issued and the Company's stock price on the closing date. We anticipate that we will repay approximately half of the borrowings shortly after the transaction closes using cash we expect to acquire from 21CF. New Disney will assume approximately $19 billion of 21CF debt that had an estimated fair value of approximately $23 billion as of September 30, 2018.

Under the terms of the Amended Merger Agreement, Disney will pay 21CF $2.5 billion if the Mergers are not consummated under certain circumstances relating to the failure to obtain approvals, or if there is a final, non-appealable order preventing the transaction, in each case, relating to antitrust laws, communications laws or foreign regulatory laws. If the Amended Merger Agreement is terminated under certain other circumstances relating to changes in board recommendations and/or alternative transactions, the Company or 21CF may be required to pay the other party approximately $1.5 billion.

On October 5, 2018, the Company commenced an exchange offer for any and all outstanding notes (the "21CFA Notes") issued by 21st Century Fox America, Inc. ("21CFA"), for up to $18.1 billion aggregate principal amount of new notes (the "New Disney Notes") and cash. In conjunction with the offer to exchange (each an "Exchange Offer" and collectively, the "Exchange Offers") the 21CFA Notes, New Disney, on behalf of 21CFA, was concurrently soliciting consents (each, a "Consent Solicitation" and, collectively, the "Consent Solicitations") to adopt certain proposed amendments to each of the indentures governing the 21CFA Notes to eliminate substantially all of the restrictive covenants in such indentures, release the guarantee provided by 21CF pursuant to such indentures and limit the reporting covenants under such indentures so that 21CFA is only required to comply with the reporting requirements under the Trust Indenture Act of 1939 (collectively, the "Proposed Amendments").

On October 22, 2018, the Company announced that the requisite number of consents had been received to adopt the Proposed Amendments with respect to all 21CFA Notes. Supplemental indentures effecting the Proposed Amendments were executed on October 22, 2018. Such supplemental indentures were valid and enforceable upon

execution but will only become operative upon the settlement of the Exchange Offers and Consent Solicitations. The settlement of the Exchange Offers and Consent Solicitations is expected to occur on or around the closing date of the acquisition. If the acquisition is not consummated, or if the Exchange Offers and Consent Solicitations are otherwise terminated or withdrawn prior to settlement, the Proposed Amendments effected by the supplemental indentures will be deemed to be revoked retroactive to October 22, 2018.

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Goodwill
The changes in the carrying amount of goodwill for the quarter ended December 29, 2018 are as follows:

	Media Networks	Parks and Resorts	Studio Entertainment	Consumer Products & Interactive Media	Parks, Experiences & Consumer Products	Direct-to-Consumer & International	Total
Balance at Sep. 29, 2018	$19,388	$ 291	$ 7,164	$ 4,426	$ —	$ —	$31,269
Segment recast [1]	(3,399)	(291)	(70)	(4,426)	4,487	3,699	—
Other, net	—	—	9	—	—	11	20
Balance at Dec. 29, 2018	**$15,989**	**$ —**	**$ 7,103**	**$ —**	**$ 4,487**	**$ 3,710**	**$31,289**

(1) Represents the reallocation of goodwill as a result of the Company recasting its segments (see Note 2).

5. *Cash, Cash Equivalents, Restricted Cash and Borrowings*

Cash, Cash Equivalents and Restricted Cash
The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the Condensed Consolidated Balance Sheet to the total of the amounts reported in the Condensed Consolidated Statements of Cash Flows.

	December 29, 2018	September 29, 2018
Cash and cash equivalents	**$ 4,455**	$ 4,150
Restricted cash included in:		
Other current assets	**4**	1
Other assets	**4**	4
Total cash, cash equivalents and restricted cash in the statement of cash flows	**$ 4,463**	$ 4,155

Borrowings
During the quarter ended December 29, 2018, the Company's borrowing activity was as follows:

	September 29, 2018	Borrowings	Payments	Other Activity	**December 29, 2018**
Commercial paper with original maturities less than three months[1]	$ 50	$ 548	$ —	$ 1	**$ 599**
Commercial paper with original maturities greater than three months	955	99	(950)	(4)	**100**
U.S. and European medium-term notes	17,942	—	—	5	**17,947**
Asia Theme Parks borrowings	1,145	—	—	15	**1,160**
Foreign currency denominated debt and other[2]	782	1	—	76	**859**
Total	$ 20,874	$ 648	$ (950)	$ 93	**$ 20,665**

(1) Borrowings and reductions of borrowings are reported net.
(2) The other activity is due to market value adjustments for debt with qualifying hedges, partially offset by the impact of changes in foreign currency exchange rates.

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The Company has bank facilities with a syndicate of lenders to support commercial paper borrowings as follows:

	Committed Capacity	Capacity Used	Unused Capacity
Facility expiring March 2020	$ 6,000	$ —	$ 6,000
Facility expiring March 2021	2,250	—	2,250
Facility expiring March 2023	4,000	—	4,000
Total	$ 12,250	$ —	$ 12,250

The Company had a $6.0 billion bank facility expiring in March 2019. This facility was refinanced extending the maturity date to March 2020. 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 & Poor's. The spread above LIBOR can range from 0.18% to 1.63%. The Company also has the ability to issue up to $500 million of letters of credit under the facility expiring in March 2023, which if utilized, reduces available borrowings under this facility. As of December 29, 2018, the Company has $221 million of outstanding letters of credit, of which none were issued under this facility. The facilities specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants, or events of default and contain only one financial covenant relating to interest coverage, which the Company met on December 29, 2018 by a significant margin.

21CF Credit Facility

In June 2018, the Company received committed financing from a bank syndicate to fund the cash component of the pending acquisition of 21CF. Under the terms of the commitment, the bank syndicate has committed to provide and arrange a 364-day unsecured bridge term loan facility in an aggregate principal amount of $35.7 billion at the completion of the 21CF transaction. The interest rate on the facility can vary based on the Company's debt rating. The interest rate would have been LIBOR plus 0.75% if the Company had drawn on this facility at December 29, 2018.

Cruise Ship Credit Facilities

In October 2016 and December 2017, the Company entered into credit facilities to finance three new cruise ships, which are expected to be delivered in 2021, 2022 and 2023. The financings may be used for up to 80% of the contract price of the cruise ships. Under the agreements, $1.0 billion in financing is available beginning in April 2021, $1.1 billion is available beginning in May 2022 and $1.1 billion is available beginning in April 2023. If utilized, the interest rates will be fixed at 3.48%, 3.72% and 3.74%, respectively, and the loans and interest will be payable semi-annually over a 12-year period from the borrowing date. Early repayment is permitted subject to cancellation fees.

Interest expense, net

Interest expense, interest and investment income, and net periodic pension and postretirement benefit costs (other than service costs) (see Note 8) are reported net in the Condensed Consolidated Statements of Income and consist of the following (net of capitalized interest):

	Quarter Ended	
	December 29, 2018	December 30, 2017
Interest expense	**$ (163)**	$ (146)
Interest and investment income	**75**	17
Net periodic pension and postretirement benefit costs (other than service costs)	**25**	—
Interest expense, net	**$ (63)**	$ (129)

Interest and investment income includes gains and losses on publicly and non-publicly traded investments, investment impairments and interest earned on cash and cash equivalents and certain receivables.

6. *International Theme Parks*

The Company has a 47% ownership interest in the operations of Hong Kong Disneyland Resort and a 43% ownership interest in the operations of Shanghai Disney Resort (the Asia Theme Parks together with Disneyland Paris are collectively referred to as the International Theme Parks).

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The following table summarizes the carrying amounts of the International Theme Parks' assets and liabilities included in the Company's Condensed Consolidated Balance Sheets as of December 29, 2018 and September 29, 2018:

	December 29, 2018	September 29, 2018
Cash and cash equivalents	**$ 737**	$ 834
Other current assets	**364**	400
Total current assets	**1,101**	1,234
Parks, resorts and other property	**8,947**	8,973
Other assets	**107**	103
Total assets [1]	**$ 10,155**	$ 10,310
Current liabilities	**$ 769**	$ 921
Long-term borrowings	**1,121**	1,106
Other long-term liabilities	**348**	382
Total liabilities [1]	**$ 2,238**	$ 2,409

(1) Total assets of the Asia Theme Parks were $8 billion at both December 29, 2018 and September 29, 2018 including parks, resorts and other property of $7 billion. Total liabilities of the Asia Theme Parks were $2 billion at both December 29, 2018 and September 29, 2018.

The following table summarizes the International Theme Parks' revenues and costs and expenses included in the Company's Condensed Consolidated Statement of Income for the quarter ended December 29, 2018:

	December 29, 2018
Revenues	**$ 910**
Costs and expenses	**(891)**
Equity in the loss of investees	**(12)**

Asia Theme Parks' royalty and management fees of $33 million for the quarter ended December 29, 2018 are eliminated in consolidation but are considered in calculating earnings attributable to noncontrolling interests.

International Theme Parks' cash flows included in the Company's Condensed Consolidated Statement of Cash Flows for the quarter ended December 29, 2018 were $135 million generated from operating activities, $230 million used in investing activities and $20 million generated from financing activities. Approximately half of cash flows generated from operating activities and used in investing activities were for the Asia Theme Parks.

Hong Kong Disneyland Resort

The Government of the Hong Kong Special Administrative Region (HKSAR) and the Company have a 53% and a 47% equity interest in Hong Kong Disneyland Resort, respectively.

The Company and HKSAR have both provided loans to Hong Kong Disneyland Resort with outstanding balances of $144 million and $143 million respectively. The interest rate is three month HIBOR plus 2%, and the maturity date is September 2025 for the majority of the borrowings. The Company's loan is eliminated in consolidation.

The Company has provided Hong Kong Disneyland Resort with a revolving credit facility of HK $2.1 billion ($269 million), which bears interest at a rate of three month HIBOR plus 1.25% and matures in December 2023. There is no outstanding balance under the line of credit at December 29, 2018.

Shanghai Disney Resort

Shanghai Shendi (Group) Co., Ltd (Shendi) and the Company have 57% and 43% equity interests in Shanghai Disney Resort, respectively. A management company, in which the Company has a 70% interest and Shendi a 30% interest, operates Shanghai Disney Resort.

The Company has provided Shanghai Disney Resort with loans totaling $809 million, bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. In addition, the Company has an outstanding balance of $160 million due from Shanghai Disney Resort primarily related to royalties. The Company has also provided Shanghai Disney Resort with a

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$157 million line of credit bearing interest at 8%. There is no outstanding balance under the line of credit at December 29, 2018. These balances are eliminated in consolidation.

Shendi has provided Shanghai Disney Resort with loans totaling 7.0 billion yuan (approximately $1.0 billion), bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. Shendi has also provided Shanghai Disney Resort with a 1.4 billion yuan (approximately $199 million) line of credit bearing interest at 8%. There is no outstanding balance under the line of credit at December 29, 2018.

7. *Income Taxes*

U.S. Tax Cuts and Jobs Act

In December 2017, new federal income tax legislation, the "Tax Cuts and Jobs Act" (Tax Act), was signed into law. The most significant impacts on the Company are as follows:

- Effective January 1, 2018, the U.S. corporate federal statutory income tax rate was reduced from 35.0% to 21.0%. Because of our fiscal year end, the Company's fiscal 2018 statutory federal tax rate was 24.5%. The Company's statutory federal tax rate is 21.0% for fiscal 2019 (and thereafter).
- The Company remeasured its U.S. federal deferred tax assets and liabilities at the rate that the Company expects to be in effect when those deferred taxes are realized (either 24.5% if in 2018 or 21.0% thereafter) (Deferred Remeasurement). The Company recognized a benefit of approximately $2.2 billion from the Deferred Remeasurement, the majority of which was recognized in the first quarter of fiscal 2018. The amount recognized for the quarter ended December 29, 2018 was not material.
- A one-time tax is due on certain accumulated foreign earnings (Deemed Repatriation Tax), which is payable over eight years. The effective tax rate is generally 15.5% on the portion of the earnings held in cash and cash equivalents and 8% on the remainder. The Company recognized a charge for the Deemed Repatriation Tax of approximately $0.4 billion, the majority of which was recognized in the first quarter of fiscal 2018. The amount recognized for the quarter ended December 29, 2018 was not material. Generally there will no longer be a U.S. federal income tax cost arising from the repatriation of foreign earnings.
- The Company is eligible to claim an immediate deduction for investments in qualified fixed assets acquired and film and television productions that commenced after September 27, 2017 and placed in service by the end of fiscal 2022. The immediate deduction phases out for assets placed in service in fiscal 2023 through fiscal 2027.
- Beginning in fiscal 2019:
  - The domestic production activity deduction is eliminated.
  - Certain foreign derived income will be taxed in the U.S. at an effective rate of approximately 13% (which increases to approximately 16% in 2025) rather than the general statutory rate of 21%.
  - Certain foreign earnings will be taxed at a minimum effective rate of approximately 13%, which increases to approximately 16% in 2025. The Company's policy is to expense the tax on these earnings in the period the earnings are taxable in the U.S.

Intra-Entity Transfers of Assets Other Than Inventory

On September 30, 2018, the Company adopted a FASB standard that requires recognition of the income tax consequences of an intra-entity transfer of an asset (other than inventory) when the transfer occurs instead of when the asset is ultimately sold to an outside party. For the quarter ended December 29, 2018, the Company recorded a $0.1 billion deferred tax asset with an offsetting increase to retained earnings.

Unrecognized Tax Benefits

During the quarter ended December 29, 2018, the Company increased its gross unrecognized tax benefits by $0.1 billion from $0.6 billion to $0.7 billion. In the next twelve months, it is reasonably possible that our unrecognized tax benefits could change due to resolutions of open tax matters and we do not expect that the resolutions will have a material impact.

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8. *Pension and Other Benefit Programs*

The components of net periodic benefit cost are as follows:

	Pension Plans		**Postretirement Medical Plans**	
	Quarter Ended		**Quarter Ended**	
	December 29, 2018	December 30, 2017	**December 29, 2018**	December 30, 2017
Service costs	**$ 83**	$ 88	**$ 2**	$ 3
Other costs (benefits):				
Interest costs	**145**	123	**16**	15
Expected return on plan assets	**(239)**	(225)	**(14)**	(13)
Amortization of prior-year service costs	**3**	3	**—**	—
Recognized net actuarial loss	**64**	87	**—**	3
Total other costs (benefits)	**(27)**	(12)	**2**	5
Net periodic benefit cost	**$ 56**	$ 76	**$ 4**	$ 8

On September 30, 2018, the Company adopted a FASB standard on the presentation of the components of net periodic pension and postretirement benefit cost ("net periodic benefit cost"). This standard requires the Company to present the service cost component of net periodic benefit cost in the same line items on the statement of operations as other compensation costs of the related employees (i.e. "Costs and expense" in the Condensed Consolidated Statement of Income). All of the other components of net periodic benefit cost ("other costs / benefits") are presented as a component of "Interest expense, net" in the Condensed Consolidated Statement of Income (see Note 5). The other costs / benefits in fiscal 2018 were not material and are reported in Costs and expenses.

During the quarter ended December 29, 2018, the Company did not make material contributions to its pension and postretirement medical plans. The Company expects total pension and postretirement medical plan contributions in fiscal 2019 of approximately $600 million to $700 million. However, final funding amounts for fiscal 2019 will be assessed based on our January 1, 2019 funding actuarial valuation, which will be available in the fourth quarter of fiscal 2019.

9. *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 the number of Awards excluded from the diluted earnings per share calculation, as they were anti-dilutive, are as follows:

	Quarter Ended	
	December 29, 2018	December 30, 2017
Shares (in millions):		
Weighted average number of common and common equivalent shares outstanding (basic)	**1,490**	1,512
Weighted average dilutive impact of Awards	**8**	9
Weighted average number of common and common equivalent shares outstanding (diluted)	**1,498**	1,521
Awards excluded from diluted earnings per share	**11**	16

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10. *Equity*

The Company paid the following dividends in fiscal 2019 and 2018:

Per Share	Total Paid	Payment Timing	Related to Fiscal Period
$0.88	$1.3 billion	Second quarter of Fiscal 2019	Second Half of 2018
$0.84	$1.2 billion	Fourth Quarter of Fiscal 2018	First Half of 2018
$0.84	$1.3 billion	Second Quarter of Fiscal 2018	Second Half of 2017
$0.78	$1.2 billion	Fourth Quarter of Fiscal 2017	First Half of 2017

During the quarter ended December 29, 2018, the Company did not purchase any of its common stock to hold as treasury shares. As of December 29, 2018, the Company had remaining authorization in place to repurchase approximately 158 million shares of common stock. The repurchase program does not have an expiration date.
As of September 29, 2018 and December 29, 2018 the Company had 100 million preferred series A shares authorized with a $0.01 par value, of which none are issued. As of September 29, 2018, the Company had 40 thousand preferred series B shares authorized with $0.01 par value, which were canceled during the quarter ended December 29, 2018.
The following tables summarize the changes in each component of accumulated other comprehensive income (loss) (AOCI) including our proportional share of equity method investee amounts:

	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
AOCI, before tax	Investments	Cash Flow Hedges			
First quarter of fiscal 2019					
Balance at September 29, 2018	$ 24	$ 177	$ (4,323)	$ (727)	$(4,849)
Quarter Ended December 29, 2018:					
Unrealized gains (losses) arising during the period	—	27	—	(16)	11
Reclassifications of realized net (gains) losses to net income	—	(39)	69	—	30
Reclassifications to retained earnings	(24)	1	—	—	(23)
Balance at December 29, 2018	**$ —**	**$ 166**	**$ (4,254)**	**$ (743)**	**$(4,831)**
First quarter of fiscal 2018					
Balance at September 30, 2017	$ 15	$ (108)	$ (4,906)	$ (523)	$(5,522)
Quarter Ended December 30, 2017:					
Unrealized gains (losses) arising during the period	(1)	19	—	62	80
Reclassifications of realized net (gains) losses to net income	—	20	96	—	116
Balance at December 30, 2017	$ 14	$ (69)	$ (4,810)	$ (461)	$(5,326)

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Tax on AOCI	Market Value Adjustments for Investments	Market Value Adjustments for Cash Flow Hedges	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
First quarter of fiscal 2019					
Balance at September 29, 2018	$ (9)	$ (32)	$ 1,690	$ 103	$1,752
Quarter Ended December 29, 2018:					
Unrealized gains (losses) arising during the period	—	(6)	—	(7)	(13)
Reclassifications of realized net (gains) losses to net income	—	9	(16)	—	(7)
Reclassifications to retained earnings	9	(9)	(667)	(16)	(683)
Balance at December 29, 2018	**$ —**	**$ (38)**	**$ 1,007**	**$ 80**	**$1,049**
First quarter of fiscal 2018					
Balance at September 30, 2017	$ (7)	$ 46	$ 1,839	$ 116	$1,994
Quarter Ended December 30, 2017:					
Unrealized gains (losses) arising during the period	—	(13)	—	(16)	(29)
Reclassifications of realized net (gains) losses to net income	—	(8)	(35)	—	(43)
Balance at December 30, 2017	$ (7)	$ 25	$ 1,804	$ 100	$1,922

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	Market Value Adjustments				
AOCI, after tax	Investments	Cash Flow Hedges	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
First quarter of fiscal 2019					
Balance at September 29, 2018	$ 15	$ 145	$ (2,633)	$ (624)	$(3,097)
Quarter Ended December 29, 2018:					
Unrealized gains (losses) arising during the period	—	21	—	(23)	(2)
Reclassifications of realized net (gains) losses to net income	—	(30)	53	—	23
Reclassifications to retained earnings [1]	(15)	(8)	(667)	(16)	(706)
Balance at December 29, 2018	**$ —**	**$ 128**	**$ (3,247)**	**$ (663)**	**$(3,782)**
First quarter of fiscal 2018					
Balance at September 30, 2017	$ 8	$ (62)	$ (3,067)	$ (407)	$(3,528)
Quarter Ended December 30, 2017:					
Unrealized gains (losses) arising during the period	(1)	6	—	46	51
Reclassifications of realized net (gains) losses to net income	—	12	61	—	73
Balance at December 30, 2017	$ 7	$ (44)	$ (3,006)	$ (361)	$(3,404)

(1) On September 30, 2018, the Company adopted a FASB standard, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, and elected to reclassify $691 million from AOCI to retained earnings in the quarter ended December 29, 2018.

In addition, on September 30, 2018, the Company adopted a FASB standard, Recognition and Measurement of Financial Assets and Liabilities, and reclassified $24 million ($15 million after tax) of market value adjustments on investments previously recorded in AOCI to retained earnings.

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 December 29, 2018**	December 30, 2017
Cash flow hedges	Primarily revenue	**$ 39**	$ (20)
Estimated tax	Income taxes	**(9)**	8
		30	(12)
Pension and postretirement medical expense	Costs and expenses	**—**	(96)
	Interest expense, net	**(69)**	—
Estimated tax	Income taxes	**16**	35
		(53)	(61)
Total reclassifications for the period		**$ (23)**	$ (73)

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11. *Equity-Based Compensation*

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

	Quarter Ended	
	December 29, 2018	December 30, 2017
Stock options	**$ 19**	$ 23
RSUs	**73**	71
Total equity-based compensation expense [1]	**$ 92**	$ 94
Equity-based compensation expense capitalized during the period	**$ 16**	$ 19

(1) Equity-based compensation expense is net of capitalized equity-based compensation and excludes amortization of previously capitalized equity-based compensation costs.

Unrecognized compensation cost related to unvested stock options and RSUs was $209 million and $735 million, respectively, as of December 29, 2018.

The weighted average grant date fair values of options granted during the quarter ended December 29, 2018 and December 30, 2017 were $28.72 and $28.01, respectively.

During the quarter ended December 29, 2018, the Company made equity compensation grants consisting of 3.8 million stock options and 3.2 million RSUs.

12. *Commitments and Contingencies*

Legal Matters

The Company, together with, in some instances, certain of its directors and officers, is a defendant in various 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 those 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, which mature in 2037. In the event of a debt service shortfall, the Company will be responsible to fund the shortfall. As of December 29, 2018, the remaining debt service obligation guaranteed by the Company was $296 million. To the extent that tax revenues exceed the debt service payments subsequent to the Company funding a shortfall, the Company would be reimbursed for any previously funded shortfalls. To date, tax revenues have exceeded the debt service payments for these bonds.

Commitments

The Company is committed to make a capital contribution of approximately $645 million to Hulu LLC in calendar year 2019.

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 film and television program rights and vacation club properties. 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 film and 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 film and television program sales receivables recorded in other non-current assets, net of an immaterial allowance for credit losses, was $0.9 billion as of December 29, 2018. The activity for the quarters ended December 29, 2018 and December 30, 2017 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 club properties 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

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for credit losses of approximately 4%, was $0.7 billion as of December 29, 2018. The activity for the quarters ended December 29, 2018 and December 30, 2017 related to the allowance for credit losses was not material.

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 and is generally classified in one of the following 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 December 29, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	$28	$—	$—	$28
Derivatives				
Foreign exchange	—	508	—	508
Other	—	2	—	2
Liabilities				
Derivatives				
Interest rate	—	(284)	—	(284)
Foreign exchange	—	(342)	—	(342)
Other	—	(11)	—	(11)
Total recorded at fair value	$28	$(127)	$—	$(99)
Fair value of borrowings	$—	$19,544	$1,187	$20,731

	Fair Value Measurement at September 29, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	$38	$—	$—	$38
Derivatives				
Foreign exchange	—	469	—	469
Other	—	15	—	15
Liabilities				
Derivatives				
Interest rate	—	(410)	—	(410)
Foreign exchange	—	(274)	—	(274)
Total recorded at fair value	$38	$(200)	$—	$(162)
Fair value of borrowings	$—	$19,826	$1,171	$20,997

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.

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Level 2 borrowings, which include commercial paper, U.S. and European medium-term notes and certain foreign currency denominated borrowings, are valued based on quoted prices for similar instruments in active markets or identical instruments in markets that are not active.
Level 3 borrowings include the Asia Theme Park borrowings, which are valued based on the current borrowing cost and credit risk of the Asia Theme Parks as well as prevailing market interest rates.
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.

14. *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 December 29, 2018			
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	$211	$ 181	$ (72)	$ (77)
Interest rate	—	—	(221)	—
Other	2	—	(7)	(4)
Derivatives not designated as hedges				
Foreign exchange	27	89	(140)	(53)
Interest rate	—	—	—	(63)
Gross fair value of derivatives	240	270	(440)	(197)
Counterparty netting	(145)	(225)	228	142
Cash collateral (received)/paid	(3)	—	104	15
Net derivative positions	$92	$ 45	$ (108)	$ (40)

	As of September 29, 2018			
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	$166	$ 169	$ (80)	$ (39)
Interest rate	—	—	(329)	—
Other	13	2	—	—
Derivatives not designated as hedges				
Foreign exchange	38	96	(95)	(60)
Interest rate	—	—	—	(81)
Gross fair value of derivatives	217	267	(504)	(180)
Counterparty netting	(158)	(227)	254	131
Cash collateral (received)/paid	—	—	135	5
Net derivative positions	$59	$ 40	$ (115)	$ (44)

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

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minimum and maximum percentage. The Company primarily uses pay-floating and pay-fixed interest rate swaps to facilitate its interest rate risk 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 December 29, 2018 and September 29, 2018, the total notional amount of the Company's pay-floating interest rate swaps was $7.5 billion and $7.6 billion, respectively.

The following table summarizes fair value hedge adjustments to hedged borrowings at December 29, 2018 and September 29, 2018:

	Carrying Amount of Hedged Borrowings [1]		Fair Value Adjustments Included in Hedged Borrowings [1]	
	December 29, 2018	September 29, 2018	**December 29, 2018**	September 29, 2018
Borrowings:				
Current	**$1,590**	$ 1,585	**$(9)**	$ (14)
Long-term	**6,499**	6,425	**(177)**	(290)
	$8,089	$ 8,010	**$(186)**	$ (304)

[1] Includes $40 million and $41 million of gains on terminated interest rate swaps as of December 29, 2018 and September 29, 2018, respectively.

The following amounts are included in "Interest expense, net" in the Condensed Consolidated Statements of Income:

	Quarter Ended	
	December 29, 2018	December 30, 2017
Gain (loss) on:		
Pay-floating swaps	**$ 117**	$ (64)
Borrowings hedged with pay-floating swaps	**(117)**	64
Benefit (expense) associated with interest accruals on pay-floating swaps	**(14)**	7

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 December 29, 2018 or at September 29, 2018, and gains and losses related to pay-fixed swaps recognized in earnings for the quarter ended December 29, 2018 and December 30, 2017 were not material.

To facilitate its interest rate risk management activities, the Company sold options in November 2016, October 2017 and April 2018 to enter into a future pay-floating interest rate swaps indexed to LIBOR for $2.0 billion in future borrowings. The fair values of these contracts as of December 29, 2018 or at September 29, 2018 were not material. The options are not designated as hedges and do not qualify for hedge accounting; accordingly, changes in their fair value are recorded in earnings. Gains and losses on the options for the quarters ended December 29, 2018 and December 30, 2017 were not material.

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, liability or firm commitment. The principal currencies hedged are the euro, Japanese yen, British pound, Chinese yuan and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings into U.S. dollar denominated borrowings.

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The Company designates foreign exchange forward and option contracts as cash flow hedges of firmly committed and forecasted foreign currency transactions. As of December 29, 2018 and September 29, 2018, the notional amounts of the Company's net foreign exchange cash flow hedges were $6.1 billion and $6.2 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. Net deferred gains recorded in AOCI for contracts that will mature in the next twelve months total $147 million. The following table summarizes the effect of foreign exchange cash flow hedges on AOCI for the quarter ended December 29, 2018:

	December 29, 2018
Gain/(loss) recognized in Other Comprehensive Income	**$ 50**
Gain/(loss) reclassified from AOCI into the Statement of Income [1]	**37**

[1] Primarily recorded in revenue.

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 December 29, 2018 and September 29, 2018 were $2.4 billion and $3.3 billion, respectively. The following table summarizes the net foreign exchange gains or losses recognized on foreign currency denominated assets and liabilities and the net foreign exchange gains or losses on the foreign exchange contracts we entered into to mitigate our exposure with respect to foreign currency denominated assets and liabilities for the quarter ended December 29, 2018 and December 30, 2017 by the corresponding line item in which they are recorded in the Condensed Consolidated Statements of Income:

	Costs and Expenses		**Interest expense, net**		**Income Tax expense**	
Quarter Ended:	**December 29, 2018**	December 30, 2017	**December 29, 2018**	December 30, 2017	**December 29, 2018**	December 30, 2017
Net gain (loss) on foreign currency denominated assets and liabilities	**$(27)**	$ 17	**$40**	$ 3	**$15**	$ 3
Net gain (loss) on foreign exchange risk management contracts not designated as hedges	**24**	(14)	**(39)**	(1)	**(18)**	(1)
Net gain (loss)	**$(3)**	$ 3	**$1**	$ 2	**$(3)**	$ 2

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 notional amount of these commodities contracts at December 29, 2018 and September 29, 2018 and related gains or losses recognized in earnings for the quarter ended December 29, 2018 and December 30, 2017 were not material.

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 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 notional amount and fair value of these contracts at December 29, 2018 and September 29, 2018 were not material. The related gains or losses recognized in earnings for the quarter ended December 29, 2018 and December 30, 2017 were not material.

Contingent Features and Cash Collateral

The Company has master netting arrangements by counterparty with respect to certain derivative financial instrument contracts. The Company may be required 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. In addition, these contracts may

require a counterparty to post collateral to the Company in the event that a net receivable position with a counterparty exceeds limits defined by contract and that vary with the counterparty's credit rating. If the Company's or the counterparty's credit ratings were to fall below investment grade, such counterparties or the Company 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 $267 million and $299 million on December 29, 2018 and September 29, 2018, respectively.

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15. *Restructuring and Impairment Charges and Other Income*

For the quarter ended December 30, 2017, the Company recorded $15 million of restructuring and impairment charges, primarily for severance costs, and a $53 million gain from the sale of property rights.

16. *New Accounting Pronouncements*

Accounting Pronouncements Adopted in Fiscal 2019

- Revenues from Contracts with Customers - See Note 3
- Intra-Entity Transfers of Assets Other Than Inventory - See Note 7
- Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost - See Note 8
- Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income - See Note 10
- Recognition and Measurement of Financial Assets and Liabilities - See Note 10
- Targeted Improvements to Accounting for Hedging Activities - The adoption of the new standard did not have a material impact on our consolidated financial statements

Leases

In February 2016, the FASB issued a new lease accounting standard, which requires the present value of committed operating lease payments to be recorded as right-of-use lease assets and lease liabilities on the balance sheet. The standard is effective at the beginning of the Company's 2020 fiscal year. We expect to adopt the standard without restating prior periods.

The new standard provides a number of practical expedients for transition upon adoption. The Company expects to elect the practical expedients that permit the Company not to reassess its prior conclusions concerning whether:

- Arrangements contain a lease
- The Company's lease arrangements are operating or capital leases (financing)
- Initial direct costs should be capitalized
- Existing land easements are leases

The Company is currently assessing the impact of the new standard on its financial statements. We believe the most significant effects of adoption will be:

- Recognizing new right-of-use assets and lease liabilities on our balance sheet for our operating leases
- Reclassifying a deferred gain of approximately $350 million related to a prior sale-leaseback transaction to retained earnings

As of September 29, 2018, the Company had an estimated $3.6 billion in undiscounted future minimum lease commitments.

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:

Consolidated Results and Non-segment Items
Seasonality
Business Segment Results
Financial Condition
Commitments and Contingencies
Other Matters
Market Risk

CONSOLIDATED RESULTS AND NON-SEGMENT ITEMS

Our summary consolidated results are presented below:

(in millions, except per share data)	Quarter Ended December 29, 2018	December 30, 2017	% Change Better/ (Worse)
Revenues:			
Services	**$12,866**	$ 12,984	(1) %
Products	**2,437**	2,367	3 %
Total revenues	**15,303**	15,351	— %
Costs and expenses:			
Cost of services (exclusive of depreciation and amortization)	**(7,564)**	(7,324)	(3) %
Cost of products (exclusive of depreciation and amortization)	**(1,437)**	(1,405)	(2) %
Selling, general, administrative and other	**(2,152)**	(2,087)	(3) %
Depreciation and amortization	**(732)**	(742)	1 %
Total costs and expenses	**(11,885)**	(11,558)	(3) %
Restructuring and impairment charges	**—**	(15)	nm
Other income	**—**	53	nm
Interest expense, net	**(63)**	(129)	51 %
Equity in the income of investees	**76**	43	77 %
Income before income taxes	**3,431**	3,745	(8) %
Income taxes	**(645)**	728	nm
Net income	**2,786**	4,473	(38) %
Less: Net (income) loss attributable to noncontrolling interests	**2**	(50)	nm
Net income attributable to Disney	**$2,788**	$ 4,423	(37) %
Diluted earnings per share attributable to Disney	**$1.86**	$ 2.91	(36) %

The Company's financial results for fiscal 2019 are presented in accordance with a new accounting standard for revenue recognition (ASC 606) that we adopted in the first quarter of fiscal 2019. Prior period results have not been restated to reflect this change in accounting standard. The current quarter includes a $115 million favorable impact on segment operating income from the ASC 606 adoption. The most significant benefits were $56 million at Media Networks and $34 million at Parks, Experiences & Consumer Products, both of which reflected a change in timing of revenue recognition on contracts with

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

minimum guarantees. We do not anticipate the impact on our full fiscal 2019 results to be material. Further information about our adoption of the new standard is provided in Note 3 to the Condensed Consolidated Financial Statements.

Quarter Results

Revenues for the quarter were comparable to the prior-year quarter at $15.3 billion; net income attributable to Disney decreased 37%, or $1.6 billion, to $2.8 billion; and diluted earnings per share attributable to Disney (EPS) decreased 36% from $2.91 to $1.86. The EPS decrease for the quarter was due to a benefit in the prior-year quarter from new federal income tax legislation, the "Tax Cuts and Jobs Act" (Tax Act) (See Note 7 to the Condensed Consolidated Financial Statements) and lower segment operating income. Lower segment operating income was due to decreases at Studio Entertainment and, to a lesser extent, increased losses at Direct-to-Consumer & International, partially offset by growth at our Parks, Experiences & Consumer Products and Media Networks segments.

Revenues

Service revenues for the quarter decreased 1%, or $0.1 billion, to $12.9 billion due to lower theatrical distribution revenue, partially offset by higher Affiliate Fees, growth in guest spending at our theme parks and resorts, increased TV/SVOD distribution revenue and higher advertising revenue.

Product revenues for the quarter increased 3%, or $70 million, to $2.4 billion due to guest spending growth at our theme parks and resorts and higher home entertainment volumes and net effective pricing.

Costs and expenses

Cost of services for the quarter increased 3%, or $240 million, to $7.6 billion due to higher sports programming and production costs and labor cost inflation at our theme parks and resorts, partially offset by a decrease in film cost amortization driven by lower theatrical distribution revenue.

Cost of products for the quarter increased 2%, or $32 million, to $1.4 billion due to higher home entertainment volumes.

Selling, general, administrative and other costs increased 3%, or $65 million, to $2.2 billion due to higher marketing spending, costs incurred in connection with our agreement to acquire Twenty-First Century Fox, Inc. and inflation.

Restructuring and impairment charges

Restructuring and impairment charges of $15 million in the prior-year quarter were primarily for severance costs.

Other income

Other income of $53 million in the prior-year quarter consisted of a gain on the sale of property rights.

Interest expense, net

Interest expense, net is as follows:

	Quarter Ended			
(in millions)	**December 29, 2018**	December 30, 2017	% Change Better/(Worse)	
Interest expense	**$(163)**	$ (146)	(12)	%
Interest income, investment income and other	**100**	17	>100	%
Interest expense, net	**$(63)**	$ (129)	51	%

The increase in interest expense was due to financing costs related to the 21CF acquisition and higher average interest rates, partially offset by lower average debt balances and higher capitalized interest.

The increase in interest income, investment income and other was due to unrealized investment gains in the current quarter and the inclusion of a $25 million benefit related to pension and postretirement benefit costs, other than service cost. The Company adopted a new accounting standard in fiscal 2019 and now presents the elements of pension and postretirement plan costs, other than service cost, in "Interest expense, net." A net benefit of $7 million in the prior-year quarter was reported in "Costs and expenses." The benefit in the current quarter was due to the expected return on pension plan assets, partially offset by interest expense on plan liabilities and amortization of prior net actuarial losses.

Equity in the income of investees

Equity in the income of investees increased $33 million to $76 million for the quarter due to higher income from A+E Television Networks (A+E) and lower losses from Hulu. The increase at A+E was due to lower marketing and programming costs. Hulu results were due to higher subscription and advertising revenue, partially offset by higher programming costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

Effective Income Tax Rate

	Quarter Ended		
	December 29, 2018	December 30, 2017	Change Better/(Worse)
Effective income tax rate	**18.8%**	(19.4)%	(38.2) ppt

The increase in the effective income tax rate for the quarter reflected a $1.6 billion net benefit related to the Tax Act that was recognized in the prior-year quarter. This net benefit drove a 41.6 percentage point reduction in the prior-year effective tax rate. The $1.6 billion reflected a $1.9 billion benefit due to the remeasurement of our net federal deferred tax liability to new statutory rates (Deferred Remeasurement), partially offset by a one-time tax of $0.3 billion on certain accumulated foreign earnings (Deemed Repatriation Tax). The current quarter benefited from a reduction in the Company's U.S. statutory federal income tax rate to 21.0% in fiscal 2019 from 24.5% in fiscal 2018. In addition, in the current quarter the Company adjusted its estimate of the Deferred Remeasurement and Deemed Repatriation Tax impact and recognized a $34 million net benefit.

Refer to Note 7 of the Condensed Consolidated Financial Statements for further information on the impact of the Tax Act on the Company.

Noncontrolling Interests

(in millions)	Quarter Ended		
	December 29, 2018	December 30, 2017	% Change Better/(Worse)
Net (income) loss attributable to noncontrolling interests	**$ 2**	$ (50)	nm

The change in net (income)/loss attributable to noncontrolling interests was due to lower results at ESPN and Shanghai Disney Resort and losses at our direct-to-consumer sports business, partially offset by growth at Hong Kong Disneyland Resort. Lower results at ESPN were largely due to the benefit of the Tax Act in the prior-year quarter.

Net income attributable to noncontrolling interests is determined on income after royalties and management fees, financing costs and income taxes, as applicable.

SEASONALITY

The Company's businesses are subject to the effects of seasonality. Consequently, the operating results for the quarter ended December 29, 2018 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, changes in viewership levels and timing of program sales. In general, advertising revenues are somewhat higher during the fall and somewhat lower during the summer months. Affiliate fees are generally recognized ratably throughout the year. Effective at the beginning of fiscal 2019, the Company adopted ASC 606, which changed the timing of affiliate revenue recognition for certain contracts, which may result in higher revenue in the first quarter of our fiscal year.

Parks, Experiences & Consumer Products revenues fluctuate with changes in theme park attendance and resort occupancy resulting from the seasonal nature of vacation travel and leisure activities and seasonal consumer purchasing behavior, which generally results in increased revenues during the Company's first and fourth fiscal quarter. Peak attendance and resort occupancy generally occur during the summer months when school vacations occur and during early-winter and spring-holiday periods. In addition, licensing revenues fluctuate with the timing and performance of our theatrical releases and cable programming broadcasts.

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.

Direct-to-Consumer & International revenues fluctuate based on: the timing and performance of releases of our digital media content; viewership levels on our cable channels and digital platforms; changes in subscriber levels; and the demand for sports and Disney content. Each of these may depend on the availability of content, which varies from

time to time throughout the year based on, among other things, sports seasons and content production schedules.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

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 December 29, 2018**	December 30, 2017	% Change Better/ (Worse)
Revenues:			
Media Networks	**$5,921**	$ 5,555	7 %
Parks, Experiences & Consumer Products	**6,824**	6,527	5 %
Studio Entertainment	**1,824**	2,509	(27) %
Direct-to-Consumer & International	**918**	931	(1) %
Eliminations	**(184)**	(171)	(8) %
	$15,303	$ 15,351	— %
Segment operating income/(loss):			
Media Networks	**$1,330**	$ 1,243	7 %
Parks, Experiences & Consumer Products	**2,152**	1,954	10 %
Studio Entertainment	**309**	825	(63) %
Direct-to-Consumer & International	**(136)**	(42)	>(100) %
Eliminations	**—**	6	nm
	$3,655	$ 3,986	(8) %

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

(in millions)	**Quarter Ended December 29, 2018**	December 30, 2017	% Change Better/ (Worse)
Income before income taxes	**$3,431**	$ 3,745	(8) %
Add/(subtract):			
Corporate and unallocated shared expenses	**161**	150	(7) %
Restructuring and impairment charges	**—**	15	nm
Other income/(expense), net	**—**	(53)	nm
Interest expense, net	**63**	129	51 %
Segment Operating Income	**$3,655**	$ 3,986	(8) %

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

Depreciation expense is as follows:

(in millions)	Quarter Ended December 29, 2018	December 30, 2017	% Change Better/ (Worse)
Media Networks			
Cable Networks	**$ 24**	$ 29	17 %
Broadcasting	**20**	23	13 %
Total Media Networks	**44**	52	15 %
Parks, Experiences & Consumer Products			
Domestic	**352**	363	3 %
International	**186**	182	(2) %
Total Parks, Experiences & Consumer Products	**538**	545	1 %
Studio Entertainment	**14**	13	(8) %
Direct-to-Consumer & International	**32**	22	(45) %
Corporate	**39**	45	13 %
Total depreciation expense	**$ 667**	$ 677	1 %

Amortization of intangible assets is as follows:

(in millions)	Quarter Ended December 29, 2018	December 30, 2017	% Change Better/ (Worse)
Media Networks	**$ —**	$ —	nm
Parks, Experiences & Consumer Products	**27**	27	— %
Studio Entertainment	**16**	17	6 %
Direct-to-Consumer & International	**22**	21	(5) %
Total amortization of intangible assets	**$ 65**	$ 65	— %

Media Networks

Operating results for the Media Networks segment are as follows:

(in millions)	Quarter Ended December 29, 2018	December 30, 2017	% Change Better/ (Worse)
Revenues			
Affiliate fees	**$3,075**	$ 2,867	7 %
Advertising	**2,023**	1,963	3 %
TV/SVOD distribution and other	**823**	725	14 %
Total revenues	**5,921**	5,555	7 %
Operating expenses	**(4,248)**	(3,963)	(7) %
Selling, general, administrative and other	**(478)**	(456)	(5) %
Depreciation and amortization	**(44)**	(52)	15 %
Equity in the income of investees	**179**	159	13 %
Operating Income	**$1,330**	$ 1,243	7 %

Revenues

The increase in affiliate fees was due to growth of 7% from higher contractual rates and 1% from an impact from the adoption of ASC 606, partially offset by a 1% decrease from fewer subscribers.

The increase in advertising revenues was due to increases of $54 million at Broadcasting, from $962 million to $1,016 million and $6 million at Cable Networks, from $1,001 million to $1,007 million. Broadcasting advertising revenue reflected increases of 8% from higher network rates and 7% from the owned television stations due to higher political advertising,

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

partially offset by a decrease of 10% from lower network impressions due to lower average viewership. Cable Networks advertising revenue reflected an increase of 3% from higher rates, partially offset by a decrease of 2% from lower impressions at Freeform and ESPN. Rates and impressions at ESPN reflected the impact of the shift in the mix of College Football Playoff (CFP) games. Two semi-finals and one "host" game were aired in the current quarter, whereas three host games were aired in the prior-year quarter. Semi-final games generally generate more advertising revenue than host games.

TV/SVOD distribution and other revenue increased $98 million due to higher program sales. The increase in program sales was driven by the sale of *The Punisher* in the current quarter, increased revenues from programs licensed to Hulu and higher sales of Disney Channel programs, partially offset by lower sales internationally driven by sales of *Once Upon a Time* and *Designated Survivor* in the prior-year quarter. Program sales also benefited from the adoption of ASC 606.

Costs and Expenses

Operating expenses include programming and production costs, which increased $277 million, from $3,824 million to $4,101 million. At Cable Networks, programming and production costs increased $185 million due to contractual rate increases for our key sports programming and the shift in mix of CFP bowl games. Semi-final games generally have a higher cost than host games. At Broadcasting, programming and production costs increased $92 million due to higher average cost network programming, driven by *The Conners* and *Dancing with the Stars* in the current quarter, and an increase in program sales.

Selling, general, administrative and other costs increased $22 million, from $456 million to $478 million due to higher marketing costs at ESPN and ABC.

Equity in the Income of Investees

Income from equity investees increased $20 million, from $159 million to $179 million due to higher income from A+E Television Networks driven by lower marketing and programming costs.

Segment Operating Income

Segment operating income increased 7%, or $87 million, to $1,330 million due to increases at the owned television stations, higher income from program sales and an increase at the Disney Channels, partially offset by decreases at ESPN and Freeform.

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

(in millions)	**Quarter Ended December 29, 2018**	December 30, 2017	% Change Better/ (Worse)
Supplemental revenue detail			
Cable Networks	**$3,986**	$ 3,833	4 %
Broadcasting	**1,935**	1,722	12 %
	$5,921	$ 5,555	7 %
Supplemental operating income detail			
Cable Networks	**$743**	$ 793	(6) %
Broadcasting	**408**	291	40 %
Equity in the income of investees	**179**	159	13 %
	$1,330	$ 1,243	7 %

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

Parks, Experiences & Consumer Products

Operating results for the Parks, Experiences & Consumer Products segment are as follows:

(in millions)	Quarter Ended December 29, 2018	December 30, 2017	% Change Better/ (Worse)
Revenues			
Theme park admissions	**$1,933**	$ 1,832	6 %
Parks & Experiences merchandise, food and beverage	**1,565**	1,495	5 %
Resorts and vacations	**1,531**	1,463	5 %
Merchandise licensing and retail	**1,300**	1,342	(3) %
Parks licensing and other	**495**	395	25 %
Total revenues	**6,824**	6,527	5 %
Operating expenses	**(3,406)**	(3,329)	(2) %
Selling, general, administrative and other	**(689)**	(665)	(4) %
Depreciation and amortization	**(565)**	(572)	1 %
Equity in the loss of investees	**(12)**	(7)	(71) %
Operating Income	**$2,152**	$ 1,954	10 %

Revenues

The increase in theme parks admissions revenue was due to an increase of 8% from higher average ticket prices, partially offset by decreases of 1% from an unfavorable foreign currency impact and 1% from lower attendance.

Parks & Experiences merchandise, food and beverage revenue growth was due to an increase of 5% from higher average guest spending.

The increase in resorts and vacations revenue was primarily due to increases of 2% from higher average daily hotel room rates, 1% from higher occupied hotel room nights and 1% from higher average ticket prices for cruise line sailings.

Merchandise licensing and retail revenues were lower primarily due to a decrease of 3% from licensing revenue. The decrease in licensing revenue was due to lower revenue from products based on Star Wars and Cars, partially offset by increases from minimum guarantee shortfall recognition, licensee settlements and revenue from products based on Spider-Man. Higher minimum guarantee shortfall recognition was due to an impact from the adoption of ASC 606.

The increase in parks licensing and other revenue was driven by an impact from the adoption of ASC 606, which required certain cost reimbursements from licensees to be recognized as revenue (rather than recorded as an offset to operating expenses).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

The following table presents supplemental park and hotel statistics:

	Domestic Quarter Ended				International [2] Quarter Ended				Total Quarter Ended			
	Dec. 29, 2018		Dec. 30, 2017		**Dec. 29, 2018**		Dec. 30, 2017		**Dec. 29, 2018**		Dec. 30, 2017	
Parks												
Increase/(decrease)												
Attendance	**—**	**%**	6	%	**(5)**	**%**	10	%	**(1)**	**%**	7	%
Per Capita Guest Spending	**7**	**%**	7	%	**8**	**%**	9	%	**8**	**%**	7	%
Hotels [1]												
Occupancy	**94**	**%**	91	%	**86**	**%**	84	%	**92**	**%**	89	%
Available Room Nights (in thousands)	**2,491**		2,516		**799**		799		**3,290**		3,315	
Per Room Guest Spending	**$360**		$344		**$318**		$311		**$351**		$337	

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

[2] Per capita guest spending growth rate is stated on a constant currency basis. Per room guest spending is stated at the fiscal 2018 first quarter average foreign exchange rate.

Costs and Expenses

Operating expenses include operating labor, which increased $52 million, from $1,441 million to $1,493 million, cost of goods sold and distribution costs, which increased $3 million, from $728 million to $731 million, and infrastructure costs, which decreased $14 million, from $564 million to $550 million. The increase in operating labor was due to inflation. Other operating expenses, which include costs for such items as supplies, commissions and entertainment offerings, increased $36 million, from $596 million to $632 million due to higher third-party royalty expense and the recognition of certain cost reimbursements as revenue (rather than recorded as an offset to operating expenses), partially offset by lower operations support costs.

Selling, general, administrative and other costs increased $24 million from $665 million to $689 million due to inflation.

Depreciation and amortization decreased $7 million, from $572 million to $565 million due to a favorable foreign currency impact.

Equity in the Loss of Investees

Loss from equity investees increased $5 million to $12 million due to a higher loss from Villages Nature.

Segment Operating Income

Segment operating income increased 10%, or $198 million, to $2,152 million due to growth at our domestic theme parks and resorts, partially offset by a decrease from licensing activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

The following table presents supplemental revenue and operating income detail for the Parks, Experiences & Consumer Products segment to provide continuity with our legacy reporting:

(in millions)	Quarter Ended December 29, 2018	December 30, 2017	% Change Better / (Worse)
Supplemental revenue detail			
Parks & Experiences			
Domestic	**$4,473**	$ 4,171	7 %
International	**1,012**	985	3 %
Consumer Products	**1,339**	1,371	(2)%
	$6,824	$ 6,527	5 %
Supplemental operating income detail			
Parks & Experiences			
Domestic	**$1,481**	$ 1,240	19 %
International	**99**	109	(9)%
Consumer Products	**572**	605	(5)%
	$2,152	$ 1,954	10 %

Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Quarter Ended December 29, 2018	December 30, 2017	% Change Better/ (Worse)
Revenues			
Theatrical distribution	**$373**	$ 1,169	(68) %
Home entertainment	**425**	361	18 %
TV/SVOD distribution and other	**1,026**	979	5 %
Total revenues	**1,824**	2,509	(27) %
Operating expenses	**(876)**	(1,026)	15 %
Selling, general, administrative and other	**(609)**	(628)	3 %
Depreciation and amortization	**(30)**	(30)	— %
Operating Income	**$309**	$ 825	(63) %

Revenues

The decrease in theatrical distribution revenue was due to the strong performance of *Star Wars: The Last Jedi* and *Thor: Ragnarok* in the prior-year quarter with no comparable Lucas and Marvel titles in the current quarter. Other significant releases in the current quarter included *Ralph Breaks the Internet*, *Mary Poppins Returns* and *The Nutcracker and the Four Realms*, while the prior-year quarter included *Coco*.

Higher home entertainment revenue was due to increases of 10% from unit sales and 7% from net effective pricing. The increase in unit sales was due to the performance of *Incredibles 2* in the current quarter compared to *Cars 3* in the prior-year quarter and the timing of the release of Star Wars titles. The current quarter included the continued performance of *Solo: A Star Wars Story*, which was released in the fourth quarter of fiscal 2018, whereas *Rogue One: A Star Wars Story* was released in the third quarter of fiscal 2017. The increase in net effective pricing was due to an increase in sales of new releases, electronic downloads and Blu-ray titles, which have a higher sales price compared to catalog and DVD titles. Net effective pricing is the wholesale selling price adjusted for discounts, sales incentives and returns.

Growth in TV/SVOD distribution and other revenue was due to an increase of 9% from TV/SVOD distribution, partially offset by a decrease of 4% from Lucasfilm's special effects business due to fewer projects during the current

quarter. The increase from TV/SVOD distribution was driven by the performance of *Incredibles 2* and *Avengers: Infinity War* in the current

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

quarter compared to *Cars 3* and *Guardians of the Galaxy Vol. 2* in the prior-year quarter, more title availabilities and, to a lesser extent, an impact from the adoption of ASC 606.

Costs and Expenses

Operating expenses include a decrease of $93 million in film cost amortization, from $711 million to $618 million, due to the lower revenues, partially offset by higher average film cost amortization rates in the current quarter.

Operating expenses also include cost of goods sold and distribution costs, which decreased $57 million, from $315 million to $258 million due to lower theatrical distribution costs and decreased costs from Lucasfilm's special effects business.

Selling, general, administrative and other costs decreased $19 million from $628 million to $609 million driven by lower international theatrical marketing costs, partially offset by an increase in pre-release theatrical marketing costs in the current quarter.

Segment Operating Income

Segment operating income decreased 63%, or $516 million, to $309 million due to lower theatrical distribution results, partially offset by growth in TV/SVOD distribution.

Direct-to-Consumer & International

Operating results for the Direct-to-Consumer & International segment are as follows:

(in millions)	Quarter Ended December 29, 2018	December 30, 2017	% Change Better/ (Worse)
Revenues			
Affiliate fees	**$323**	$ 338	(4) %
Advertising	**417**	411	1 %
Subscription fees and other	**178**	182	(2) %
Total revenues	**918**	931	(1) %
Operating expenses	**(655)**	(588)	(11) %
Selling, general, administrative and other	**(254)**	(233)	(9) %
Depreciation and amortization	**(54)**	(43)	(26) %
Equity in the loss of investees	**(91)**	(109)	17 %
Operating Loss	**$(136)**	$ (42)	>(100) %

Revenues

Affiliate fees decreased 4% due to a decrease of 11% from an unfavorable foreign currency impact, partially offset by increases of 4% from higher contractual rates and 2% from subscriber growth.

Advertising revenues increased 1% as a 7% increase from higher addressable ad sales was largely offset by a 5% decrease from ad sales at our International Channels. Higher addressable ad sales were driven by an increase in impressions. Lower ad sales at our International Channels were due to an unfavorable foreign currency impact and lower impressions.

Subscription fees and other revenue decreased $4 million due to lower revenue from streaming technology services, partially offset by subscription fees for ESPN+, which launched in April 2018.

Costs and Expenses

Operating expenses include a $42 million increase in programming and production costs, from $404 million to $446 million and a $25 million increase in other operating expenses, from $184 million to $209 million. The increase in programming and production costs was due to higher sports rights costs and an increase in costs for content obtained from other Company segments, partially offset by a favorable foreign currency impact. The increase in sports rights costs was due to the launch of ESPN+, partially offset by a decrease in soccer rights costs for our International Channels. Other operating expenses, which include technical support and distribution costs, increased due to the launch of ESPN+ and costs associated with the upcoming launch of Disney+.

Selling, general, administrative and other costs increased $21 million from $233 million to $254 million due to ESPN+ marketing costs and costs associated with the upcoming launch of Disney+.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

Depreciation and amortization increased $11 million from $43 million to $54 million driven by increased investment in technology assets.

Equity in the Loss of Investees

Loss from equity investees decreased $18 million from $109 million to $91 million driven by a lower loss from Hulu due to increases in subscription and advertising revenue, partially offset by higher programming costs.

Segment Operating Loss

Segment operating loss increased to $136 million due to the investment ramp-up in ESPN+ and a loss from streaming technology services, as well as costs associated with the upcoming launch of Disney+. These impacts were partially offset by an increase at our International Channels and a lower equity loss from our investment in Hulu.

The following table presents supplemental revenue and operating income detail for the Direct-to-Consumer & International segment to provide information on International Channels that were historically reported in the Media Networks segment:[1]

(in millions)	**Quarter Ended December 29, 2018**	December 30, 2017	% Change Better / (Worse)
Supplemental revenue detail			
International Channels	**$494**	$ 510	(3) %
Direct-to-Consumer businesses and other	**424**	421	1 %
	$918	$ 931	(1) %
Supplemental operating income/(loss) detail			
International Channels	**$137**	$ 108	27 %
Direct-to-Consumer businesses and other	**(182)**	(41)	>(100) %
Equity in the loss of investees	**(91)**	(109)	17 %
	$(136)	$ (42)	>(100) %

[1] We anticipate providing additional supplemental information for the DTC businesses following the expected consolidation of Hulu and launch of Disney+.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

Eliminations

The following is a summary of intersegment content transaction revenues and operating income:

(in millions)	Quarter Ended December 29, 2018	December 30, 2017	% Change Better/ (Worse)
Revenues			
Studio Entertainment:			
Content transactions with Media Networks	**$(21)**	$ (31)	32 %
Content transactions with Direct-to-Consumer & International	**(18)**	(8)	>(100) %
Media Networks:			
Content transactions with Direct-to-Consumer & International	**(145)**	(132)	(10) %
Total revenues	**$(184)**	$ (171)	(8) %
Operating income			
Studio Entertainment:			
Content transactions with Media Networks	**—**	7	(100) %
Content transactions with Direct-to-Consumer & International	**2**	—	nm
Media Networks:			
Content transactions with Direct-to-Consumer & International	**(2)**	(1)	(100) %
Operating Income	**$—**	$ 6	(100) %

CORPORATE AND UNALLOCATED SHARED EXPENSES

(in millions)	Quarter Ended December 29, 2018	December 30, 2017	% Change Better/ (Worse)
Corporate and unallocated shared expenses	**$(161)**	$ (150)	(7) %

Corporate and unallocated shared expenses increased $11 million to $161 million in the current quarter primarily due to costs incurred in connection with the 21CF acquisition, partially offset by lower compensation costs.

FINANCIAL CONDITION

The change in cash and cash equivalents is as follows:

(in millions)	Quarter Ended December 29, 2018	December 30, 2017	% Change Better/ (Worse)
Cash provided by operations	**$2,099**	$ 2,237	(6) %
Cash used in investing activities	**(1,336)**	(1,043)	(28) %
Cash used in financing activities	**(411)**	(584)	30 %
Impact of exchange rates on cash, cash equivalents and restricted cash	**(44)**	21	nm
Change in cash, cash equivalents and restricted cash	**$308**	$ 631	(51) %

Operating Activities

Cash provided by operating activities decreased 6% to $2.1 billion for the current quarter compared to $2.2 billion in the prior-year quarter primarily due to higher cash taxes, partially offset by higher operating cash flows at Studio Entertainment due to lower film production spending.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

Film and Television Costs

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

The Company's film and television production and programming activity for the quarter ended December 29, 2018 and December 30, 2017 are as follows:

(in millions)	**Quarter Ended**	
	December 29, 2018	December 30, 2017
Beginning balances:		
Production and programming assets	**$9,202**	$ 8,759
Programming liabilities	**(1,178)**	(1,108)
	8,024	7,651
Spending:		
Television program licenses and rights	**2,060**	2,114
Film and television production	**1,636**	1,687
	3,696	3,801
Amortization:		
Television program licenses and rights	**(2,819)**	(2,728)
Film and television production	**(1,345)**	(1,107)
	(4,164)	(3,835)
Change in film and television production and programming costs	**(468)**	(34)
Other non-cash activity	**(93)**	(143)
Ending balances:		
Production and programming assets	**9,001**	8,783
Programming liabilities	**(1,525)**	(1,309)
	$7,476	$ 7,474

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

Investing Activities

Investing activities consist principally of investments in parks, resorts and other property and acquisition and divestiture activity. The Company's investments in parks, resorts and other property for the quarter ended December 29, 2018 and December 30, 2017 are as follows:

	Quarter Ended	
(in millions)	**December 29, 2018**	December 30, 2017
Media Networks		
Cable Networks	**$ 32**	$ 46
Broadcasting	**33**	36
Total Media Networks	**65**	82
Parks, Experiences & Consumer Products		
Domestic	**838**	646
International	**206**	149
Total Parks, Experiences & Consumer Products	**1,044**	795
Studio Entertainment	**20**	22
Direct-to-Consumer & International	**24**	34
Corporate	**42**	48
	$ 1,195	$ 981

Capital expenditures for the Parks, Experiences & Consumer Products segment are principally for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure. Capital expenditures increased $248 million to $1.0 billion driven by higher spending on new attractions at our domestic theme parks and resorts.

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

Capital expenditures at Direct-to-Consumer & International reflect investments in technology.

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

The Company currently expects its fiscal 2019 capital expenditures will be approximately $1 billion higher than fiscal 2018 capital expenditures of $4.5 billion due to increased investments at our domestic and international parks and resorts.

Other Investing Activities

The Company has entered into a definitive agreement to acquire 21CF, which, if completed, will require $35.7 billion of cash and approximately $35.6 billion in stock consideration (See Note 4 to the Condensed Consolidated Financial Statements).

Financing Activities

Cash used in financing activities was $0.4 billion in the current quarter, which reflected repayments of commercial paper borrowings.

Cash used in financing activities of $0.4 billion in the current quarter was $0.2 billion less than the $0.6 billion used in the prior-year quarter as a decrease of $1.3 billion due to no repurchases of common stock in the current period (compared to $1.3 billion purchased in the prior-year period) was partially offset by a net repayment of borrowings in the current period compared to a net increase in borrowings in the prior-year period ($0.3 billion decrease in the current period compared to $0.8 billion increase in the prior-year period).

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

See Note 5 to the Condensed Consolidated Financial Statements for a summary of the Company's borrowing activities during the quarter ended December 29, 2018 and information regarding the Company's bank facilities. The Company may use commercial paper borrowings up to the amount of its unused bank facilities, in conjunction with term debt issuance and operating cash flow, to retire or refinance other borrowings before or as they come due.

See Note 10 to the Condensed Consolidated Financial Statements for a summary of the Company's dividends in fiscal 2019 and 2018. During the quarter ended December 29, 2018, the Company did not repurchase any of its common stock to hold as treasury shares.

We believe that the Company's financial condition is strong and that its cash balances, other liquid assets, operating cash flows, access to debt and equity capital markets and borrowing capacity, taken together, provide adequate resources to fund the cash consideration in the pending acquisition of 21CF, ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects. However, the Company's operating cash flow and access to the capital markets can be impacted by macroeconomic factors outside of its control. In addition to macroeconomic factors, the Company's borrowing costs can be impacted by short- and long-term debt ratings assigned by nationally recognized rating agencies, which are based, in significant part, on the Company's performance as measured by certain credit metrics such as interest coverage and leverage ratios. As of December 29, 2018, Moody's Investors Service's long- and short-term debt ratings for the Company were A2 and P-1, respectively, Standard and Poor's long- and short-term debt ratings for the Company were A+ and A-1+, and Fitch's long- and short-term debt ratings for the Company were A and F1, respectively. Each of Moody's Investors Service, Standard and Poor's and Fitch had placed the Company's long- and short-term debt ratings on review for downgrade as a result of the pending acquisition of 21CF. On October 8, 2018, Moody's Investor Service affirmed the Company's long- and short-term debt ratings of A2 and P-1, respectively, with stable outlook following its review of the impact of the acquisition. On January 18, 2019, Fitch affirmed the Company's long- and short-term debt ratings of A and F1, respectively, with stable outlook. The Company currently expects Standard and Poor's to finalize its review of the Company's debt ratings upon closing of the acquisition and may downgrade our long- and short-term debt ratings. Should a downgrade occur, we do not anticipate that it would impact our ability to fund ongoing operating requirements and future capital expenditures. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on December 29, 2018, by a significant margin. The Company's bank facilities also specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants or events of default.

COMMITMENTS AND CONTINGENCIES

Legal Matters

As disclosed in Note 12 to the Condensed Consolidated Financial Statements, the Company has exposure for certain legal matters.

Guarantees

See Note 14 to the Consolidated Financial Statements in the 2018 Annual Report on Form 10-K for information regarding the Company's guarantees.

Tax Matters

As disclosed in Note 9 to the Consolidated Financial Statements in the 2018 Annual Report on Form 10-K, the Company has exposure for certain tax matters.

Contractual Commitments

See Note 14 to the Consolidated Financial Statements in the 2018 Annual Report on Form 10-K for information regarding the Company's contractual commitments.

OTHER MATTERS

Accounting Policies and Estimates

We believe that the application of the following accounting policies, which are important to our financial position and results of operations, require significant judgments and estimates on the part of management. For a summary of our

significant accounting policies, including the accounting policies discussed below, see Note 2 to the Consolidated Financial Statements in the 2018 Annual Report on Form 10-K. In addition, for our revenue recognition policy, see Note 3 to the Condensed Consolidated Financial Statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

Film and Television Revenues and Costs

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

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

With respect to television series or other television productions intended for broadcast, the most sensitive factors affecting estimates of Ultimate Revenues are program ratings and the strength of the advertising market. Program ratings, which are an indication of market acceptance, directly affect the Company's ability to generate advertising revenues during the airing of the program. In addition, television series with greater market acceptance are more likely to generate incremental revenues through the licensing of program rights worldwide to television distributors, SVOD services and in home entertainment formats. Alternatively, poor ratings may result in cancellation of the program, which would require an immediate write-down of any unamortized production costs. A significant decline in the advertising market would also negatively impact our estimates.

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

Costs of film and television productions are subject to regular recoverability assessments, which compare the estimated fair values with the unamortized costs. The net realizable values of television broadcast program licenses and rights are reviewed using a daypart methodology. A daypart is defined as an aggregation of programs broadcast during a particular time of day or programs of a similar type. The Company's dayparts are: primetime, daytime, late night, news and sports (includes broadcast and cable networks). The net realizable values of other cable programming assets are reviewed on an aggregated basis for each cable network. Individual programs are written off when there are

no plans to air or sublicense the program. Estimated values are based upon assumptions about future demand and market conditions. If actual demand or market conditions are less favorable than our projections, film, television and programming cost write-downs may be required.

Revenue Recognition

The Company has revenue recognition policies for its various operating segments that are appropriate to the circumstances of each business. We have updated our revenue recognition policies in conjunction with our adoption of the new revenue recognition standard as further described in Note 3 to the Condensed Consolidated Financial Statements.

Fees charged for the right to use our television and motion picture productions are recognized as revenue when the content is available for use by the licensee. TV/SVOD distribution contracts may contain more than one title and/or provide that certain titles are only available for use during defined periods of time during the contract term. In these instances, each title and/or period of availability is generally considered a separate performance obligation. For these contracts, license fees are allocated to each title and period of availability at contract inception based on relative standalone selling price using management’s best

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

estimate. Estimates used to determine a performance obligations' standalone selling price impact the timing of revenue recognition, but not the total revenue to be recognized under the arrangements.

Pension and Postretirement Medical Plan Actuarial Assumptions

The Company's pension and postretirement medical benefit obligations and related costs are calculated using a number of actuarial assumptions. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement, which we evaluate annually. Refer to the 2018 Annual Report on Form 10-K for estimated impacts of changes in these assumptions. Other assumptions include the healthcare cost trend rate and employee demographic factors such as retirement patterns, mortality, turnover and rate of compensation increase.

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

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

Goodwill, Other Intangible Assets, Long-Lived Assets and Investments

The Company is required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and if current events or circumstances require, on an interim basis. Goodwill is allocated to various reporting units, which are an operating segment or one level below the operating segment. The Company compares the fair value of each reporting unit to its carrying amount, and to the extent the carrying amount exceeds the fair value, an impairment of goodwill is recognized for the excess up to the amount of goodwill allocated to the reporting unit.

To determine the fair value of our reporting units, we generally use a present value technique (discounted cash flows) corroborated by market multiples when available and as appropriate. We apply what we believe to be the most appropriate valuation methodology for each of our reporting units. The discounted cash flow analyses are sensitive to our estimates of future revenue growth and margins for these businesses. We include in the projected cash flows an estimate of the revenue we believe the reporting unit would receive if the intellectual property developed by the reporting unit that is being used by other reporting units was licensed to an unrelated third party at its fair market value. We believe our estimates of fair value are consistent with how a marketplace participant would value our reporting units.

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

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

The Company tests long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison of cash flows expected to be generated over the useful life of an asset group to the carrying value of the asset group. An asset group is established by identifying the lowest level of cash flows generated by a group of assets that are largely independent of the cash flows of other assets and could include assets used across multiple businesses or segments. If the carrying value of an asset group exceeds the estimated undiscounted future cash flows, an impairment would be

measured as the difference between the fair value of the group's long-lived assets and the carrying value of the group's long-lived assets. The impairment is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts, but only to the extent the carrying value of each asset is above its fair value. For assets held for sale, to the extent the carrying value is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference. Determining whether a long-lived asset is impaired requires various estimates and assumptions, including whether a triggering event has occurred, the identification of the asset groups, estimates of future cash flows and the discount rate used to determine fair values. If we had established different asset groups or utilized different valuation methodologies or assumptions, the impairment test results could differ, and we could be required to record impairment charges.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

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

Allowance for Doubtful Accounts

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

Contingencies and Litigation

We are currently involved in certain legal proceedings and, as required, have accrued estimates of the probable and estimable losses for the resolution of these proceedings. These estimates are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and have been developed in consultation with outside counsel as appropriate. From time to time, we may also be involved in other contingent matters for which we have accrued estimates for a probable and estimable loss. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to legal proceedings or our assumptions regarding other contingent matters. See Note 12 to the Condensed Consolidated Financial Statements for more detailed information on litigation exposure.

Income Tax Audits

As a matter of course, the Company is regularly audited by federal, state and foreign tax authorities. From time to time, these audits result in proposed assessments. Our determinations regarding the recognition of income tax benefits are made in consultation with outside tax and legal counsel, where appropriate, and are based upon the technical merits of our tax positions in consideration of applicable tax statutes and related interpretations and precedents and upon the expected outcome of proceedings (or negotiations) with taxing and legal authorities. The tax benefits ultimately realized by the Company may differ from those recognized in our future financial statements based on a number of factors, including the Company's decision to settle rather than litigate a matter, relevant legal precedent related to similar matters and the Company's success in supporting its filing positions with taxing authorities.

New Accounting Pronouncements

See Note 16 to the Condensed Consolidated Financial Statements for information regarding new accounting pronouncements.

MARKET RISK

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

Policies and Procedures

In the normal course of business, we employ established policies and procedures to manage the Company's exposure to changes in interest rates, foreign currencies and commodities using a variety of financial instruments.

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

Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flow in order to allow management to focus on core business issues and challenges. Accordingly, the Company enters into various contracts that change in value as foreign exchange rates change to protect the U.S. dollar equivalent value of

its existing foreign currency assets, liabilities, commitments and forecasted foreign currency revenues and expenses. The Company utilizes option strategies and forward contracts that provide for the purchase or sale of foreign currencies to hedge probable, but not firmly committed, transactions. The Company also uses forward and option contracts to hedge foreign currency assets and liabilities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

The principal foreign currencies hedged are the euro, Japanese yen, British pound, Chinese yuan and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings to U.S. dollar denominated borrowings. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its forecasted foreign exchange exposures generally for periods not to exceed four years. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related exposures. The economic or political conditions in a country could reduce our ability to hedge exposure to currency fluctuations in the country or our ability to repatriate revenue from the country.

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

See Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 14 to the Condensed Consolidated Financial Statements.

Item 4. Controls and Procedures

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

Based on their evaluation as of December 29, 2018, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

There have been no changes in our internal controls over financial reporting during the first quarter of fiscal 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

As disclosed in Note 12 to the Condensed Consolidated Financial Statements, the Company is engaged in certain legal matters, and the disclosure set forth in Note 12 relating to certain legal matters is incorporated herein by reference.

ITEM 1A. Risk Factors

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for "forward-looking statements" made by or on behalf of the Company. We may from time to time make written or oral statements that are "forward-looking," including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to our shareholders. All forward-looking statements are made on the basis of management's views and assumptions regarding future events and business performance as of the time the statements are made and the Company does not undertake any obligation to update its disclosure relating to forward-looking matters. Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments or asset acquisitions or dispositions), as well as from developments beyond the Company's control, including: changes in domestic and global economic conditions, competitive conditions and consumer preferences; adverse weather conditions or natural disasters; health concerns; international, political or military developments; and technological developments. Such developments may affect entertainment, travel and leisure businesses generally and may, among other things, affect the performance of the Company's theatrical and home entertainment releases, the advertising market for broadcast and cable television programming, demand for our products and services, expenses of providing medical and pension benefits, performance of some or all company businesses either directly or through their impact on those who distribute our products and the pending transaction with 21CF. Additional factors are discussed in the 2018 Annual Report on Form 10-K under the Item 1A, "Risk Factors."

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

(a)The following table provides information about Company purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended December 29, 2018:

Period	Total Number of Shares Purchased [1]	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs [2]
September 30, 2018 - October 31, 2018	27,558	$ 115.33	—	158 million
November 1, 2018 - November 30, 2018	23,282	113.57	—	158 million
December 1, 2018 - December 29, 2018	24,717	108.74	—	158 million
Total	75,557	112.63	—	158 million

(1) 75,557 shares were purchased on the open market to provide shares to participants in the Walt Disney Investment Plan (WDIP). These purchases were not made pursuant to a publicly announced repurchase plan or program.

(2) Under a share repurchase program implemented effective June 10, 1998, the Company is authorized to repurchase shares of its common stock. On January 30, 2015, the Company's Board of Directors increased the share repurchase authorization to a total of 400 million shares as of that date. The repurchase program does not have an expiration date.

ITEM 6. Exhibits
See Index of Exhibits.

SIGNATURE

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

THE WALT DISNEY COMPANY
(Registrant)

By: /s/ CHRISTINE M. MCCARTHY
Christine M. McCarthy,
Senior Executive Vice President and Chief Financial Officer
February 5, 2019
Burbank, California

INDEX OF EXHIBITS

Number and Description of Exhibit (Numbers Coincide with Item 601 of Regulation S-K)		Document Incorporated by Reference from a Previous Filing or Filed Herewith, as Indicated below
3.1	Certificate of Elimination of Series B Convertible Preferred Stock of The Walt Disney Company as filed with the Secretary of State of the State of Delaware on November 28, 2018	Exhibit 3.1 to the Current Report on Form 8-K of the Company filed November 30, 2018
10.1	Amendment to Amended and Restated Employment Agreement, Dated as of October 6, 2011, as amended, between the Company and Robert A. Iger, dated November 30, 2018	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed December 3, 2018
10.2	Performance-Based Stock Unit Award (Four-Year Vesting subject to Total Shareholder Return Test) as Amended and Restated November 30, 2018 by and between the Company and Robert A. Iger	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed December 3, 2018
10.3	Amendment dated December 3, 2018 to the Employment Agreement, dated as of September 27, 2013, as amended, between the Company and Alan N. Braverman	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed December 4, 2018
10.4	Employment Agreement, dated as of September 27, 2018 between the Company and Zenia Mucha	Filed herewith
10.5	364 Day Credit Agreement dated as of December 19, 2018	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed December 26, 2018
10.6	First Amendment dated as of December 19, 2018 to the Five-Year Credit Agreement dated as of March 9, 2018	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed December 26, 2018
10.7	Second Amendment dated as of December 19, 2018 to the Five-Year Credit Agreement dated as of March 11, 2016	Exhibit 10.3 to the Current Report on Form 8-K of the Company filed December 26, 2018
10.8	Form of Restricted Stock Unit Award Agreement (Time-Based Vesting)	Filed herewith
10.9	Form of Restricted Stock Unit Award Agreement (Section 162(m) Vesting Requirement)	Filed herewith
10.10	Form of Performance-Based Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/EPS Growth Tests)	Filed herewith
10.11	Form of Performance-Based Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return Test /EPS Growth Test/Section 162(m) Vesting Requirements)	Filed herewith
10.12	Form of Non-Qualified Stock Option Award Agreement	Filed herewith
31(a)		Filed herewith

	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	
31(b)	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32(a)	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*	Furnished
32(b)	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*	Furnished

101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended December 29, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, (v) the Condensed Consolidated Statements of Equity and (vi) related notes	Filed

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