WALT DISNEY CO/
Form 10-Q
February 06, 2018

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 30, 2017	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 (Do not check if smaller reporting company)	¨	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 1,503,675,479 shares of common stock outstanding as of January 31, 2018.

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 30, 2017	December 31, 2016
Revenues:		
Services	$12,984	$ 12,406
Products	2,367	2,378
Total revenues	15,351	14,784
Costs and expenses:		
Cost of services (exclusive of depreciation and amortization)	(7,334)	(7,020)
Cost of products (exclusive of depreciation and amortization)	(1,403)	(1,386)
Selling, general, administrative and other	(2,079)	(1,985)
Depreciation and amortization	(742)	(687)
Total costs and expenses	(11,558)	(11,078)
Restructuring and impairment charges	(15)	—
Other income, net	53	—
Interest expense, net	(129)	(99)
Equity in the income of investees	43	118
Income before income taxes	3,745	3,725
Income taxes	728	(1,237)
Net income	4,473	2,488
Less: Net income attributable to noncontrolling interests	(50)	(9)
Net income attributable to The Walt Disney Company (Disney)	$4,423	$ 2,479
Earnings per share attributable to Disney:		
Diluted	$2.91	$ 1.55
Basic	$2.93	$ 1.56
Weighted average number of common and common equivalent shares outstanding:		
Diluted	1,521	1,603
Basic	1,512	1,592
Dividends declared per share	$0.84	$ 0.78

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended	
	December 30, 2017	December 31, 2016
Net income	$4,473	$ 2,488
Other comprehensive income/(loss), net of tax:		
Market value adjustments for investments	(1)	(11)
Market value adjustments for hedges	18	280
Pension and postretirement medical plan adjustments	61	46
Foreign currency translation and other	87	(290)
Other comprehensive income	165	25
Comprehensive income	4,638	2,513
Net income attributable to noncontrolling interests, including redeemable noncontrolling interests	(50)	(9)
Other comprehensive (income)/loss attributable to noncontrolling interests	(41)	99
Comprehensive income attributable to Disney	$4,547	$ 2,603

See Notes to Condensed Consolidated Financial Statements

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

	December 30, 2017	September 30, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,677	$ 4,017
Receivables	9,886	8,633
Inventories	1,307	1,373
Television costs and advances	846	1,278
Other current assets	558	588
Total current assets	17,274	15,889
Film and television costs	7,937	7,481
Investments	3,206	3,202
Parks, resorts and other property		
Attractions, buildings and equipment	54,617	54,043
Accumulated depreciation	(29,647)	(29,037)
	24,970	25,006
Projects in progress	2,355	2,145
Land	1,259	1,255
	28,584	28,406
Intangible assets, net	6,930	6,995
Goodwill	31,430	31,426
Other assets	2,373	2,390
Total assets	$ 97,734	$ 95,789
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	$ 9,574	$ 8,855
Current portion of borrowings	6,009	6,172
Deferred revenue and other	4,292	4,568
Total current liabilities	19,875	19,595
Borrowings	20,082	19,119
Deferred income taxes	2,826	4,480
Other long-term liabilities	6,726	6,443
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests	1,142	1,148
Equity		
Preferred stock, $0.01 par value, Authorized – 100 million shares, Issued – none	—	—
Common stock, $0.01 par value, Authorized – 4.6 billion shares, Issued – 2.9 billion shares	36,254	36,248
Retained earnings	75,763	72,606
Accumulated other comprehensive loss	(3,404)	(3,528)
	108,613	105,326
Treasury stock, at cost, 1.4 billion shares	(65,324)	(64,011)
Total Disney Shareholders' equity	43,289	41,315
Noncontrolling interests	3,794	3,689
Total equity	47,083	45,004
Total liabilities and equity	$ 97,734	$ 95,789

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended	
	December 30, 2017	December 31, 2016
OPERATING ACTIVITIES		
Net income	$4,473	$ 2,488
Depreciation and amortization	742	687
Deferred income taxes	(1,726)	(76)
Equity in the income of investees	(43)	(118)
Cash distributions received from equity investees	170	203
Net change in film and television costs and advances	34	440
Equity-based compensation	94	97
Other	139	187
Changes in operating assets and liabilities:		
Receivables	(1,378)	(1,160)
Inventories	65	102
Other assets	(29)	311
Accounts payable and other accrued liabilities	(1,160)	(2,763)
Income taxes	856	1,047
Cash provided by operations	2,237	1,445
INVESTING ACTIVITIES		
Investments in parks, resorts and other property	(981)	(1,040)
Other	(62)	5
Cash used in investing activities	(1,043)	(1,035)
FINANCING ACTIVITIES		
Commercial paper borrowings, net	1,140	732
Borrowings	1,025	42
Reduction of borrowings	(1,330)	(194)
Repurchases of common stock	(1,313)	(1,465)
Proceeds from exercise of stock options	50	65
Other	(156)	(167)
Cash used in financing activities	(584)	(987)
Impact of exchange rates on cash, cash equivalents and restricted cash	21	(112)
Change in cash, cash equivalents and restricted cash	631	(689)
Cash, cash equivalents and restricted cash, beginning of period	4,064	4,760
Cash, cash equivalents and restricted cash, end of period	$4,695	$ 4,071

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended					
	December 30, 2017			December 31, 2016		
	Disney Shareholders	Non-controlling Interests (1)	Total Equity	Disney Shareholders	Non-controlling Interests (1)	Total Equity
Beginning balance	$41,315	$ 3,689	$45,004	$43,265	$ 4,058	$47,323
Comprehensive income/(loss)	4,547	97	4,644	2,603	(90)	2,513
Equity compensation activity	6	—	6	48	—	48
Dividends	(1,266)	—	(1,266)	(1,237)	—	(1,237)
Common stock repurchases	(1,313)	—	(1,313)	(1,465)	—	(1,465)
Distributions and other	—	8	8	(4)	(1)	(5)
Ending balance	$43,289	$ 3,794	$47,083	$43,210	$ 3,967	$47,177

(1) Excludes redeemable noncontrolling interest

See Notes to Condensed Consolidated Financial Statements

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

1. Principles of Consolidation

These Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. We believe that we have included all normal recurring adjustments necessary for a fair presentation of the results for the interim period. Operating results for the quarter ended December 30, 2017 are not necessarily indicative of the results that may be expected for the year ending September 29, 2018. Certain reclassifications have been made in the prior-year financial statements to conform to the current-year presentation.

These financial statements should be read in conjunction with the Company’s 2017 Annual Report on Form 10-K.

The Company enters into relationships or investments with other entities that may be a variable interest entity (VIE). A VIE is consolidated in the financial statements if the Company has the power to direct activities that most significantly impact the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant (as defined by ASC 810-10-25-38) to the VIE.

Hong Kong Disneyland Resort and Shanghai Disney Resort (collectively 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.

2. Cash and 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 Statement of Cash Flows.

	December 30, 2017	September 30, 2017
Cash and cash equivalents	$ 4,677	$ 4,017
Restricted cash included in:		
Other current assets	13	26
Other assets	5	21
Total cash, cash equivalents and restricted cash in the statement of cash flows	$ 4,695	$ 4,064

3. Segment Information

The operating segments reported below are the segments of the Company for which separate financial information is available and for which results are evaluated regularly by the Chief Executive Officer in deciding how to allocate resources and in assessing performance.

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.

THE WALT DISNEY COMPANY
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Equity in the income of investees is included in segment operating income as follows:

	Quarter Ended	
	December 30, 2017	December 31, 2016
Media Networks	$ 50	$ 119
Parks and Resorts	(7)	(2)
Consumer Products & Interactive Media	—	1
Equity in the income of investees included in segment operating income	$ 43	$ 118

Segment revenues and segment operating income are as follows:

	Quarter Ended	
	December 30, 2017	December 31, 2016
Revenues [(1)]:		
Media Networks	$ 6,243	$ 6,233
Parks and Resorts	5,154	4,555
Studio Entertainment	2,504	2,520
Consumer Products & Interactive Media	1,450	1,476
	$ 15,351	$ 14,784
Segment operating income [(1)]:		
Media Networks	$ 1,193	$ 1,362
Parks and Resorts	1,347	1,110
Studio Entertainment	829	842
Consumer Products & Interactive Media	617	642
	$ 3,986	$ 3,956

(1) Studio Entertainment revenues and operating income include an allocation of Consumer Products & Interactive Media 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 Consumer Products & Interactive Media revenues and operating income was $171 million and $181 million for the quarters ended December 30, 2017 and December 31, 2016, respectively.

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

	Quarter Ended	
	December 30, 2017	December 31, 2016
Segment operating income	$ 3,986	$ 3,956
Corporate and unallocated shared expenses	(150)	(132)
Restructuring and impairment charges	(15)	—
Other income, net	53	—
Interest expense, net	(129)	(99)
Income before income taxes	$ 3,745	$ 3,725

4. Acquisitions

BAMTech

On September 25, 2017, the Company acquired an additional 42% interest in BAMTech, a streaming technology and content delivery business, from an affiliate of Major League Baseball (MLB) for $1.6 billion (paid in January 2018). The acquisition increased our interest from 33% to 75%, and as a result, we began consolidating BAMTech during the fourth quarter of fiscal 2017. The estimated acquisition date fair value of BAMTech is $3.9 billion.

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THE WALT DISNEY COMPANY
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BAMTech's noncontrolling interest holders, MLB and the National Hockey League (NHL), have the right to sell their shares to the Company in the future. MLB can generally sell their shares to the Company starting five years from and ending ten years after the September 25, 2017 acquisition date at the greater of fair value or a guaranteed floor value ($563 million accreting at 8% annually for eight years). The NHL can sell their shares to the Company in fiscal 2020 for $300 million or in fiscal 2021 for $350 million. Accordingly, these interests are recorded as "Redeemable noncontrolling interests" in the Company's Condensed Consolidated Balance Sheet.

The Company has the right to purchase MLB's interest in BAMTech starting five years from and ending ten years after the acquisition date at the greater of fair value or the guaranteed floor value. The Company has the right to acquire the NHL interest in fiscal years 2020 and 2021 for $500 million.

The acquisition date fair value of the noncontrolling interests was estimated at $1.1 billion and calculated using an option pricing model. The MLB noncontrolling interest fair value generally reflects the net present value of MLB's guaranteed floor value, while the NHL noncontrolling interest reflects their share of the $3.9 billion BAMTech value. As a result of the MLB and NHL sale rights, the noncontrolling interests will generally not be allocated BAMTech losses. Prospectively, the Company will record the noncontrolling interests at the greater of (i) their acquisition date fair value adjusted for their share (if any) of earnings, losses, or dividends or (ii) an accreted value from the date of the acquisition to the earliest redemption date. The accretion of the MLB interest to the earliest redemption value in five years after the acquisition date will be recorded using an interest method. As of December 30, 2017, the redeemable noncontrolling interest subject to accretion would have had a redemption amount of $574 million if it were redeemed at that time. Adjustments to the carrying amount of redeemable noncontrolling interests will increase or decrease income available to Company shareholders through an adjustment to "Net income attributable to noncontrolling interests" on the Condensed Consolidated Statement of Income.

The Company is negotiating to provide the noncontrolling interest holder in ESPN a portion of the Company's share of the BAMTech direct-to-consumer sports business at a price that is consistent with the amount the Company invested. If such transaction is finalized, their investment would be recorded as a noncontrolling interest transaction when consummated.

We have preliminarily allocated $3.6 billion of the purchase price to goodwill (approximately half of which is deductible for tax purposes) with the remainder primarily allocated to identifiable intangible assets. We are in the process of finalizing the valuation of the acquired assets, assumed liabilities, and noncontrolling interests.

The revenue and costs of BAMTech included in the Company's Condensed Consolidated Statement of Income for the quarter ended December 30, 2017 were both approximately $0.1 billion.

Twenty-First Century Fox

On December 14, 2017, the Company and Twenty-First Century Fox, Inc. ("21CF") announced a definitive agreement (the "Merger Agreement") for the Company to acquire 21CF. Prior to the acquisition, 21CF will separate certain of its businesses, most notably, the FOX Broadcasting network and stations, FOX News Channel, FOX Business Network, FS1, FS2 and Big Ten Network into a newly listed company ("New Fox") that will be spun off to 21CF shareholders. Prior to the spin-off, New Fox will pay a dividend to 21CF in the amount of $8.5 billion. Following the spin-off, the significant remaining businesses will include the 21CF film and television studios, certain cable networks (including FX and National Geographic) and 21CF's international TV businesses.

Under the terms of the Merger Agreement, shareholders of 21CF will receive 0.2745 of a Company share for each 21CF share they hold subject to a two-way adjustment based on an estimate at closing of certain tax liabilities arising from the spin-off and certain other transactions contemplated by the Merger Agreement. In the event that the final estimate of tax liabilities is lower than the estimate used to set the exchange ratio, the first $2.0 billion of that adjustment will be made by a net reduction in the amount of cash dividend to 21CF from New Fox. Based upon 21CF shares outstanding as of September 30, 2017, the Company would be required to issue approximately 515 million new shares, a value of approximately $52.4 billion at the time the exchange ratio was agreed. The value at which the Company will record the equity consideration will be based upon the stock price on the date the transaction closes. In addition, the Company will assume 21CF's net debt, which was approximately $13.7 billion as of September 30, 2017 (approximately $20.0 billion of debt less approximately $6.3 billion in cash).

The Boards of Directors of the Company and 21CF have approved the transaction, which is also subject to approval by 21CF and the Company's shareholders, clearance under the Hart-Scott-Rodino Antitrust Improvements Act, a number of other non-United States merger and other regulatory reviews, the receipt of a tax ruling from the Australian Taxation Office and certain tax opinions with respect to the treatment of the transaction under U.S. and Australian tax laws, and other customary closing conditions.

Under the terms of the Merger Agreement, Disney will pay 21CF $2.5 billion if the merger is not consummated under certain circumstances relating to the failure to obtain approvals, or if there is a final, non-appealable order preventing the

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transaction, in each case, relating to antitrust laws, communications laws or foreign regulatory laws. If the 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.

Goodwill

The changes in the carrying amount of goodwill for the quarter ended December 30, 2017 are as follows:

	Media Networks	Parks and Resorts	Studio Entertainment	Consumer Products & Interactive Media	Unallocated [1]	Total
Balance at Sept. 30, 2017	$ 16,325	$ 291	$ 6,817	$ 4,393	$ 3,600	$ 31,426
Acquisitions	—	—	—	—	—	—
Dispositions	—	—	—	—	—	—
Other, net	7	—	7	2	(12)	4
Balance at Dec. 30, 2017	$ 16,332	$ 291	$ 6,824	$ 4,395	$ 3,588	$ 31,430

[1] Goodwill will be allocated to the segments once the BAMTech purchase price allocation is finalized.

5. Borrowings

During the quarter ended December 30, 2017, the Company's borrowing activity was as follows:

	September 30, 2017	Borrowings	Payments	Other Activity	December 30, 2017
Commercial paper with original maturities less than three months[1]	$ 1,151	$ 2,047	$ —	$ —	$ 3,198
Commercial paper with original maturities greater than three months	1,621	712	(1,619)	(1)	713
U.S. and European medium-term notes	19,721	—	(1,300)	6	18,427
BAMTech acquisition payable	1,581	—	—	—	1,581
Asia Theme Parks borrowings	1,145	—	—	30	1,175
Foreign currency denominated debt and other[2]	72	1,025	(30)	(70)	997
Total	$ 25,291	$ 3,784	$ (2,949)	$ (35)	$ 26,091

[1] Borrowings and payments are reported net.
[2] The other activity is primarily market value adjustments for debt with qualifying hedges.

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 2018	$ 2,500	$ —	$ 2,500
Facility expiring March 2019	2,250	—	2,250
Facility expiring March 2021	2,250	—	2,250
Total	$ 7,000	$ —	$ 7,000

All of the above bank facilities allow for borrowings at LIBOR-based rates plus a spread depending on the credit default swap spread applicable to the Company's debt, subject to a cap and floor that vary with the Company's debt rating assigned by Moody's Investors Service and Standard and Poor's. The spread above LIBOR can range from 0.23% to 1.63%. The Company also has the ability to issue up to $800 million of letters of credit under the facility expiring in March 2019, which if utilized, reduces available borrowings under this facility. As of December 30, 2017, the Company has $190 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 and Disneyland Paris, from any representations, covenants, or events of default and contain only one financial covenant relating to interest coverage, which the Company met on December 30, 2017 by a significant margin.

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

	Quarter Ended	
	December 30, 2017	December 31, 2016
Interest expense	$(146)	$ (121)
Interest and investment income	17	22
Interest expense, net	$(129)	$ (99)

Interest and investment income includes gains and losses on the sale of 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 (together, the Asia Theme Parks with Disneyland Paris are collectively referred to as the International Theme Parks).

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 30, 2017 and September 30, 2017:

	December 30, 2017	September 30, 2017
Cash and cash equivalents	$ 844	$ 843
Other current assets	397	376
Total current assets	1,241	1,219
Parks, resorts and other property	9,449	9,403
Other assets	110	111
Total assets [1]	$ 10,800	$ 10,733
Current liabilities	$ 1,061	$ 1,163
Borrowings - long-term	1,175	1,145
Other long-term liabilities	390	371
Total liabilities [1]	$ 2,626	$ 2,679

(1) At December 30, 2017 and September 30, 2017, total assets of the Asia Theme Parks were $8.1 billion and primarily consist of parks, resorts and other property of $7.3 billion. At December 30, 2017 and September 30, 2017, total liabilities of the Asia Theme Parks were $2.1 billion.

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

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 30, 2017:

	December 30, 2017
Revenues	$ 905
Costs and expenses	(870)
Equity in the loss of investees	(7)

Asia Theme Parks' royalty and management fees of $40 million for the quarter ended December 30, 2017 are eliminated in consolidation but are considered in calculating earnings allocated to noncontrolling interests.

International Theme Parks' cash flows for the quarter ended December 30, 2017 included in the Company's Condensed Consolidated Statement of Cash Flows were $167 million generated from operating activities, $158 million used in investing activities and $8 million generated from financing activities. The majority of cash flows 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 53% and 47% equity interests in Hong Kong Disneyland Resort, respectively.

As part of financing the construction of a third hotel, which opened April 30, 2017, the Company and HKSAR have provided loans with outstanding balances of $139 million and $93 million, respectively, which bear interest at a rate of three month HIBOR plus 2% and mature in September 2025. The Company's loan is eliminated upon 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 30, 2017.

In August 2017, the Company and HKSAR entered into an agreement for a multi-year expansion of Hong Kong Disneyland that will add a number of new guest offerings, including two new themed areas, by 2023. Under the terms of the agreement, the HK $10.9 billion ($1.4 billion) expansion will be funded by equity contributions made by the Company and HKSAR on an equal basis.

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, is responsible for operating Shanghai Disney Resort.

The Company has provided Shanghai Disney Resort with loans totaling $789 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 $322 million due from Shanghai Disney Resort related to development costs, pre-opening expense and royalties and management fees. The Company has also provided Shanghai Disney Resort with a $157 million line of credit bearing interest at 8%. There is no outstanding balance under the line of credit at December 30, 2017. These balances are eliminated upon consolidation.

Shendi has provided Shanghai Disney Resort with loans totaling 6.8 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 $209 million) line of credit bearing interest at 8%. There is no outstanding balance under the line of credit at December 30, 2017.

7. Income Taxes

On December 22, 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 is 24.5%, which is applicable to each quarter of the fiscal year, and will be 21.0% thereafter.

- The Company remeasured its existing U.S. federal deferred tax assets and liabilities at the rate that the Company expects to be in effect when those deferred taxes will be realized (either 24.5% if in 2018 or 21.0% thereafter). The

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Company recognized a one-time benefit from the deferred tax remeasurement of approximately $1.9 billion in the first quarter of fiscal 2018.

- A one-time tax is due on certain accumulated foreign earnings (Deemed Repatriation Tax), which is payable over eight years. The 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 $0.3 billion in the first quarter of fiscal 2018. Generally there will no longer be a U.S. federal income tax cost arising from the repatriation of foreign earnings.
- The Company will be eligible to claim an immediate deduction for investments in qualified fixed assets and film and television productions placed in service in fiscal 2018 through fiscal 2022. This provision phases out through fiscal 2027.
- The domestic production activity deduction was eliminated effective for the Company's fiscal 2019.
- 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%. This will be effective for the Company in fiscal 2019.
- Certain foreign earnings will be taxed at a minimum effective rate of approximately 13%. This will be effective for the Company in fiscal 2019.

The amounts that the Company has recorded are provisional estimates of the impact the Tax Act will have on the Company's financial statements in fiscal 2018. Additional information and analysis is required to finalize the impact that the Tax Act will have on our full year financial results including the following:

- Filing the fiscal 2017 U.S. federal income tax return, which could impact our estimated foreign earnings and deferred income tax assets and liabilities,
- Finalizing the determination of foreign cash and cash equivalents at the end of fiscal 2018, which is required to calculate the Deemed Repatriation Tax, and
- Receiving additional information with respect to the income tax attributes of our equity method investments.

Although the Company does not anticipate material adjustments to the provisional amounts, final results could vary from these provisional amounts.

Additionally, potential further guidance may be forthcoming from the Financial Accounting Standards Board and the Securities and Exchange Commission, as well as regulations, interpretations and rulings from federal and state tax agencies, which could result in additional impacts.

During the quarter ended December 30, 2017, the Company increased its gross unrecognized tax benefits by $0.1 billion to $0.9 billion. In the next twelve months, it is reasonably possible that our unrecognized tax benefits could change due to resolutions of open tax matters. These resolutions would reduce our unrecognized tax benefits by approximately $258 million, of which $100 million would reduce our income tax expense and effective tax rate if recognized.

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 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
Service costs	$88	$ 91	$ 3	$ 3
Interest costs	123	112	15	14
Expected return on plan assets	(225)	(219)	(13)	(12)
Amortization of prior-year service costs	3	3	—	—

Recognized net actuarial loss	87	101	3	4
Net periodic benefit cost	$76	$ 88	$ 8	$ 9

During the quarter ended December 30, 2017, the Company did not make any material contributions to its pension and postretirement medical plans and currently does not expect to make any material contributions to its pension and postretirement medical plans during the remainder of fiscal 2018. However, final funding amounts for fiscal 2018 will be assessed based on our January 1, 2018 funding actuarial valuation, which will be available by the end of the fourth quarter of fiscal 2018.

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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 30, 2017	December 31, 2016
Shares (in millions):		
Weighted average number of common and common equivalent shares outstanding (basic)	1,512	1,592
Weighted average dilutive impact of Awards	9	11
Weighted average number of common and common equivalent shares outstanding (diluted)	1,521	1,603
Awards excluded from diluted earnings per share	16	16

10. Equity

The Company paid the following dividends in fiscal 2018 and 2017:

Per Share	Total Paid	Payment Timing	Related to Fiscal Period
$0.84	$1.3 billion	Second Quarter of Fiscal 2018	Second Half 2017
$0.78	$1.2 billion	Fourth Quarter of Fiscal 2017	First Half 2017
$0.78	$1.2 billion	Second Quarter of Fiscal 2017	Second Half 2016

During the quarter ended December 30, 2017, the Company repurchased 13 million shares of its common stock for $1.3 billion. As of December 30, 2017, the Company had remaining authorization in place to repurchase approximately 179 million additional shares. The repurchase program does not have an expiration date.

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:

AOCI, before tax	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
	Investments	Cash Flow Hedges			
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)
Balance at October 1, 2016	$ 44	$ (38)	$ (5,859)	$ (521)	$ (6,374)
Quarter Ended December 31, 2016:					
Unrealized gains (losses) arising during the period	(18)	506	—	(141)	347
Reclassifications of realized net (gains) losses to net income	—	(70)	108	—	38
Balance at December 31, 2016	$ 26	$ 398	$ (5,751)	$ (662)	$ (5,989)

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Tax on AOCI	Market Value Adjustments: Investments	Market Value Adjustments: Cash Flow Hedges	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
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
Balance at October 1, 2016	$ (18)	$ 13	$ 2,208	$ 192	$2,395
Quarter Ended December 31, 2016:					
Unrealized gains (losses) arising during the period	7	(182)	(22)	(50)	(247)
Reclassifications of realized net (gains) losses to net income	—	26	(40)	—	(14)
Balance at December 31, 2016	$ (11)	$ (143)	$ 2,146	$ 142	$2,134

AOCI, after tax	Market Value Adjustments: Investments	Market Value Adjustments: Cash Flow Hedges	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
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)
Balance at October 1, 2016	$ 26	$ (25)	$ (3,651)	$ (329)	$(3,979)
Quarter Ended December 31, 2016:					
Unrealized gains (losses) arising during the period	(11)	324	(22)	(191)	100
Reclassifications of realized net (gains) losses to net income	—	(44)	68	—	24
Balance at December 31, 2016	$ 15	$ 255	$ (3,605)	$ (520)	$(3,855)

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

Gains/(losses) in net income:	Affected line item in the Condensed Consolidated Statements of Income:	Quarter Ended December 30, 2017	Quarter Ended December 31, 2016
Cash flow hedges	Primarily revenue	$ (20)	$ 70
Estimated tax	Income taxes	8	(26)
		(12)	44
Pension and postretirement medical expense	Costs and expenses	(96)	(108)
Estimated tax	Income taxes	35	40
		(61)	(68)
Total reclassifications for the period		$ (73)	$ (24)

At December 30, 2017 and September 30, 2017, unrealized gains and losses on available-for-sale investments were not material.

11. Equity-Based Compensation

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

	Quarter Ended December 30, 2017	Quarter Ended December 31, 2016
Stock options	$ 23	$ 20
RSUs	71	77
Total equity-based compensation expense [1]	$ 94	$ 97
Equity-based compensation expense capitalized during the period	$ 19	$ 21

(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 $222 million and $858 million, respectively, as of December 30, 2017.

The weighted average grant date fair values of options granted during the quarter ended December 30, 2017 and December 31, 2016 were $28.01 and $25.78, respectively.

During the quarter ended December 30, 2017, the Company made equity compensation grants consisting of 4.0 million stock options and 4.1 million RSUs.

12. Commitments and Contingencies

Legal Matters

The Company, together with, in some instances, certain of its directors and officers, is a defendant or codefendant 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. In the event of a debt service shortfall, the Company will be responsible to fund the shortfall. As of December 30, 2017, the remaining debt service obligation guaranteed by the Company was $306 million, of which $48 million was principal. To the extent that tax revenues exceed the debt service payments in subsequent periods, the Company would be reimbursed for any previously funded shortfalls. To date, tax revenues have exceeded the debt service payments for these bonds.

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The Company has guaranteed $113 million of Hulu LLC's $338 million term loan, which expires in August 2022, and is committed to make a capital contribution of approximately $450 million to Hulu in calendar 2018. Hulu is a joint venture in which the Company has a 30% ownership interest.

Long-Term Receivables and the Allowance for Credit Losses

The Company has accounts receivable with original maturities greater than one year related to the sale of television program rights and vacation ownership units. Allowances for credit losses are established against these receivables as necessary.

The Company estimates the allowance for credit losses related to receivables from the sale of television programs based upon a number of factors, including historical experience and the financial condition of individual companies with which we do business. The balance of television program sales receivables recorded in other non-current assets, net of an immaterial allowance for credit losses, was $0.8 billion as of December 30, 2017. The activity in the current period related to the allowance for credit losses was not material.

The Company estimates the allowance for credit losses related to receivables from sales of its vacation ownership units based primarily on historical collection experience. Estimates of uncollectible amounts also consider the economic environment and the age of receivables. The balance of mortgage receivables recorded in other non-current assets, net of a related allowance for credit losses of approximately 4%, was approximately $0.7 billion as of December 30, 2017. The activity in the current period 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 of the fair value hierarchy:

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 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	$32	$—	$—	$32
Derivatives				
Foreign exchange	—	416	—	416
Other	—	13	—	13
Liabilities				
Derivatives				
Interest rate	—	(188)	—	(188)
Foreign exchange	—	(459)	—	(459)
Total recorded at fair value	$32	$(218)	$—	$(186)
Fair value of borrowings	$—	$23,935	$2,793	$26,728

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	Fair Value Measurement at September 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	$36	$—	$—	$36
Derivatives				
Interest rate	—	10	—	10
Foreign exchange	—	403	—	403
Other	—	8	—	8
Liabilities				
Derivatives				
Interest rate	—	(122)	—	(122)
Foreign exchange	—	(427)	—	(427)
Total recorded at fair value	$36	$(128)	$—	$(92)
Fair value of borrowings	$—	$23,110	$2,764	$25,874

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

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

Level 3 borrowings include the Asia Theme Park borrowings and the Company's other foreign currency denominated borrowings, and generally are valued based on the current borrowing cost and credit risk of the Asia Theme Parks and the Company, respectively, as well as historical market transactions and 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 30, 2017			
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	$152	$ 237	$ (187)	$ (184)
Interest rate	—	—	(161)	—
Other	11	2	—	—
Derivatives not designated as hedges				
Foreign exchange	24	3	(64)	(25)
Interest rate	—	—	—	(27)
Gross fair value of derivatives	187	242	(412)	(236)
Counterparty netting	(141)	(238		