WALT DISNEY CO/
Form 10-Q
August 07, 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 June 30, 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 (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 1,487,242,596 shares of common stock outstanding as of August 1, 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		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Revenues:				
Services	$13,142	$12,097	$38,646	$35,990
Products	2,086	2,141	6,481	6,368
Total revenues	15,228	14,238	45,127	42,358
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization)	(7,124)	(6,469)	(20,762)	(19,328)
Cost of products (exclusive of depreciation and amortization)	(1,224)	(1,248)	(3,856)	(3,764)
Selling, general, administrative and other	(2,212)	(2,022)	(6,538)	(5,948)
Depreciation and amortization	(744)	(711)	(2,217)	(2,074)
Total costs and expenses	(11,304)	(10,450)	(33,373)	(31,114)
Restructuring and impairment charges	—	—	(28)	—
Other income/(expense), net	—	(177)	94	(177)
Interest expense, net	(143)	(117)	(415)	(300)
Equity in the income of investees	73	124	122	327
Income before income taxes	3,854	3,618	11,527	11,094
Income taxes	(795)	(1,144)	(880)	(3,593)
Net income	3,059	2,474	10,647	7,501
Less: Net income attributable to noncontrolling interests	(143)	(108)	(371)	(268)
Net income attributable to The Walt Disney Company (Disney)	$2,916	$2,366	$10,276	$7,233
Earnings per share attributable to Disney:				
Diluted	$1.95	$1.51	$6.81	$4.55
Basic	$1.96	$1.51	$6.84	$4.58
Weighted average number of common and common equivalent shares outstanding:				
Diluted	1,498	1,572	1,510	1,588
Basic	1,491	1,562	1,502	1,578
Dividends declared per share	$0.84	$0.78	$1.68	$1.56

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net income	$3,059	$2,474	$10,647	$7,501
Other comprehensive income/(loss), net of tax:				
Market value adjustments for investments	1	(5)	7	(15)
Market value adjustments for hedges	260	(92)	166	24
Pension and postretirement medical plan adjustments	70	68	225	194
Foreign currency translation and other	(363)	70	(132)	(153)
Other comprehensive income/(loss)	(32)	41	266	50
Comprehensive income	3,027	2,515	10,913	7,551
Net income attributable to noncontrolling interests, including redeemable noncontrolling interests	(143)	(108)	(371)	(268)
Other comprehensive (income)/loss attributable to noncontrolling interests	115	(25)	—	65
Comprehensive income attributable to Disney	$2,999	$2,382	$10,542	$7,348

See Notes to Condensed Consolidated Financial Statements

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

	June 30, 2018	September 30, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$4,326	$ 4,017
Receivables	10,071	8,633
Inventories	1,322	1,373
Television costs and advances	1,241	1,278
Other current assets	769	588
Total current assets	17,729	15,889
Film and television costs	7,684	7,481
Investments	3,155	3,202
Parks, resorts and other property		
Attractions, buildings and equipment	55,284	54,043
Accumulated depreciation	(30,611)	(29,037)
	24,673	25,006
Projects in progress	3,446	2,145
Land	1,254	1,255
	29,373	28,406
Intangible assets, net	6,892	6,995
Goodwill	31,306	31,426
Other assets	2,653	2,390
Total assets	$98,792	$ 95,789
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	$9,763	$ 8,855
Current portion of borrowings	5,992	6,172
Deferred revenue and other	4,459	4,568
Total current liabilities	20,214	19,595
Borrowings	17,681	19,119
Deferred income taxes	3,222	4,480
Other long-term liabilities	6,467	6,443
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests	1,137	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	36,574	36,248
Retained earnings	80,364	72,606
Accumulated other comprehensive loss	(3,262)	(3,528)
	113,676	105,326
Treasury stock, at cost, 1.4 billion shares	(67,588)	(64,011)
Total Disney Shareholders' equity	46,088	41,315
Noncontrolling interests	3,983	3,689
Total equity	50,071	45,004
Total liabilities and equity	$98,792	$ 95,789

See Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended	
	June 30, 2018	July 1, 2017
OPERATING ACTIVITIES		
Net income	$10,647	$7,501
Depreciation and amortization	2,217	2,074
Deferred income taxes	(1,411)	294
Equity in the income of investees	(122)	(327)
Cash distributions received from equity investees	587	584
Net change in film and television costs and advances	(601)	(745)
Equity-based compensation	307	278
Other	297	373
Changes in operating assets and liabilities:		
Receivables	(1,178)	(786)
Inventories	53	93
Other assets	(472)	72
Accounts payable and other accrued liabilities	(316)	(781)
Income taxes	434	143
Cash provided by operations	10,442	8,773
INVESTING ACTIVITIES		
Investments in parks, resorts and other property	(3,264)	(2,728)
Acquisitions	(1,581)	(557)
Other	(298)	(5)
Cash used in investing activities	(5,143)	(3,290)
FINANCING ACTIVITIES		
Commercial paper borrowings/(payments), net	453	(112)
Borrowings	1,056	4,053
Reduction of borrowings	(1,356)	(1,736)
Dividends	(1,266)	(1,237)
Repurchases of common stock	(3,577)	(5,944)
Proceeds from exercise of stock options	129	256
Other	(420)	(1,072)
Cash used in financing activities	(4,981)	(5,792)
Impact of exchange rates on cash, cash equivalents and restricted cash	(51)	(23)
Change in cash, cash equivalents and restricted cash	267	(332)
Cash, cash equivalents and restricted cash, beginning of period	4,064	4,760
Cash, cash equivalents and restricted cash, end of period	$4,331	$4,428

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended June 30, 2018			July 1, 2017		
	Disney Shareholders	Non-controlling Interests [1]	Total Equity	Disney Shareholders	Non-controlling Interests [1]	Total Equity
Beginning balance	$45,151	$ 3,500	$48,651	$43,784	$ 3,483	$47,267
Comprehensive income	2,999	41	3,040	2,382	133	2,515
Equity compensation activity	156	—	156	174	—	174
Dividends	(1,249)	—	(1,249)	(1,208)	—	(1,208)
Common stock repurchases	(969)	—	(969)	(2,444)	—	(2,444)
Distributions and other, net	—	442	442	(157)	(96)	(253)
Ending balance	$46,088	$ 3,983	$50,071	$42,531	$ 3,520	$46,051

[1] Excludes redeemable noncontrolling interest

See Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended					
	June 30, 2018			July 1, 2017		
	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	10,542	389	10,931	7,348	203	7,551
Equity compensation activity	319	—	319	404	—	404
Dividends	(2,515)	—	(2,515)	(2,445)	—	(2,445)
Common stock repurchases	(3,577)	—	(3,577)	(5,944)	—	(5,944)
Distributions and other, net	4	(95)	(91)	(97)	(741)	(838)
Ending balance	$46,088	$ 3,983	$50,071	$42,531	$ 3,520	$46,051

(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 nine months ended June 30, 2018 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 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 (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 Statements of Cash Flows.

	June 30, 2018	September 30, 2017
Cash and cash equivalents	$ 4,326	$ 4,017
Restricted cash included in:		
Other current assets	1	26
Other assets	4	21
Total cash, cash equivalents and restricted cash in the statement of cash flows	$ 4,331	$ 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
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Equity in the income of investees is included in segment operating income as follows:

	Quarter Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Media Networks	$78	$127	$141	$334
Parks and Resorts	(5)	(3)	(19)	(8)
Consumer Products & Interactive Media	—	—	—	1
Equity in the income of investees included in segment operating income	$73	$124	$122	$327

Segment revenues and segment operating income are as follows:

	Quarter Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Revenues [(1)]:				
Media Networks	$6,156	$5,866	$18,537	$18,045
Parks and Resorts	5,193	4,894	15,226	13,748
Studio Entertainment	2,878	2,393	7,836	6,947
Consumer Products & Interactive Media	1,001	1,085	3,528	3,618
	$15,228	$14,238	$45,127	$42,358
Segment operating income [(1)]:				
Media Networks	$1,822	$1,842	$5,097	$5,427
Parks and Resorts	1,339	1,168	3,640	3,028
Studio Entertainment	708	639	2,384	2,137
Consumer Products & Interactive Media	324	362	1,295	1,371
	$4,193	$4,011	$12,416	$11,963

(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 $119 million and $103 million for the quarters ended June 30, 2018 and July 1, 2017, respectively, and $426 million and $391 million for the nine months ended June 30, 2018 and July 1, 2017, respectively.

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

	Quarter Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Segment operating income	$4,193	$4,011	$12,416	$11,963
Corporate and unallocated shared expenses	(196)	(99)	(540)	(392)
Restructuring and impairment charges	—	—	(28)	—
Other income/(expense), net	—	(177)	94	(177)
Interest expense, net	(143)	(117)	(415)	(300)
Income before income taxes	$3,854	$3,618	$11,527	$11,094

In March 2018, the Company announced a strategic reorganization of its businesses into four operating segments: the newly-formed Direct-to-Consumer and International; the combined Parks, Experiences and Consumer Products; Media Networks; and Studio Entertainment. The Company is in the process of modifying internal and external reporting processes and systems to accommodate the new structure and expects to transition to the new segment reporting structure by the beginning of fiscal 2019. We continue to report operating results to our chief operating decision maker using our current operating segments.

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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.

BAMTech's noncontrolling interest holders, MLB and the National Hockey League (NHL), have the right to sell their interest to the Company in the future. MLB can generally sell their interest 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 its interest 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. In addition, ESPN's noncontrolling interest holder has a 20% interest in BAMTech's direct-to-consumer sports business.

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 or 2021 for $500 million.

The acquisition date fair value of the noncontrolling interests was estimated at $1.1 billion, which was calculated using an option pricing model and generally reflected the net present value of the expected future redemption amount. As a result of the MLB and NHL sale rights, the noncontrolling interests will generally not be allocated BAMTech losses. 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 (i.e. in five years after the acquisition date) will be recorded using an interest method. As of June 30, 2018, the redeemable noncontrolling interest subject to accretion would have had a redemption amount of $597 million if it were redeemed at that time. Adjustments to the carrying amount of redeemable noncontrolling interests 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.

We have allocated $3.5 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.

The revenue and costs of BAMTech included in the Company's Condensed Consolidated Statement of Income for the nine months ended June 30, 2018 were approximately $0.3 billion and $0.5 billion, respectively.

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 and 21CF entered into an Amended and Restated Agreement and Plan of Merger ("Amended Merger Agreement") for the Company to acquire 21CF. The Amended Merger Agreement amends and restates in its entirety the Original Merger Agreement.

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"). 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 National Geographic) and 21CF's international television businesses.

Following the New Fox Separation and the New Fox Distribution, WDC Merger Enterprises I, Inc., a wholly owned subsidiary of TWDC Holdco 613 Corp ("New Disney"), a direct wholly owned subsidiary of the Company, 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. In order to seek approval from shareholders of 21CF and the Company, New Disney filed a Form S-4 Registration Statement (“S-4”) with the U.S. Securities and Exchange Commission (“SEC”), which was declared effective on June 28, 2018. The S-4 constitutes a prospectus for the registration of New Disney common stock to be delivered to 21CF shareholders pursuant to the Amended Merger Agreement as well as a joint proxy statement of the Company and 21CF. 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 condition relating to the adoption of the Amended Merger Agreement by the requisite vote of shareholders of 21CF and the approval of the stock issuance by the requisite vote of the Company’s shareholders was satisfied on July 27, 2018

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 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 exchange ratio may be subject to an adjustment based on the final estimate of the Transaction Tax and other transactions contemplated by the Amended Merger Agreement. 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 included in the S-4 filing, based on the number of shares of 21CF common stock outstanding as of May 29, 2018 and assuming an Average Company Stock Price of $103.926 (which was the volume weighted average price of the Company’s stock over the 20-trading day period ending on June 18, 2018), and assuming no adjustment for the Transaction Tax, New Disney would be required to issue approximately 343 million new shares of New Disney common stock to 21CF stockholders. The value at which New Disney will record the equity consideration will be based upon the Company’s stock price on the date the transaction closes. In addition, New Disney will assume 21CF’s net debt, which had a book value of approximately $13.2 billion and an estimated fair value of approximately $17.1 billion as of March 31, 2018 (approximately $23.9 billion of debt less approximately $6.8 billion in cash) if the Sky Acquisition (as defined below) is not completed or an estimated fair value of $49.3 billion of net debt (fair value of approximately $51.1 billion of debt less approximately $1.8 billion in cash) if the Sky Acquisition is completed.

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.

21CF currently has an interest of approximately 39% in Sky. In December 2016, 21CF announced the terms of an offer to acquire the fully diluted share capital of Sky which 21CF and its affiliates do not already own at a price of £10.75 per share, payable in cash, subject to certain payments of dividends (the “Sky Acquisition”). On April 25, 2018, Comcast announced an offer for the fully diluted share capital of Sky at an offer price of £12.50 per Sky share and, on July 11, 2018, Comcast

THE WALT DISNEY COMPANY
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increased its offer price to £14.75 per Sky share (the "Revised Comcast Sky offer"). The Revised Comcast Sky Offer was recommended by the Independent Committee of the Sky Board responsible for reviewing the terms of the offer. On July 11, 2018, 21CF announced an increased offer price for Sky of £14.00 per share, payable in cash, subject to reduction if certain dividends or other distributions are paid by Sky. 21CF may elect not to increase the price offered by it in the Sky Acquisition. Any increase in the debt financing for the Sky Acquisition would require the Company's consent, which we may elect not to provide. Any sale by 21CF of its interest in Sky would require the Company's consent. Completion of the Sky Acquisition is not a condition to either party's obligation to consummate the 21CF acquisition transaction. If the Sky Acquisition is not completed by 21CF for any reason, then upon consummation of the 21CF acquisition, New Disney would indirectly acquire 21CF's approximately 39% interest in Sky.

On July 12, 2018, the Sky Acquisition received approval by the UK Secretary of State for Digital, Culture, Media and Sport. In connection with the approval sought from the UK Secretary of State for Digital, Culture, Media and Sport, 21CF has undertaken to the Secretary of State to separate the Sky News business into a separate company ("Sky News Newco"), and to transfer the shares in Sky News Newco to the Company or to an alternative suitable third party if the Company does not complete its acquisition of Sky News Newco within a specified period ("Sky News Divestment"). The Sky News Divestment is conditional upon the Sky Acquisition completing. 21CF and the Company have agreed to provide financial support to Sky News Newco at the current level of funding (adjusted by cost inflation) and further possible capital expenditures for a period of 15 years after the Sky News Divestment such that the total funds available for Sky News is no less than £100 million per year. The Company has undertaken to continue to operate Sky News for a period of 15 years after the Sky News Divestment and may only sell Sky News Newco with the approval of the Secretary of State.

The Sky Acquisition remains subject to the requisite approval of Sky shareholders unaffiliated with 21CF, as well as to certain other customary closing conditions.

Completion of the Sky Acquisition will not affect the amount or form of consideration that stockholders of 21CF receive in the 21CF Merger. In the event that the 21CF Merger is not completed due to the failure to obtain regulatory approvals or in certain other limited circumstances, the Company has agreed to reimburse 21CF for an amount equal to the difference between the cash consideration of £14.00 and £13.00 for each share of Sky purchased by 21CF pursuant to the Sky Acquisition, plus any interest and fees on such amount.

If the Sky Acquisition is not completed by 21CF and another party has not acquired more than 50% of the ordinary shares of Sky, in each case prior to the completion of the Mergers, New Disney will be required to make a mandatory offer for all the outstanding ordinary shares of Sky not already owned by 21CF. On July 13, 2018, the Panel on Takeovers and Mergers of the United Kingdom (the "U.K. Takeover Panel"), ruled that any such offer would be required to be made in cash and at a price of £14.00 for each ordinary share in Sky (the "July 13 Ruling"), which ruling was upheld on August 4, 2018 by the U.K. Takeover Panel's Hearings Committee on appeal. It is expected that there will be a further appeal to the U.K. Takeover Appeal Board which could agree or disagree with the July 13 Ruling. In the event that there is a further appeal and the U.K. Takeover Appeal Board does not agree with the July 13 Ruling, the price at which New Disney may be required to make such mandatory offer may be increased or decreased.

Goodwill

The changes in the carrying amount of goodwill for the nine months ended June 30, 2018 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[(1)]	3,078	—	363	39	(3,600)	(120)

Balance at June 30, 2018	$ 19,403	$ 291	$ 7,180	$ 4,432	$ —	$ 31,306

(1) Other, net represents the allocation of BAMTech goodwill to segments based on the final purchase price allocation and also includes the impact of updates to our initial estimated fair value of intangible assets related to BAMTech.

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5. Borrowings

During the nine months ended June 30, 2018, the Company's borrowing activity was as follows:

	September 30, 2017	Borrowings	Payments	Other Activity	June 30, 2018
Commercial paper with original maturities less than three months[1]	$ 1,151	$ —	$ (1,098)	$ (3)	$ 50
Commercial paper with original maturities greater than three months	1,621	7,229	(5,678)	11	3,183
U.S. and European medium-term notes	19,721	—	(1,300)	16	18,437
BAMTech acquisition payable	1,581	—	(1,581)	—	—
Asia Theme Parks borrowings	1,145	—	—	37	1,182
Foreign currency denominated debt and other[2]	72	1,056	(56)	(251)	821
Total	$ 25,291	$ 8,285	$ (9,713)	$ (190)	$ 23,673

[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 2019	$ 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

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 0.18% 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 June 30, 2018, the Company has $192 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 June 30, 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 0.875% if the Company had drawn on this facility at June 30, 2018. Prior to the completion of the 21CF acquisition, the Company anticipates that it will execute debt financings for the cash component of the 21CF acquisition and terminate the bridge term loan facility.

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.

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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		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Interest expense	$(175)	$(134)	$(493)	$(370)
Interest and investment income	32	17	78	70
Interest expense, net	$(143)	$(117)	$(415)	$(300)

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 (the Asia Theme Parks together 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 June 30, 2018 and September 30, 2017:

	June 30, 2018	September 30, 2017
Cash and cash equivalents	$745	$ 843
Other current assets	427	376
Total current assets	1,172	1,219
Parks, resorts and other property	9,213	9,403
Other assets	96	111
Total assets [(1)]	$10,481	$ 10,733
Current liabilities	$1,018	$ 1,163
Long-term borrowings	1,182	1,145
Other long-term liabilities	370	371
Total liabilities [(1)]	$2,570	$ 2,679

(1) Total assets of the Asia Theme Parks were $8 billion at both June 30, 2018 and September 30, 2017 including parks, resorts and other property of $7 billion. Total liabilities of the Asia Theme Parks were $2 billion at both June 30, 2018 and September 30, 2017.

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 nine months ended June 30, 2018:

	June 30, 2018
Revenues	$2,781
Costs and expenses	(2,702)
Equity in the loss of investees	(19)

Asia Theme Parks’ royalty and management fees of $129 million for the nine months ended June 30, 2018 are eliminated in consolidation but are considered in calculating earnings allocated to noncontrolling interests.

International Theme Parks’ cash flows for the nine months ended June 30, 2018 included in the Company’s Condensed Consolidated Statement of Cash Flows were $558 million generated from operating activities, $488 million used in investing

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activities and $34 million generated from financing activities. The majority 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 53% and 47% equity interests in Hong Kong Disneyland Resort, respectively.

The Company and HKSAR have both provided loans to Hong Kong Disneyland Resort with outstanding balances of $141 million each. 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 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 June 30, 2018.

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 from 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, operates Shanghai Disney Resort.

The Company has provided Shanghai Disney Resort with loans totaling $795 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 $172 million due from Shanghai Disney Resort primarily related to royalties. 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 June 30, 2018. The outstanding balances are eliminated upon consolidation.

Shendi has provided Shanghai Disney Resort with loans totaling 6.9 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 $206 million) line of credit bearing interest at 8%. There is no outstanding balance under the line of credit at June 30, 2018.

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 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 Company recognized a benefit from the deferred tax remeasurement of approximately $2.1 billion in the nine months ended June 30, 2018.
- 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 $0.3 billion in the nine months ended June 30, 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.

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- Certain foreign earnings will be taxed at a minimum effective rate of approximately 13%, which increases to approximately 16% in 2025. 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. Although the Company does not anticipate material adjustments to the provisional amounts, final amounts could vary. Additional information and analysis is required to finalize the impact including determining foreign cash and cash equivalents at the end of fiscal 2018 to calculate the Deemed Repatriation Tax. 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 nine months ended June 30, 2018, the Company decreased its gross unrecognized tax benefits by $0.1 billion from $0.9 billion to $0.8 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 $0.2 billion, of which $0.1 billion 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		Nine Months Ended		Quarter Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Service costs	$87	$90	$262	$273	$3	$3	$8	$9
Interest costs	122	113	367	336	15	14	45	42
Expected return on plan assets	(225)	(219)	(677)	(656)	(13)	(13)	(39)	(37)
Amortization of prior-year service costs	3	3	11	8	—	—	—	—
Recognized net actuarial loss	86	101	261	303	3	4	10	12
Net periodic benefit cost	$73	$88	$224	$264	$8	$8	$24	$26

During the nine months ended June 30, 2018, the Company made $366 million of contributions to its pension and postretirement medical plans. The Company currently does not expect to make any additional 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		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Shares (in millions):				
Weighted average number of common and common equivalent shares outstanding (basic)	1,491	1,562	1,502	1,578
Weighted average dilutive impact of Awards	7	10	8	10
Weighted average number of common and common equivalent shares outstanding (diluted)	1,498	1,572	1,510	1,588
Awards excluded from diluted earnings per share	12	8	12	11

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	$1.2 billion	Fourth Quarter of Fiscal 2018	First Half of 2018
$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 nine months ended June 30, 2018, the Company repurchased 35 million shares of its common stock for $3.6 billion. As of June 30, 2018, the Company had remaining authorization in place to repurchase approximately 158 million additional shares. The repurchase program does not have an expiration date.

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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 Investments	Market Value Adjustments Cash Flow Hedges	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
Balance at March 31, 2018	$ 24	$ (197)	$ (4,690)	$ (358)	$(5,221)
Quarter Ended June 30, 2018:					
Unrealized gains (losses) arising during the period	1	296	—	(286)	11
Reclassifications of realized net (gains) losses to net income	—	26	96	—	122
Balance at June 30, 2018	$ 25	$ 125	$ (4,594)	$ (644)	$(5,088)
Balance at April 1, 2017	$ 28	$ 141	$ (5,638)	$ (599)	$(6,068)
Quarter Ended July 1, 2017:					
Unrealized gains (losses) arising during the period	(1)	(108)	—	54	(55)
Reclassifications of realized net (gains) losses to net income	—	(41)	108	—	67
Balance at July 1, 2017	$ 27	$ (8)	$ (5,530)	$ (545)	$(6,056)
Balance at September 30, 2017	$ 15	$ (108)	$ (4,906)	$ (523)	$(5,522)
Nine Months Ended June 30, 2018:					
Unrealized gains (losses) arising during the period	10	150	24	(121)	63
Reclassifications of net (gains) losses to net income	—	83	288	—	371
Balance at June 30, 2018	$ 25	$ 125	$ (4,594)	$ (644)	$(5,088)
Balance at October 1, 2016	$ 44	$ (38)	$ (5,859)	$ (521)	$(6,374)
Nine Months Ended July 1, 2017:					
Unrealized gains (losses) arising during the period	(11)	192	5	(24)	162
Reclassifications of net (gains) losses to net income	(6)	(162)	324	—	156
Balance at July 1, 2017	$ 27	$ (8)	$ (5,530)	$ (545)	$(6,056)

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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 March 31, 2018	$ (10)	$ 41	$ 1,778	$ 67	$1,876
Quarter Ended June 30, 2018:					
Unrealized gains (losses) arising during the period	—	(56)	(2)	38	(20)
Reclassifications of realized net (gains) losses to net income	—	(6)	(24)	—	(30)
Balance at June 30, 2018	$ (10)	$ (21)	$ 1,752	$ 105	$1,826
Balance at April 1, 2017	$ (12)	$ (50)	$ 2,113	$ 137	$2,188
Quarter Ended July 1, 2017:					
Unrealized gains (losses) arising during the period	(4)	42	—	(9)	29
Reclassifications of realized net (gains) losses to net income	—	15	(40)	—	(25)
Balance at July 1, 2017	$ (16)	$ 7	$ 2,073	$ 128	$2,192
Balance at September 30, 2017	$ (7)	$ 46	$ 1,839	$ 116	$1,994
Nine Months Ended June 30, 2018:					
Unrealized gains (losses) arising during the period	(3)	(44)	(5)	(11)	(63)
Reclassifications of net (gains) losses to net income	—	(23)	(82)	—	(105)
Balance at June 30, 2018	$ (10)	$ (21)	$ 1,752	$ 105	$1,826
Balance at October 1, 2016	$ (18)	$ 13	$ 2,208	$ 192	$2,395
Nine Months Ended July 1, 2017:					
Unrealized gains (losses) arising during the period	—	(66)	(15)	(64)	(145)
Reclassifications of net (gains) losses to net income	2	60	(120)	—	(58)
Balance at July 1, 2017	$ (16)	$ 7	$ 2,073	$ 128	$2,192

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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 March 31, 2018	$ 14	$ (156)	$ (2,912)	$ (291)	$ (3,345)
Quarter Ended June 30, 2018:					
Unrealized gains (losses) arising during the period	1	240	(2)	(248)	(9)
Reclassifications of realized net (gains) losses to net income	—	20	72	—	92
Balance at June 30, 2018	$ 15	$ 104	$ (2,842)	$ (539)	$ (3,262)
Balance at April 1, 2017	$ 16	$ 91	$ (3,525)	$ (462)	$ (3,880)
Quarter Ended July 1, 2017:					
Unrealized gains (losses) arising during the period	(5)	(66)	—	45	(26)
Reclassifications of realized net (gains) losses to net income	—	(26)	68	—	42
Balance at July 1, 2017	$ 11	$ (1)	$ (3,457)	$ (417)	$ (3,864)
Balance at September 30, 2017	$ 8	$ (62)	$ (3,067)	$ (407)	$ (3,528)
Nine Months Ended June 30, 2018:					
Unrealized gains (losses) arising during the period	7	106	19	(132)	—
Reclassifications of net (gains) losses to net income	—	60	206	—	266
Balance at June 30, 2018	$ 15	$ 104	$ (2,842)	$ (539)	$ (3,262)
Balance at October 1, 2016	$ 26	$ (25)	$ (3,651)	$ (329)	$ (3,979)
Nine Months Ended July 1, 2017:					
Unrealized gains (losses) arising during the period	(11)	126	(10)	(88)	17
Reclassifications of net (gains) losses to net income	(4)	(102)	204	—	98
Balance at July 1, 2017	$ 11	$ (1)	$ (3,457)	$ (417)	$ (3,864)

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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		Nine Months Ended	
		June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Investments, net	Interest expense, net	$ —	$ —	$ —	$ 6
Estimated tax	Income taxes	—	—	—	(2)
		—	—	—	4
Cash flow hedges	Primarily revenue	(26)	41	(83)	162
Estimated tax	Income taxes	6	(15)	23	(60)
		(20)	26	(60)	102
Pension and postretirement medical expense	Costs and expenses	(96)	(108)	(288)	(324)
Estimated tax	Income taxes	24	40	82	120
		(72)	(68)	(206)	(204)
Total reclassifications for the period		$ (92)	$ (42)	$ (266)	$ (98)

At June 30, 2018 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 and restricted stock units (RSUs) is as follows:

	Quarter Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Stock options	$ 21	$ 20	$ 67	$ 62
RSUs	92	69	240	216
Total equity-based compensation expense (1)	$ 113	$ 89	$ 307	$ 278
Equity-based compensation expense capitalized during the period	$ 17	$ 19	$ 54	$ 61

(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 $146 million and $520 million, respectively, as of June 30, 2018.

The weighted average grant date fair values of options granted during the nine months ended June 30, 2018 and July 1, 2017 were $28.01 and $25.66, respectively.

During the nine months ended June 30, 2018, the Company made equity compensation grants consisting of 4.0 million stock options and 4.5 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,

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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 June 30, 2018, the remaining debt service obligation guaranteed by the Company was $301 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.

The Company has guaranteed $113 million of Hulu LLC's $338 million term loan, which expires in August 2022. The Company is also committed to make a capital contribution of approximately $450 million to Hulu in calendar 2018. For the nine months ended June 30, 2018, the Company made contributions of $227 million against this commitment. 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 $0.9 billion as of June 30, 2018. 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 June 30, 2018. 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:

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 June 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	$41	$—	$—	$41
Derivatives				
Foreign exchange	—	479	—	479
Other	—	14	—	14
Liabilities				
Derivatives				

Interest rate	—	(370)	—	(370)
Foreign exchange	—	(311)	—	(311)
Total recorded at fair value	$41	$(188)	$—	$(147)
Fair value of borrowings	$—	$22,442	$1,223	$23,665

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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, U.S. medium-term notes and certain foreign currency denominated borrowings, are valued based on quoted prices for similar instruments in active markets.

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 historical market transactions and prevailing market interest rates. Level 3 borrowings at September 30, 2017 also include borrowings in connection with the acquisition of BAMTech, which were paid in the second quarter of fiscal 2018 (see Note 4).

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 June 30, 2018			
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	$172	$ 192	$ (108)	$ (60)
Interest rate	—	—	(297)	—
Other	11	3	—	—
Derivatives not designated as hedges				
Foreign exchange	92	23	(99)	(44)
Interest rate	—	—	—	(73)
Gross fair value of derivatives	275	218	(504)	(177)
Counterparty netting	(184)	(173)	245	112

Cash collateral (received)/paid	—	—	137	17
Net derivative positions	$91	$ 45	$ (122)	$ (48)

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	As of September 30, 2017			
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	$175	$ 190	$ (192)	$ (170)
Interest rate	—	10	(106)	—
Other	6	2	—	—
Derivatives not designated as hedges				
Foreign exchange	38	—	(46)	(19)
Interest rate	—	—	—	(16)
Gross fair value of derivatives	219	202	(344)	(205)
Counterparty netting	(142)	(190)	188	144
Cash collateral (received)/paid	(20)	(7)	19	—
Net derivative positions	$57	$ 5	$ (137)	$ (61)

Interest Rate Risk Management

The Company is exposed to the impact of interest rate changes primarily through its borrowing activities. The Company's objective is to mitigate the impact of interest rate changes on earnings and cash flows and on the market value of its borrowings. In accordance with its policy, the Company targets its fixed-rate debt as a percentage of its net debt between a minimum and maximum percentage. The Company 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 June 30, 2018 and September 30, 2017, the total notional amount of the Company's pay-floating interest rate swaps was $7.8 billion and $8.2 billion, respectively. The following table summarizes adjustments related to fair value hedges included in "Interest expense, net" in the Condensed Consolidated Statements of Income.

	Quarter Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Gain (loss) on interest rate swaps	$ (25)	$ 39	$(191)	$(203)
Gain (loss) on hedged borrowings	25	(39)	191	203

In addition, during the quarter and nine months ended June 30, 2018, the Company realized net expense of $9 million and $3 million, respectively in "Interest expense, net" related to pay-floating interest rate swaps. During the quarter and nine months ended July 1, 2017, the Company realized net benefits of $7 million and $29 million, respectively in "Interest expense, net" related to pay-floating interest rate swaps.

The Company may designate pay-fixed interest rate swaps as cash flow hedges of interest payments on floating-rate borrowings. Pay-fixed swaps effectively convert floating-rate borrowings to fixed-rate borrowings. The unrealized gains or losses from these cash flow hedges are deferred in AOCI and recognized in interest expense as the interest payments occur. The Company did not have pay-fixed interest rate swaps that were designated as cash flow hedges of interest payments at June 30, 2018 or at September 30, 2017, and gains and losses related to pay-fixed swaps recognized in earnings for the quarter and nine months ended June 30, 2018 and July 1, 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 June 30, 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.

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.

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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, Canadian dollar and British pound. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings into U.S. dollar denominated borrowings.

The Company designates foreign exchange forward and option contracts as cash flow hedges of firmly committed and forecasted foreign currency transactions. As of June 30, 2018 and September 30, 2017, the notional amounts of the Company's net foreign exchange cash flow hedges were $6.1 billion and $6.3 billion, respectively. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of the foreign currency transactions. Gains and losses recognized related to ineffectiveness for the nine months ended June 30, 2018 and July 1, 2017 were not material. Net deferred gains recorded in AOCI for contracts that will mature in the next twelve months totaled $73 million.

Foreign exchange risk management contracts with respect to foreign currency denominated assets and liabilities are not designated as hedges and do not qualify for hedge accounting. The notional amounts of these foreign exchange contracts at June 30, 2018 and September 30, 2017 were $2.8 billion and $3.6 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 and nine months ended June 30, 2018 and July 1, 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:	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net gains (losses) on foreign currency denominated assets and liabilities	$(175)	$148	$28	$(7)	$35	$4
Net gains (losses) on foreign exchange risk management contracts not designated as hedges	164	(144)	(34)	6	(31)	21
Net gains (losses)	$(11)	$4	$(6)	$(1)	$4	$25
Nine Months Ended:						
Net gains (losses) on foreign currency denominated assets and liabilities	$(94)	$25	$55	$(3)	$23	$16
Net gains (losses) on foreign exchange risk management contracts not designated as hedges	73	(26)	(62)	2	(15)	4
Net gains (losses)	$(21)	$(1)	$(7)	$(1)	$8	$20

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 June 30, 2018 and September 30, 2017 and related gains or losses recognized in earnings for the quarter and nine months ended June 30, 2018 and July 1, 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 June 30, 2018 and September 30, 2017 were not material. The related gains or losses recognized in earnings for the quarter and nine months ended June 30, 2018 and July 1, 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 $324 million and $217 million on June 30, 2018 and September 30, 2017, respectively.

15. Restructuring and Impairment Charges and Other Income

The Company recorded $28 million of restructuring and impairment charges in the current nine-month period, primarily for severance costs.

The Company recorded $94 million of other income in the current nine-month period, which included a gain from the sale of property rights and insurance proceeds related to a legal matter. In the prior-year quarter, the Company recorded a $177 million charge, net of committed insurance recoveries, in connection with the settlement of litigation.

16. New Accounting Pronouncements

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the Financial Accounting Standards Board (FASB) issued guidance as a result of the Tax Act to permit the reclassification of certain tax effects in accumulated other comprehensive income (AOCI) to retained earnings. Current accounting guidance requires that adjustments to deferred tax assets and liabilities for changes in enacted tax rates be recorded through income from continuing operations even if the deferred taxes were originally established through comprehensive income. The new guidance allows companies to make a one-time election to reclassify the tax effects resulting from the Tax Act on items in AOCI to retained earnings. The new guidance is effective beginning with the first quarter of the Company's 2020 fiscal year (with early adoption permitted). The guidance should be applied either retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized or as a cumulative adjustment in the first period of adoption. The Company is still assessing whether it will make the one-time election to reclassify the tax-effects to retained earnings.

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued guidance to improve certain aspects of the hedge accounting model including making more risk management strategies eligible for hedge accounting and simplifying the assessment of hedge effectiveness. We do not expect the adoption of the new standard will have a material impact on our consolidated financial statements as our historical hedging ineffectiveness has been immaterial. The new guidance is effective beginning with the Company's 2020 fiscal year (with early adoption permitted) and requires prospective adoption with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption for existing hedging relationships.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued guidance that requires presentation of the components of net periodic pension and postretirement benefit costs other than service costs in an income statement line item outside of a subtotal of income from operations. The service cost component will continue to be presented in the same line items as other employee compensation costs. In addition, under the guidance only service costs are eligible for capitalization, for example, as part of a self-constructed fixed asset or a film production. The new guidance is effective beginning with the first quarter of the Company's 2019 fiscal year. The guidance is required to be adopted retrospectively with respect to income statement presentation and prospectively for the capitalization requirement. We do not expect the change in capitalization requirement to have a material impact on our financial statements. See Note 8 of this filing and Note 10 to the Consolidated Financial Statements in the 2017 Annual Report on Form 10-K for the amount of each component of net periodic pension and postretirement benefit costs we have reported historically. These amounts of net periodic pension and postretirement benefit costs are not necessarily indicative of future amounts that may arise in years following implementation of the new accounting pronouncement.

Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued guidance 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. The new guidance is effective beginning with the first quarter of the Company’s 2019 fiscal year. The guidance requires

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prospective adoption with a cumulative-effect adjustment to retained earnings as of the beginning of the adoption period. Based upon our analysis, we estimate that approximately $0.1 billion will be recorded as an increase to retained earnings upon adoption, which we do not believe is material to our consolidated financial statements. Our assessment may change if we enter into new transactions between now and the date of adoption.

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 Company is currently assessing the impact of the new guidance on its financial statements. The standard can be adopted either as of the effective date without restating prior periods or retrospectively by restating prior periods. The guidance is effective at the beginning of the Company’s 2020 fiscal year (with early adoption permitted). As of September 30, 2017, the Company had an estimated $3.3 billion in undiscounted future minimum lease commitments.

Revenue from Contracts with Customers

In May 2014, the FASB issued guidance that replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model, eliminating industry-specific accounting rules. 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. Since its issuance, the FASB has amended several aspects of the new guidance, including provisions that address revenue recognition associated with the licensing of intellectual property (IP). The new guidance, including the amendments, is effective at the beginning of the Company’s 2019 fiscal year.

We have reviewed our significant revenue streams and identified required changes to our revenue recognition policies. Based on our existing customer contracts and relationships, we do not expect the implementation of the new guidance will have a material impact on our consolidated financial statements upon adoption. The Company’s evaluation of the impact could change if we enter into new revenue arrangements or interpretations of the new guidance further evolve. While not expected to be material, the more significant changes to the Company’s revenue recognition policies are in the following areas:

- For television and film content licensing agreements with multiple availability windows with the same licensee, the Company will defer more revenues to future windows than is currently deferred.
- For licenses of character images, brands and trademarks subject to minimum guaranteed license fees, we currently recognize the difference between the minimum guaranteed amount and actual royalties earned from licensee merchandise sales (“shortfalls”) at the end of the contract period. Under the new guidance, projected guarantee shortfalls will be recognized straight-line over the remaining license period once an expected shortfall is identified.
- For licenses that include multiple television and film titles subject to minimum guaranteed license fees that are recoupable against the licensee’s aggregate underlying sales from all titles, the Company will allocate the minimum guaranteed license fee to each title and recognize the allocated license fee as revenue when the title is made available to the customer. License fees in excess of the allocated by-title minimum guarantee are deferred until the aggregate contractual minimum guarantee has been exceeded and thereafter recognized as earned based on the licensee’s underlying sales. Under current guidance, an upfront allocation of the minimum guarantee is not required as license fees are 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, we will recognize revenue when the licensed content becomes available under the renewal or extension, instead of when the agreement is renewed or extended.

We are developing processes to capture the information necessary for the expanded disclosures required under the new guidance, and continuing to identify updates needed to our internal controls to support our new revenue recognition policies and disclosure requirements.

The guidance may be adopted either by restating fiscal 2017 and 2018 to reflect the impact of the new guidance (full retrospective method) or by recording the impact of adoption as an adjustment to retained earnings at the beginning of fiscal 2019 (modified retrospective method). The Company currently expects to adopt the standard using the modified retrospective method.

The Company's equity method investees are considered private companies for purposes of applying the new guidance and are not required to adopt the new standard until fiscal years beginning after December 15, 2018. Our significant equity method investees continue to assess the potential impact of adopting the new standard on their financial statements. We currently do not expect any material impacts to the Company's consolidated financial statements upon the investees' adoption of the new guidance.

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
Impact of U.S. tax reform
Financial Condition
Commitments and Contingencies
Other Matters
Market Risk
CONSOLIDATED RESULTS AND NON-SEGMENT ITEMS
Our summary consolidated results are presented below:

	Quarter Ended		% Change	Nine Months Ended		% Change
(in millions, except per share data)	June 30, 2018	July 1, 2017	Better/ (Worse)	June 30, 2018	July 1, 2017	Better/ (Worse)
Revenues:						
Services	$13,142	$12,097	9 %	$38,646	$35,990	7 %
Products	2,086	2,141	(3) %	6,481	6,368	2 %
Total revenues	15,228	14,238	7 %	45,127	42,358	7 %
Costs and expenses:						
Cost of services (exclusive of depreciation and amortization)	(7,124)	(6,469)	(10) %	(20,762)	(19,328)	(7) %
Cost of products (exclusive of depreciation and amortization)	(1,224)	(1,248)	2 %	(3,856)	(3,764)	(2) %
Selling, general, administrative and other	(2,212)	(2,022)	(9) %	(6,538)	(5,948)	(10) %
Depreciation and amortization	(744)	(711)	(5) %	(2,217)	(2,074)	(7) %
Total costs and expenses	(11,304)	(10,450)	(8) %	(33,373)	(31,114)	(7) %
Restructuring and impairment charges	—	—	nm	(28)	—	nm
Other income/(expense), net	—	(177)	nm	94	(177)	nm
Interest expense, net	(143)	(117)	(22) %	(415)	(300)	(38) %
Equity in the income of investees	73	124	(41) %	122	327	(63) %
Income before income taxes	3,854	3,618	7 %	11,527	11,094	4 %
Income taxes	(795)	(1,144)	31 %	(880)	(3,593)	76 %
Net income	3,059	2,474	24 %	10,647	7,501	42 %
Less: Net income attributable to noncontrolling interests	(143)	(108)	(32) %	(371)	(268)	(38) %
Net income attributable to Disney	$2,916	$2,366	23 %	$10,276	$7,233	42 %
Diluted earnings per share attributable to Disney	$1.95	$1.51	29 %	$6.81	$4.55	50 %

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

Quarter Results

Revenues for the quarter increased 7%, or $1.0 billion, to $15.2 billion; net income attributable to Disney increased 23%, or $0.6 billion, to $2.9 billion; and diluted earnings per share attributable to Disney (EPS) increased 29% from $1.51 to $1.95. The EPS increase for the quarter was due to a benefit from new federal income tax legislation, the "Tax Cuts and Jobs Act" (Tax Act) (See Note 7 to the Condensed Consolidated Financial Statements), a decrease in weighted average shares outstanding as a result of our share repurchase program and higher segment operating income, partially offset by higher Corporate and unallocated shared expenses. The increase in segment operating income was due to growth at our Parks and Resorts and Studio Entertainment segments, partially offset by lower results at our Consumer Products & Interactive Media segment.

Revenues

Service revenues for the quarter increased 9%, or $1.0 billion, to $13.1 billion due to higher theatrical distribution revenue driven by the success of Avengers: Infinity War and Incredibles 2, growth in TV/subscription video on demand (SVOD) distribution revenue, higher fees from Multi-channel Video Distributors (MVPDs) (Affiliate Fees), growth in guest spending and higher volumes at our parks and resorts and the consolidation of BAMTech. The Company began consolidating BAMTech in the fourth quarter of the prior year. These increases were partially offset by lower advertising revenue.

Product revenues for the quarter decreased 3%, or $55 million to $2.1 billion primarily due to lower domestic home entertainment volumes and a decrease in retail store sales, partially offset by higher guest spending at our parks and resorts. Product revenues reflected an approximate 2 percentage point increase due to a favorable movement of the U.S. dollar against major currencies including the impact of our hedging program (FX Impact).

Costs and expenses

Cost of services for the quarter increased 10%, or $655 million, to $7.1 billion due to higher film cost amortization driven by increased theatrical distribution revenue and film cost impairments, higher television programming and production costs, the consolidation of BAMTech, and labor and other cost inflation at our parks and resorts. Cost of services reflected an approximate 1 percentage point increase due to an unfavorable FX Impact.

Cost of products for the quarter decreased 2%, or $24 million, to $1.2 billion primarily due to lower home entertainment volumes and a decrease in retail store sales, partially offset by higher guest spending and cost inflation at our parks and resorts. Cost of products reflected an approximate 1 percentage point increase due to an unfavorable FX Impact.

Selling, general, administrative and other costs increased 9%, or $190 million, to $2.2 billion primarily due to higher theatrical marketing spending, costs incurred in connection with our agreement to acquire Twenty-First Century Fox, Inc. and an increase in compensation costs.

Depreciation and amortization increased 5%, or $33 million, to $0.7 billion, due to the consolidation of BAMTech.

Other income/(expense), net

Other income/(expense), net of $177 million for the prior-year quarter consisted of a charge, net of committed insurance recoveries, incurred in connection with the settlement of litigation.

Interest expense, net

Interest expense, net is as follows:

(in millions)	Quarter Ended June 30, 2018	Quarter Ended July 1, 2017	% Change Better/(Worse)
Interest expense	$(175)	$(134)	(31) %
Interest and investment income	32	17	88 %
Interest expense, net	$(143)	$(117)	(22) %

The increase in interest expense was due to higher average interest rates and an increase in average debt balances.

The increase in interest and investment income was driven by net investment income in the current quarter compared to net investment losses in the prior-year quarter.

Equity in the income of investees

Equity in the income of investees decreased $51 million to $73 million for the quarter due to higher losses from Hulu and lower income from A+E Television Networks (A+E). These decreases were partially offset by a favorable comparison to a loss

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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from BAMTech in the prior-year quarter. The decrease at Hulu was driven by higher programming and labor costs, partially offset by higher subscription and advertising revenue. The decrease at A+E was due to lower advertising revenue and higher programming costs, partially offset by higher program sales.

Effective Income Tax Rate

	Quarter Ended		
	June 30, 2018	July 1, 2017	Change Better/(Worse)
Effective income tax rate	20.6 %	31.6 %	11.0 ppt

The decrease in the effective income tax rate for the quarter was due to a net favorable impact of the Tax Act, which reflects the following:

- A reduction in the Company's fiscal 2018 U.S. statutory federal income tax rate to 24.5% from 35.0% in the prior year. Net of state tax and other related effects, the reduction in the statutory rate had an impact of approximately 8.6 percentage points on the effective income tax rate.
- A net benefit of approximately $110 million from updating our prior quarter estimates of the remeasurement of our net federal deferred tax liability to the new statutory rates and a one-time tax on certain accumulated foreign earnings (Deemed Repatriation Tax). This update includes the impact from finalizing our fiscal 2017 income tax return.This benefit had an impact of approximately 2.9 percentage points on the effective income tax rate.

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		
	June 30, 2018	July 1, 2017	% Change Better/(Worse)
Net income attributable to noncontrolling interests	$ 143	$ 108	(32) %

The increase in net income attributable to noncontrolling interests was due to higher results at ESPN and Shanghai Disney Resort. Results at ESPN included the benefit of lower tax expense, largely due to the Tax Act.

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

Nine-Month Results

Revenues for the nine-month period increased 7%, or $2.8 billion, to $45.1 billion; net income attributable to Disney increased 42%, or $3.0 billion, to $10.3 billion; and EPS increased 50% from $4.55 to $6.81. The EPS increase for the nine-month period was due to the benefit from the Tax Act, a decrease in weighted average shares outstanding as a result of our share repurchase program and higher segment operating income. The increase in segment operating income was due to growth at our Parks and Resorts and Studio Entertainment segments, partially offset by lower results at our Media Networks and Consumer Products & Interactive Media segments.

Revenues

Service revenues for the nine-month period increased 7%, or $2.7 billion, to $38.6 billion due to higher theatrical distribution revenue, higher guest spending and volumes at our parks and resorts, an increase in affiliate fees, the consolidation of BAMTech and growth in TV/SVOD distribution revenue. These increases were partially offset by lower advertising revenue.

Product revenues for the nine-month period increased 2%, or $113 million to $6.5 billion, due to increases in guest spending and volumes at our parks and resorts, partially offset by lower domestic home entertainment volumes and a decrease in retail store sales. Product revenues reflected an approximate 1 percentage point increase due to a favorable FX Impact.

Costs and expenses

Cost of services for the nine-month period increased 7%, or $1.4 billion, to $20.8 billion, due to higher film cost amortization driven by an increase in theatrical revenue and film cost impairments, an increase in costs at our parks and resorts, the consolidation of BAMTech and higher television programming and production costs. The increase at parks and resorts was

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

driven by cost inflation, increased technology spending and higher volumes. Cost of services reflected an approximate 1 percentage point increase due to an unfavorable FX Impact.

Cost of products for the nine-month period increased 2%, or $92 million, to $3.9 billion, due to cost inflation and higher volumes at our parks and resorts, partially offset by lower home entertainment volumes. Cost of products reflected an approximate 2 percentage point increase due to an unfavorable FX Impact.

Selling, general, administrative and other costs for the nine-month period increased 10%, or $0.6 billion, to $6.5 billion, primarily due to higher marketing spend for theatrical distribution and at parks and resorts, the consolidation of BAMTech, costs incurred in connection with our agreement to acquire Twenty-First Century Fox, Inc. and an increase in compensation costs. Selling, general, administrative and other costs reflected an approximate 1 percentage point increase due to an unfavorable FX Impact.

Depreciation and amortization for the nine-month period increased 7%, or $143 million, to $2.2 billion due to depreciation of new attractions at our domestic parks and resorts and Hong Kong Disneyland Resort and the consolidation of BAMTech.

Restructuring and impairment charges

The Company recorded $28 million of restructuring and impairment charges in the current nine-month period primarily for severance costs.

Other income/(expense), net

Other income/(expense), net of $94 million for the current nine-month period reflects a gain from the sale of property rights and insurance proceeds related to a legal matter. Other income/(expense), net of $177 million for the prior-year period consisted of a charge, net of committed insurance recoveries, incurred in connection with the settlement of litigation.

Interest expense, net

Interest expense, net is as follows:

(in millions)	Nine Months Ended June 30, 2018	July 1, 2017	% Change Better/(Worse)
Interest expense	$(493)	$(370)	(33) %
Interest and investment income	78	70	11 %
Interest expense, net	$(415)	$(300)	(38) %

The increase in interest expense for the nine-month period was due to higher average debt balances and an increase in average interest rates.

Equity in the income of investees

Equity in the income of investees decreased $205 million to $122 million for the nine-month period due to higher losses from Hulu and lower income from A+E. These decreases were partially offset by a favorable comparison to a loss from BAMTech in the prior-year period. The decrease at Hulu was driven by higher programming, labor and marketing costs, partially offset by growth in subscription and advertising revenue. The decrease at A+E was due to lower advertising revenue.

Effective Income Tax Rate

	Nine Months Ended June 30, 2018	July 1, 2017	Change Better/(Worse)
Effective income tax rate	7.6 %	32.4 %	24.8 ppt

The decrease in the effective income tax rate was due to the impact of the Tax Act, which included:

- A net benefit of approximately $1.8 billion, which reflected an approximate $2.1 billion benefit from remeasuring our deferred tax balances to the new statutory rate, partially offset by a charge of approximately $0.3 billion from accruing the Deemed Repatriation Tax. This net benefit had an impact of approximately 15.6 percentage points on the effective income tax rate.

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

- A reduction in the Company's fiscal 2018 U.S. statutory federal income tax rate to 24.5% from 35.0% in the prior year. Net of state tax and other related effects, the reduction in the statutory rate had an impact of approximately 8.8 percentage points on the effective income tax rate.

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)	Nine Months Ended June 30, 2018	July 1, 2017	% Change Better/(Worse)
Net income attributable to noncontrolling interests	$371	$ 268	(38) %

The increase in net income attributable to noncontrolling interests for the nine-month period was due to lower tax expense at ESPN, largely due to the Tax Act, and the impact of the Company's acquisition of the noncontrolling interest in Disneyland Paris in the third quarter of the prior year.

SEASONALITY

The Company's businesses are subject to the effects of seasonality. Consequently, the operating results for the nine months ended June 30, 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.

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

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

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

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 June 30, 2018	Quarter Ended July 1, 2017	% Change Better/ (Worse)	Nine Months Ended June 30, 2018	Nine Months Ended July 1, 2017	% Change Better/ (Worse)
Revenues:						
Media Networks	$6,156	$5,866	5 %	$18,537	$18,045	3 %
Parks and Resorts	5,193	4,894	6 %	15,226	13,748	11 %
Studio Entertainment	2,878	2,393	20 %	7,836	6,947	13 %
Consumer Products & Interactive Media	1,001	1,085	(8) %	3,528	3,618	(2) %
	$15,228	$14,238	7 %	$45,127	$42,358	7 %
Segment operating income:						
Media Networks	$1,822	$1,842	(1) %	$5,097	$5,427	(6) %
Parks and Resorts	1,339	1,168	15 %	3,640	3,028	20 %
Studio Entertainment	708	639	11 %	2,384	2,137	12 %
Consumer Products & Interactive Media	324	362	(10) %	1,295	1,371	(6) %
	$4,193	$4,011	5 %	$12,416	$11,963	4 %

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

(in millions)	Quarter Ended June 30, 2018	Quarter Ended July 1, 2017	% Change Better/ (Worse)	Nine Months Ended June 30, 2018	Nine Months Ended July 1, 2017	% Change Better/ (Worse)
Income before income taxes	$3,854	$3,618	7 %	$11,527	$11,094	4 %
Add/(subtract):						
Corporate and unallocated shared expenses	196	99	(98) %	540	392	(38) %
Restructuring and impairment charges	—	—	nm	28	—	nm
Other income/(expense), net	—	177	nm	(94)	177	nm
Interest expense, net	143	117	(22) %	415	300	(38) %
Segment Operating Income	$4,193	$4,011	5 %	$12,416	$11,963	4 %

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

Depreciation expense is as follows:

(in millions)	Quarter Ended		% Change		Nine Months Ended		% Change	
	June 30, 2018	July 1, 2017	Better/ (Worse)		June 30, 2018	July 1, 2017	Better/ (Worse)	
Media Networks								
Cable Networks	$42	$ 34	(24)	%	$126	$105	(20)	%
Broadcasting	23	21	(10)	%	71	67	(6)	%
Total Media Networks	65	55	(18)	%	197	172	(15)	%
Parks and Resorts								
Domestic	340	333	(2)	%	1,053	983	(7)	%
International	189	187	(1)	%	546	500	(9)	%
Total Parks and Resorts	529	520	(2)	%	1,599	1,483	(8)	%
Studio Entertainment	15	13	(15)	%	41	36	(14)	%
Consumer Products & Interactive Media	14	15	7	%	41	46	11	%
Corporate	55	60	8	%	164	189	13	%
Total depreciation expense	$678	$ 663	(2)	%	$2,042	$1,926	(6)	%

Amortization of intangible assets is as follows:

(in millions)	Quarter Ended		% Change		Nine Months Ended		% Change	
	June 30, 2018	July 1, 2017	Better/ (Worse)		June 30, 2018	July 1, 2017	Better/ (Worse)	
Media Networks	$20	$ 3	>100 %		$40	$ 9	>(100)	%
Parks and Resorts	2	1	(100)	%	3	3	—	%
Studio Entertainment	16	16	—	%	48	48	—	%
Consumer Products & Interactive Media	28	28	—	%	84	88	5	%
Total amortization of intangible assets	$66	$ 48	(38)	%	$175	$ 148	(18)	%

Media Networks

Operating results for the Media Networks segment are as follows:

(in millions)	Quarter Ended		% Change	
	June 30, 2018	July 1, 2017	Better/ (Worse)	
Revenues				
Affiliate fees	$3,332	$3,176	5	%
Advertising	1,948	2,006	(3)	%
TV/SVOD distribution and other	876	684	28	%
Total revenues	6,156	5,866	5	%
Operating expenses	(3,725)	(3,500)	(6)	%
Selling, general, administrative and other	(602)	(593)	(2)	%
Depreciation and amortization	(85)	(58)	(47)	%
Equity in the income of investees	78	127	(39)	%
Operating Income	$1,822	$1,842	(1)	%

Revenues

The increase in affiliate fees was due to growth of 7% from higher contractual rates, partially offset by a 2% decrease from fewer subscribers.

The decrease in advertising revenues was due to a decrease of $67 million at Cable Networks, from $1,041 million to $974 million, partially offset by an increase of $9 million at Broadcasting, from $965 million to $974 million. Cable Networks advertising revenue reflected a decrease of 9% from lower impressions, partially offset by an increase of 4% from higher rates.

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

The decrease in impressions reflected lower average viewership at ESPN and Freeform. ESPN's advertising revenue was adversely impacted by one less NBA final game. Broadcasting advertising revenue reflected an increase of 7% from higher network rates, partially offset by decreases of 4% from lower network impressions and 1% from the owned television stations, which were both due to lower average viewership.

TV/SVOD distribution and other revenue increased $192 million due to higher program sales and the consolidation of BAMTech. On September 25, 2017 the Company increased its ownership in BAMTech and began consolidating its results. The Company's share of BAMTech's results was previously reported in equity in the income of investees. The increase in program sales was driven by higher sales of How to Get Away with Murder, Designated Survivor and Grey's Anatomy, partially offset by lower sales of Quantico. Additionally, the current quarter included the sale of Luke Cage compared to the prior-year quarter sale of The Defenders.

Costs and Expenses

Operating expenses include programming and production costs, which increased $147 million, from $3,203 million to $3,350 million. At Broadcasting, programming and production costs increased $102 million due to higher average cost network programming, including the impact of American Idol and Roseanne in the current quarter, and an increase in program sales. At Cable Networks, programming and production costs increased $45 million due to the consolidation of BAMTech and contractual rate increases for NBA programming, partially offset by the comparison to severance and contract termination costs in the prior-year quarter. Other operating costs, which include distribution and technology costs, increased primarily due to the consolidation of BAMTech.

Selling, general, administrative and other costs increased $9 million, from $593 million to $602 million as the impact from the consolidation of BAMTech was essentially offset by lower marketing and other costs.

Depreciation and amortization increased $27 million, from $58 million to $85 million due to the consolidation of BAMTech.

Equity in the Income of Investees

Income from equity investees decreased $49 million, from $127 million to $78 million due to higher losses from Hulu and lower income from A+E. These decreases were partially offset by a favorable comparison to a loss from BAMTech in the prior-year quarter. The decrease at Hulu was driven by higher programming and labor costs, partially offset by growth in subscription and advertising revenue. The decrease at A+E was due to lower advertising revenue and higher programming costs, partially offset by higher program sales.

Segment Operating Income

Segment operating income decreased 1%, or $20 million, to $1,822 million due to the consolidation of BAMTech, lower income from equity investees and a decrease at Freeform. These decreases were partially offset by higher income from program sales and increases at ESPN and the ABC Network.

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

(in millions)	Quarter Ended June 30, 2018	Quarter Ended July 1, 2017	% Change Better/ (Worse)
Revenues			
Cable Networks[(1)]	$4,188	$4,086	2 %
Broadcasting	1,968	1,780	11 %
	$6,156	$5,866	5 %
Segment operating income			
Cable Networks[(1)]	$1,383	$1,462	(5) %
Broadcasting	361	253	43 %
Equity in the income of investees[(1)]	78	127	(39) %
	$1,822	$1,842	(1) %

(1)

Cable Networks results in the current quarter include the consolidated results of BAMTech, whereas in the prior-year quarter the Company’s share of BAMTech’s results was reported in equity in the income of investees.

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

Parks and Resorts

Operating results for the Parks and Resorts segment are as follows:

(in millions)	Quarter Ended June 30, 2018	Quarter Ended July 1, 2017	% Change Better/ (Worse)
Revenues			
Domestic	$4,089	$3,935	4 %
International	1,104	959	15 %
Total revenues	5,193	4,894	6 %
Operating expenses	(2,807)	(2,687)	(4) %
Selling, general, administrative and other	(511)	(515)	1 %
Depreciation and amortization	(531)	(521)	(2) %
Equity in the loss of investees	(5)	(3)	(67) %
Operating Income	$1,339	$1,168	15 %

Revenues

Parks and Resorts revenues increased 6%, or $299 million, to $5.2 billion due to increases of $154 million at our domestic operations and $145 million at our international operations. Results include an unfavorable impact due to the timing of the Easter holiday relative to our fiscal periods. One week of the Easter holiday fell in the third quarter of the current year whereas both holiday weeks fell in the third quarter of the prior year.

Revenue growth at our domestic operations reflected an increase of 4% from higher average guest spending. Guest spending growth was driven by higher average ticket prices for theme park admissions and for cruise line sailings, an increase in food, beverage and merchandise spending and higher average daily hotel room rates. Volumes were relatively flat as increased passenger cruise ship days were largely offset by lower occupied hotel room nights at Walt Disney World Resort. The increase in passenger cruise ship days included the impact of the Disney Fantasy dry-dock in the prior-year quarter. At Walt Disney World Resort, lower occupied hotel room nights were driven by room refurbishments and conversions to vacation club units.

Revenue growth at our international operations reflected increases of 7% from a favorable FX Impact, 3% from volume growth, 2% from higher real estate sales at Disneyland Paris and 2% from higher average guest spending. The increase in volumes was due to higher attendance at Shanghai Disney Resort and Hong Kong Disneyland Resort and an increase in occupied room nights at Hong Kong Disneyland Resort. Higher guest spending was driven by an increase in food, beverage and merchandise spending at Shanghai Disney Resort, Disneyland Paris and Hong Kong Disneyland Resort and higher average ticket prices. The increase in average ticket prices was due to increases at Disneyland Paris and Hong Kong Disneyland Resort, partially offset by a decrease at Shanghai Disney Resort.

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

The following table presents supplemental park and hotel statistics:

	Domestic		International [2]		Total	
	Quarter Ended		Quarter Ended		Quarter Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Parks						
Increase/(decrease)						
Attendance	1 %	8 %	2 %	72 %	1 %	22 %
Per Capita Guest Spending	5 %	2 %	4 %	(1) %	4 %	(2) %
Hotels [1]						
Occupancy	86 %	88 %	87 %	84 %	86 %	87 %
Available Room Nights (in thousands)	2,517	2,533	793	772	3,310	3,305
Per Room Guest Spending	$357	$330	$301	$302	$344	$324

(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 2017 third quarter average foreign exchange rate.

Costs and Expenses

Operating expenses include operating labor, which increased $83 million, from $1,275 million to $1,358 million, infrastructure costs, which decreased $14 million, from $520 million to $506 million, and cost of sales, which increased $41 million, from $422 million to $463 million. The increase in operating labor was primarily due to inflation. The increase in cost of sales was due to higher volumes and increased real estate sales. Lower infrastructure costs reflected the comparison to costs that were incurred in the prior-year quarter for the dry-dock of the Disney Fantasy. Other operating expenses, which include costs for such items as supplies, commissions, and entertainment offerings, increased $10 million, from $470 million to $480 million. Operating expenses included an approximate 2% unfavorable FX Impact, which had similar impacts on operating labor, cost of sales, infrastructure costs and other operating expenses.

Depreciation and amortization increased $10 million, from $521 million to $531 million due to an unfavorable FX Impact.

Segment Operating Income

Segment operating income increased 15%, or $171 million, to $1,339 million due to growth at our domestic and international operations.

Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Quarter Ended June 30, 2018	Quarter Ended July 1, 2017	% Change Better/(Worse)
Revenues			
Theatrical distribution	$1,505	$1,044	44 %
Home entertainment	415	488	(15) %
TV/SVOD distribution and other	958	861	11 %
Total revenues	2,878	2,393	20 %
Operating expenses	(1,403)	(1,099)	(28) %
Selling, general, administrative and other	(736)	(626)	(18) %
Depreciation and amortization	(31)	(29)	(7) %

Operating Income	$708	$639	11 %

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

Revenues

The increase in theatrical distribution revenue was due to the success of Avengers: Infinity War and Incredibles 2, which were released in the current quarter compared to Guardians of the Galaxy Vol. 2 and Cars 3, which were released in the prior-year quarter. This increase was partially offset by the continued performance of Beauty and the Beast in the prior-year quarter. The prior-year quarter also included the release of Pirates of the Caribbean: Dead Men Tell No Tales while the current quarter included Solo: A Star Wars Story.

Lower home entertainment revenue was due to a decrease of 14% from lower domestic unit sales primarily due to the timing of the release of Star Wars titles. The DVD/Blu-ray release of Star Wars: The Last Jedi was in the second quarter of the current year whereas the DVD/Blu-Ray release of Rogue One: A Star Wars Story occurred in the prior-year third quarter. Other significant titles in the current quarter included Black Panther, whereas the prior-year quarter included Beauty and the Beast and Moana.

Growth in TV/SVOD distribution and other revenue was due to increases of 9% from TV/SVOD distribution and 3% from stage plays. Higher TV/SVOD distribution revenue was driven by increases from our domestic pay and free television businesses and international markets. Growth in domestic pay and free television was due to the timing of title availabilities. Domestic pay television sales also reflected an increase from higher rates. Higher stage play revenues were due to an additional production in the current quarter.

Costs and Expenses

Operating expenses include an increase of $288 million in film cost amortization, from $765 million to $1,053 million, due to the impact of higher theatrical distribution revenues and film cost impairments related to animated films that will not be released, partially offset by the impact of lower home entertainment revenue. Operating expenses also include cost of goods sold and distribution costs, which increased $16 million, from $334 million to $350 million due to an additional stage play production in the current quarter and an increase in international theatrical distribution costs, partially offset by lower home entertainment volumes.

Selling, general, administrative and other costs increased $110 million from $626 million to $736 million driven by higher theatrical marketing costs due to an increase in pre-release marketing costs and higher average spend on international theatrical releases in the current quarter.

Segment Operating Income

Segment operating income increased 11%, or $69 million, to $708 million due to increases in domestic theatrical and worldwide TV/SVOD distribution results, partially offset by higher film cost impairments and lower domestic home entertainment results.

Consumer Products & Interactive Media

Operating results for the Consumer Products & Interactive Media segment are as follows:

(in millions)	Quarter Ended June 30, 2018	Quarter Ended July 1, 2017	% Change Better/ (Worse)
Revenues			
Licensing, publishing and games	$674	$746	(10) %
Retail and other	327	339	(4) %
Total revenues	1,001	1,085	(8) %
Operating expenses	(413)	(431)	4 %
Selling, general, administrative and other	(222)	(249)	11 %
Depreciation and amortization	(42)	(43)	2 %
Operating Income	$324	$362	(10) %

Revenues

Lower licensing, publishing and games revenue was primarily due to decreased revenues from sales of licensed merchandise and an unfavorable FX Impact, partially offset by a benefit from a settlement. The decrease in sales of licensed merchandise was primarily due to lower revenue from products based on Spider-Man and Cars, partially offset by an increase from products based on Avengers.

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

The decrease in retail and other revenue was due to lower comparable retail store sales, which reflected lower sales of Star Wars and Moana merchandise in the current quarter.

Costs and Expenses

Operating expenses include a $15 million decrease in cost of goods sold and distribution costs, from $234 million to $219 million and a $3 million decrease in product development expense, from $49 million to $46 million. Other operating expenses, which include occupancy costs, labor at our retail stores and other direct costs, were flat at $148 million. The decrease in cost of goods sold and distribution costs was primarily due to lower retail sales.

Selling, general, administrative and other costs decreased $27 million from $249 million to $222 million due to a favorable FX Impact and lower costs at our games business.

Segment Operating Income

Segment operating income decreased 10%, or $38 million, to $324 million due to lower income from licensing activities and decreased comparable retail store sales, partially offset by lower costs at our games business.

BUSINESS SEGMENT RESULTS - Nine Month Results

Media Networks

Operating results for the Media Networks segment are as follows:

(in millions)	Nine Months Ended June 30, 2018	Nine Months Ended July 1, 2017	% Change Better/ (Worse)
Revenues			
Affiliate Fees	$9,934	$9,479	5 %
Advertising	6,185	6,466	(4) %
TV/SVOD distribution and other	2,418	2,100	15 %
Total revenues	18,537	18,045	3 %
Operating expenses	(11,393)	(10,899)	(5) %
Selling, general, administrative and other	(1,951)	(1,872)	(4) %
Depreciation and amortization	(237)	(181)	(31) %
Equity in the income of investees	141	334	(58) %
Operating Income	$5,097	$5,427	(6) %

Revenues

The increase in affiliate fees was due to an increase of 7% from higher contractual rates, partially offset by a 2% decrease from fewer subscribers.

The decrease in advertising revenues was due to decreases of $185 million at Cable Networks, from $3,379 million to $3,194 million, and $96 million at Broadcasting, from $3,087 million to $2,991 million. Cable Networks advertising revenue reflected a decrease of 6% from lower impressions, partially offset by a 2% increase from higher rates. Broadcasting advertising revenue reflected a decrease of 6% from lower network impressions and a decrease of 2% from the owned television stations due to lower political advertising, partially offset by an increase of 5% from higher network rates. Lower impressions at both Broadcasting and Cable Networks were due to lower average viewership.

TV/SVOD distribution and other revenue increased $318 million due to the consolidation of BAMTech and higher program sales reflecting increased revenue from Hulu and higher sales of Grey's Anatomy in the current period, partially offset by lower sales of Quantico. Additionally, the current period included the sales of Luke Cage and Jessica Jones compared to the prior-year period, which included the sales of Iron Fist and The Defenders.

Costs and Expenses

Operating expenses include programming and production costs, which increased $339 million from $10,053 million to $10,392 million. At Cable Networks, programming and production costs increased $204 million due to contractual rate increases for college sports, NBA and NFL programming and the consolidation of BAMTech, partially offset by the comparison to severance and contract termination costs incurred in the prior-year period. At Broadcasting, programming and production costs increased $135 million due to higher average cost network programming, including the impact of American Idol and Roseanne in the current period, and an increase in program sales. Other operating costs, which include distribution and technology costs, increased driven by the consolidation of BAMTech.

Selling, general, administrative and other costs increased $79 million from $1,872 million to $1,951 million due to the consolidation of BAMTech.

Depreciation and amortization increased $56 million, from $181 million to $237 million due to the consolidation of BAMTech.

Equity in the Income of Investees

Income from equity investees decreased $193 million from $334 million to $141 million due to higher losses from Hulu and lower income from A+E. These decreases were partially offset by a favorable comparison to a loss from BAMTech in the prior-year period. The decrease at Hulu was driven by higher programming, labor and marketing costs, partially offset by growth in subscription and advertising revenue. The decrease at A+E was due to lower advertising revenue.

Segment Operating Income

Segment operating income decreased 6%, or $330 million, to $5,097 million due to the consolidation of BAMTech and lower income from equity investees.

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

(in millions)	Nine Months Ended June 30, 2018	July 1, 2017	% Change Better/ (Worse)	
Revenues				
Cable Networks[1]	$12,933	$12,576	3	%
Broadcasting	5,604	5,469	2	%
	$18,537	$18,045	3	%
Segment operating income				
Cable Networks[1]	$3,967	$4,117	(4)	%
Broadcasting	989	976	1	%
Equity in the income of investees[1]	141	334	(58)	%
	$5,097	$5,427	(6)	%

(1) Cable Networks results in the current period include the consolidated results of BAMTech, whereas in the prior-year period the Company’s share of BAMTech’s results was reported in equity in the income of investees.

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

Parks and Resorts

Operating results for the Parks and Resorts segment are as follows:

(in millions)	Nine Months Ended June 30, 2018	Nine Months Ended July 1, 2017	% Change Better/(Worse)
Revenues			
Domestic	$12,223	$11,231	9 %
International	3,003	2,517	19 %
Total revenues	15,226	13,748	11 %
Operating expenses	(8,461)	(7,817)	(8) %
Selling, general, administrative and other	(1,504)	(1,409)	(7) %
Depreciation and amortization	(1,602)	(1,486)	(8) %
Equity in the loss of investees	(19)	(8)	>(100) %
Operating Income	$3,640	$3,028	20 %

Revenues

Parks and Resorts revenues increased 11%, or $1,478 million, to $15.2 billion due to increases of $992 million at our domestic operations and $486 million at our international operations.

Revenue growth at our domestic operations reflected increases of 6% from higher average guest spending and 2% from volume growth. Guest spending growth was due to higher average ticket prices for theme park admissions and for cruise line sailings, increased food, beverage and merchandise spending and higher average daily hotel room rates. The increase in volumes was due to higher attendance and passenger cruise ship days, partially offset by lower occupied hotel room nights.

Revenue growth at our international operations reflected increases of 8% from a favorable FX Impact, 5% from an increase in volumes and 4% from higher average guest spending at Disneyland Paris. The increase in volumes was due to higher attendance and occupied room nights at Hong Kong Disneyland Resort and Disneyland Paris. Guest spending growth at Disneyland Paris was driven by higher average ticket prices, food, beverage and merchandise spending and average daily hotel room rates.

The following table presents supplemental park and hotel statistics:

	Domestic Nine Months Ended June 30, 2018	Domestic Nine Months Ended July 1, 2017	International [2] Nine Months Ended June 30, 2018	International [2] Nine Months Ended July 1, 2017	Total Nine Months Ended June 30, 2018	Total Nine Months Ended July 1, 2017
Parks						
Increase/(decrease)						
Attendance	4 %	2 %	4 %	64 %	4 %	15 %
Per Capita Guest Spending	6 %	3 %	7 %	(1) %	6 %	(1) %
Hotels [1]						
Occupancy	89 %	89 %	85 %	82 %	88 %	87 %
Available Room Nights (in thousands)	7,540	7,663	2,380	2,222	9,920	9,885
Per Room Guest Spending	$349	$321	$282	$271	$334	$311

(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 2017 nine-month average foreign exchange rate.

Costs and Expenses

Operating expenses include operating labor, which increased $342 million from $3,692 million to $4,034 million, infrastructure costs, which increased $94 million from $1,473 million to $1,567 million, and cost of sales, which increased $122 million from $1,226 million to $1,348 million. The increase in operating labor was due to inflation, higher volumes and a

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

special fiscal 2018 domestic employee bonus. The increase in cost of sales was due to higher volumes and inflation. Higher infrastructure costs were due to increased technology spending. Other operating expenses, which include costs for such items as supplies, commissions and entertainment offerings, increased $86 million, from $1,426 million to $1,512 million due to inflation. Operating expenses included an approximate 2% unfavorable FX Impact, which had similar impacts on operating labor, cost of sales, infrastructure costs and other operating expenses.

Selling, general, administrative and other costs increased $95 million, from $1,409 million to $1,504 million driven by inflation and an unfavorable FX Impact.

Depreciation and amortization increased $116 million, from $1,486 million to $1,602 million primarily due to new attractions at our domestic parks and resorts and Hong Kong Disneyland Resort and an unfavorable FX Impact.

Equity in the Loss of Investees

Loss from equity investees increased $11 million to $19 million due to a higher operating loss from Villages Nature, in which Disneyland Paris has a 50% interest.

Segment Operating Income

Segment operating income increased 20%, or $612 million, to $3,640 million due to growth at our domestic and international operations.

Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Nine Months Ended June 30, 2018	July 1, 2017	% Change Better/ (Worse)
Revenues			
Theatrical distribution	$3,630	$2,715	34 %
Home entertainment	1,299	1,454	(11) %
TV/SVOD distribution and other	2,907	2,778	5 %
Total revenues	7,836	6,947	13 %
Operating expenses	(3,355)	(2,970)	(13) %
Selling, general, administrative and other	(2,008)	(1,756)	(14) %
Depreciation and amortization	(89)	(84)	(6) %
Operating Income	$2,384	$2,137	12 %

Revenues

The increase in theatrical distribution revenue was due to the comparison of three Marvel titles and two Star Wars titles in the current period compared to two Marvel titles and one Star Wars title in the prior-year period and the performance of Incredibles 2 in the current period compared to Cars 3 in the prior-year period. The Marvel titles in the current period were Avengers: Infinity War, Black Panther and Thor: Ragnarok, whereas the prior-year period included Guardians of the Galaxy Vol. 2 and Doctor Strange. The Star Wars titles in the current period were Star Wars: The Last Jedi and Solo: A Star Wars Story, whereas the prior-year period included Rogue One: A Star Wars Story. These increases were partially offset by the release of A Wrinkle in Time in the current period compared to the releases of Beauty and the Beast and Pirates of the Caribbean: Dead Men Tell No Tales in the prior-year period. Other significant releases in the current period included Coco, while the prior-year period included Moana.

Lower home entertainment revenue was due to a decrease of 9% from lower domestic unit sales due to one feature animation release in the current period compared to two feature animation releases in the prior-year period. This decrease was partially offset by the comparison of two Marvel titles in the current period compared to one Marvel title in the prior-year period. The feature animation release in the current period included Coco, whereas the prior-year period included Finding Dory and Moana. The Marvel releases in the current period were Thor: Ragnarok and Black Panther while the prior-year period included Doctor Strange. Other significant titles in the current period included Star

Wars: The Last Jedi, whereas the prior-year period included Rogue One: A Star Wars Story and Beauty and the Beast. Higher TV/SVOD distribution and other revenue was due to increases of 3% from stage plays and 2% from TV/SVOD distribution. Higher stage play revenues were due to additional productions in the current period. The increase in TV/SVOD distribution was driven by an increase in our free television business, partially offset by a decrease in our international pay

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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television business due to more titles available in the prior-year period. Growth in our free television business was primarily due to new international agreements, more title availabilities in the current period, the sale of Star Wars: The Force Awakens in the current period with no comparable title in the prior-year period and the timing of title availabilities.

Costs and Expenses

Operating expenses include an increase of $364 million in film cost amortization, from $2,021 million to $2,385 million due to the impact of higher theatrical distribution revenues and an increase in film cost impairments, partially offset by the impact of lower home entertainment revenues. Operating expenses also include cost of goods sold and distribution costs, which increased $21 million, from $949 million to $970 million due to the increase in stage play productions, partially offset by lower home entertainment volumes.

Selling, general, administrative and other costs increased $252 million from $1,756 million to $2,008 million primarily due to higher theatrical and stage play marketing costs. The increase in theatrical marketing costs was due to higher average spend on titles released in the current period and an increase in pre-release marketing costs. Higher stage play marketing costs reflected spending for additional productions in the current period.

Segment Operating Income

Segment operating income increased 12%, or $247 million, to $2,384 million due to increases in theatrical and TV/SVOD distribution results, partially offset by higher film cost impairments and lower domestic home entertainment distribution results.

Consumer Products & Interactive Media

Operating results for the Consumer Products & Interactive Media segment are as follows:

(in millions)	Nine Months Ended June 30, 2018	Nine Months Ended July 1, 2017	% Change Better/ (Worse)
Revenues			
Licensing, publishing and games	$2,310	$2,409	(4) %
Retail and other	1,218	1,209	1 %
Total revenues	3,528	3,618	(2) %
Operating expenses	(1,409)	(1,406)	— %
Selling, general, administrative and other	(699)	(708)	1 %
Depreciation and amortization	(125)	(134)	7 %
Equity in the income of investees	—	1	— %
Operating Income	$1,295	$1,371	(6) %

Revenues

The decrease in licensing, publishing and games revenue was due to lower revenues from sales of licensed merchandise, a decrease in licensee settlements and an unfavorable FX Impact. Lower revenues from sales of licensed merchandise were driven by decreased revenue from products based on Frozen, Spider-Man, Finding Nemo/Dory and Princess, partially offset by an increase from products based on Star Wars and Mickey and Minnie.

The increase in retail and other revenue includes higher sponsorship revenue and a favorable FX Impact, which were largely offset by lower retail sales. The decrease in retail sales was due to lower comparable store sales, partially offset by an increase in online retail revenue. Lower comparable retail store sales reflected decreased sales of Star Wars, Moana and Finding Nemo/Dory merchandise in the current period, partially offset by higher sales of Cars merchandise.

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

Costs and Expenses

Operating expenses included a $14 million decrease in cost of goods sold and distribution costs, from $808 million to $794 million, a $29 million increase in other operating expenses, from $438 million to $467 million, and a $12 million decrease in product development expense, from $160 million to $148 million. The decrease in cost of goods sold and distribution costs was driven by lower retail sales. The increase in other operating expenses, which include occupancy costs, labor at our retail stores and other direct costs, was driven by an unfavorable FX Impact. Lower product development expense was due to fewer games in development.

Segment Operating Income

Segment operating income decreased 6%, or $76 million, to $1,295 million due to decreases at our merchandise licensing and retail businesses.

Restructuring and Impairment Charges

The Company recorded restructuring and impairment charges of $14 million related to Consumer Products & Interactive Media in the current period primarily for severance costs.

CORPORATE AND UNALLOCATED SHARED EXPENSES

	Quarter Ended		% Change	Nine Months Ended		% Change
(in millions)	June 30, 2018	July 1, 2017	Better/ (Worse)	June 30, 2018	July 1, 2017	Better/ (Worse)
Corporate and unallocated shared expenses	$(196)	$(99)	(98) %	$(540)	$(392)	(38) %

Corporate and unallocated shared expenses increased $97 million to $196 million in the current quarter and increased $148 million to $540 million for the nine-month period, primarily due to costs incurred in connection with our agreement to acquire Twenty-First Century Fox, Inc. and higher compensation costs. The current quarter also included an unfavorable impact from the timing of allocations to operating segments.

IMPACT OF U.S. FEDERAL INCOME TAX REFORM

As discussed in Note 7 to the Condensed Consolidated Financial Statements, the Tax Act resulted in the following impacts to the Company (the amounts recorded in the nine-month period are provisional and will be refined during the remainder of calendar 2018):

- The Company's federal statutory income tax rate was reduced from 35.0% to 24.5% for fiscal 2018 and to 21.0% for following years.
- For the nine-month period ended June 30, 2018, the Company recognized a net benefit of approximately $1.8 billion, which reflected an approximate $2.1 billion benefit from remeasuring our deferred tax balances to the new statutory rate, partially offset by a charge of approximately $0.3 billion from accruing a Deemed Repatriation Tax.
- Generally, there will no longer be a U.S. federal income tax cost on 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 during fiscal 2018 through fiscal 2022. This provision phases out through fiscal 2027.
- Certain provisions of the Act are not effective for the Company until fiscal 2019 including:
- The elimination of the domestic production activities deduction.
- The taxation of certain foreign derived income 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%.
- A minimum effective tax on certain foreign earnings of approximately 13%.

We are continuing to assess the impacts of these provisions, but do not currently anticipate that the net impact will be material to our fiscal 2019 effective income tax rate.

- We expect a cash tax benefit similar to the reduction in the statutory rate, as well as a benefit from the immediate deduction for investments in qualified fixed assets and film and television productions.

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

FINANCIAL CONDITION

The change in cash and cash equivalents is as follows:

(in millions)	Nine Months Ended June 30, 2018	Nine Months Ended July 1, 2017	% Change Better/ (Worse)
Cash provided by operations	$10,442	$8,773	19 %
Cash used in investing activities	(5,143)	(3,290)	(56) %
Cash used in financing activities	(4,981)	(5,792)	14 %
Impact of exchange rates on cash, cash equivalents and restricted cash	(51)	(23)	>(100) %
Change in cash, cash equivalents and restricted cash	$267	$(332)	nm

Operating Activities

Cash provided by operating activities increased 19% to $10.4 billion for the current nine months compared to $8.8 billion in the prior-year nine months driven by a decrease in tax payments due to the Tax Act, a decrease in pension plan contributions and higher operating cash flow at Parks and Resorts, partially offset by lower operating cash flow at Media Networks. Parks and Resorts cash flow reflected higher operating cash receipts due to increased revenues, partially offset by higher spending on labor and other costs. Lower operating cash flow at Media Networks was primarily due to higher television production spending.

Film and Television Costs

The Company’s Studio Entertainment and Media Networks 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 and television stations. 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.

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

The Company's film and television production and programming activity for the nine months ended June 30, 2018 and July 1, 2017 are as follows:

(in millions)	Nine Months Ended June 30, 2018	Nine Months Ended July 1, 2017
Beginning balances:		
Production and programming assets	$8,759	$7,547
Programming liabilities	(1,108)	(1,063)
	7,651	6,484
Spending:		
Television program licenses and rights	6,252	6,025
Film and television production	4,303	3,863
	10,555	9,888
Amortization:		
Television program licenses and rights	(6,280)	(5,986)
Film and television production	(3,674)	(3,157)
	(9,954)	(9,143)
Change in film and television production and programming costs	601	745
Other non-cash activity	(192)	19
Ending balances:		
Production and programming assets	8,925	8,012
Programming liabilities	(865)	(764)
	$8,060	$7,248

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 nine months ended June 30, 2018 and July 1, 2017 are as follows:

(in millions)	Nine Months Ended June 30, 2018	Nine Months Ended July 1, 2017
Media Networks		
Cable Networks	$161	$70
Broadcasting	54	44
Total Media Networks	215	114
Parks and Resorts		
Domestic	2,368	1,682
International	466	721
Total Parks and Resorts	2,834	2,403
Studio Entertainment	72	64
Consumer Products & Interactive Media	14	17
Corporate	129	130
	$3,264	$2,728

Capital expenditures for the Parks and Resorts segment are principally for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure. The increase at our domestic parks and resorts was due to higher spending on new attractions. The decrease at our international parks and resorts was due to lower spending at Hong Kong Disneyland Resort and Shanghai Disney Resort.

Capital expenditures at Media Networks primarily reflect investments in facilities and equipment for expanding and upgrading broadcast centers, production facilities and television station facilities. The increase at Cable Networks was primarily due to technology spending at BAMTech.
Capital expenditures at Corporate primarily reflect investments in corporate facilities, information technology infrastructure and equipment.
The Company currently expects its fiscal 2018 capital expenditures will be approximately $1 billion higher than fiscal 2017 capital expenditures of $3.6 billion primarily due to increased investments at our domestic parks and resorts.
Other Investing Activities
During the current nine-month period, the Company made a $1.6 billion payment for its incremental 42% interest in BAMTech and contributed $329 million to Hulu. During the prior-year nine-month period, the Company acquired an incremental 18% interest in BAMTech for $557 million.
The Company has entered into a definitive agreement to acquire 21CF, which, if completed, will require cash consideration of $35.7 billion and the issuance of stock (See Note 4 to the Condensed Consolidated Financial Statements).

Financing Activities
Cash used in financing activities was $5.0 billion in the current nine-month period, which reflected repurchases of common stock of $3.6 billion and dividends of $1.3 billion.
Cash used in financing activities of $5.0 billion in the current year nine-month period was $0.8 billion less than the $5.8 billion used in the prior-year nine-month period as a decrease in repurchases of common stock in the current nine-month period compared to the prior-year nine-month period ($3.6 billion vs $5.9 billion respectively) was partially offset by lower net borrowings in the current nine-month period compared to the prior-year nine-month period ($0.2 billion vs $2.2 billion respectively).
See Note 5 to the Condensed Consolidated Financial Statements for a summary of the Company's borrowing activities during the nine months ended June 30, 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 2018 and 2017 and share repurchases during the nine months ended June 30, 2018.
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 June 30, 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 has placed the Company's long- and short-term debt ratings on review for downgrade as a result of the pending acquisition of 21CF. The Company currently expects each rating agency to finalize its review of the Company's debt ratings upon closing of the acquisition and one or more of the agencies 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 June 30, 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.

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

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 12 to the Condensed Consolidated Financial Statements for information regarding the Company's guarantees.

Tax Matters

As disclosed in Note 9 to the Consolidated Financial Statements in the 2017 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 2017 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 2017 Annual Report on Form 10-K.

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

We reduce home entertainment revenues for estimated future returns of merchandise and for customer programs and sales incentives. These estimates are based upon historical return experience, current economic trends and projections of customer demand for and acceptance of our products. If we underestimate the level of returns or sales incentives in a particular period, we may record less revenue in later periods when returns or sales incentives exceed the estimated amount. Conversely, if we overestimate the level of returns or sales incentives for a period, we may have additional revenue in later periods when returns or sales incentives are less than estimated.

We recognize revenues from advance theme park ticket sales when the tickets are used. Revenues from annual pass sales are recognized ratably over the period for which the pass is available for use.

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 2017 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 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

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

reporting units was licensed to an unrelated third party at its fair market value. These amounts are not necessarily the same as those included in segment operating results. 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.

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. The principal foreign currencies hedged are the euro, British pound, Japanese yen 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.

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 June 30, 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 third quarter of fiscal 2018 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 2017 Annual Report on Form 10-K and in the Quarterly Report on 10-Q for the period ended December 30, 2017, in each case under the Item 1A, “Risk Factors.”

Risk Factors Related to the Acquisition of Twenty-First Century Fox (“21CF”)

Risks related to the acquisition of 21CF were discussed in the Quarterly Report on Form 10-Q for the period ended December 30, 2017, under Item 1A, “Risk Factors.” In light of changes in the terms of the transaction, we are updating the risk relating to indebtedness of the Company following the transaction as follows.

Our consolidated indebtedness will increase substantially following completion of the 21CF Acquisition. This increased level of indebtedness and the incurrence of additional debt to pay a portion of the 21CF merger consideration will significantly increase our interest expense, financial leverage and debt service requirements, each of which could adversely affect the Company, including by decreasing its business flexibility.

Disney’s consolidated indebtedness as of June 30, 2018 was approximately $23.7 billion. Upon completion of the 21CF Acquisition, Disney will assume an estimated fair value of approximately $17.1 billion of additional outstanding net debt of 21CF (approximately $23.9 billion of debt less approximately $6.8 billion in cash) if 21CF’s all-cash offer for the approximately 61% interest in Sky not currently held by 21CF (the “Sky Acquisition”) is not completed or an estimated fair value of $49.3 billion of additional outstanding net debt of 21CF (approximately $51.1 billion of debt less approximately $1.8 billion in cash) if the Sky Acquisition is completed at an offer price of £14.00 per share. We expect to fund the cash portion of the consideration in the 21CF Acquisition (approximately $35.7 billion) upon completion of the 21CF Acquisition through the issuance of senior unsecured notes and/or commercial paper. If such contemplated financing is unavailable prior to or upon completion, a 364-day unsecured bridge term loan facility will be provided by a five bank syndicate totaling $35.7 billion. Following the completion of this financing transaction, it is expected that the combined company will have approximately $109.6 billion of short and long-term debt and interest expense of approximately $3.3 billion per year.

The increased indebtedness could have the effect of, among other things, reducing our flexibility to respond to changing business and economic conditions. In addition, the amount of cash required to pay interest on the increased indebtedness levels will increase following completion of the 21CF Acquisition, and thus the demands on our cash resources will be greater than prior to completion of the 21CF Acquisition. The increased levels of indebtedness following completion of the 21CF Acquisition could also reduce funds available for capital expenditures, share repurchases and dividends, and other activities and may create competitive disadvantages relative to other companies with lower debt levels. Our funds on hand will be further constrained by the issuance of shares of common stock in the 21CF Acquisition, because of dividend payments on common stock.

Following consummation of the 21CF Acquisition, our corporate or debt-specific credit rating could be downgraded, which may increase our borrowing costs or give rise to a need to refinance existing indebtedness. If a ratings downgrade occurs, we may need to refinance existing debt or be subject to higher borrowing costs and more restrictive covenants when we incur new debt in the future, which could reduce profitability and diminish operational flexibility.

We may encounter difficulty or high costs associated with financing the cash portion of the consideration in the 21CF Acquisition.

We expect to fund the cash portion of the consideration in the 21CF Acquisition (approximately $35.7 billion) upon completion of the 21CF Acquisition through the issuance of senior unsecured notes and/or commercial paper. If such contemplated financing is unavailable prior to or upon completion, a 364-day unsecured bridge term loan facility will be provided by a five bank syndicate totaling $35.7 billion. Our ability to obtain additional debt financing will be subject to various factors, including market conditions, operating performance and our ability to incur additional debt. Depending on these factors, the terms upon which debt financing or debt offerings are available to us may be less favorable to us than we had anticipated.

We will be required to divest the 21CF regional sports networks (the “21CF RSNs”) and we may not be able to negotiate such divestitures expeditiously or on favorable terms.

On June 27, 2018, the U.S. Department of Justice (the “DOJ”) submitted a proposed final judgment resolving a complaint it filed the same day to remedy potential competitive concerns regarding our acquisition of the 21CF RSNs. Pursuant to the DOJ’s proposed final judgment, we are required to hold separate and divest the 21CF RSNs following the completion of the 21CF Acquisition. The proposed final judgment is subject to the approval of the United States District Court for the Southern District of New York. There can be no assurance that such court approval will be granted. Although we intend to fully comply with the proposed final judgment, there can be no assurance that we will be able to negotiate such divestitures expeditiously or on favorable terms, or that governmental authorities will approve the terms of such divestitures. In the event that we are unable to divest all of the 21CF RSNs within the agreed upon time periods, the DOJ may apply for a trustee to be appointed to give effect to the divestitures, and we will be unable to object to any sale of the 21CF RSNs by the trustee on any grounds other than the trustee’s malfeasance.

The Panel on Takeovers and Mergers of the United Kingdom (the “U.K. Takeover Panel”) has ruled that, unless the Sky Acquisition has completed or a third party has acquired more than 50% of the ordinary shares in Sky, in each case, prior to the completion of the 21CF Acquisition, we will be obliged to make a mandatory offer for all the ordinary shares in Sky not already owned by 21CF.

21CF currently has an approximately 39% interest in Sky. The U.K. Takeover Panel has ruled that, unless the Sky Acquisition has completed or a third party has acquired more than 50% of the ordinary shares in Sky, in each case prior to the completion of the 21CF Acquisition, we will be obliged to make a mandatory offer for all the ordinary shares in Sky not already owned by 21CF in accordance with Note 8 of Rule 9.1 of the Takeover Code as promulgated by the U.K. Takeover Panel (the “U.K. Takeover Code”) at an offer price of £14.00 for each ordinary share in Sky. The Hearings Committee of the U.K. Takeover Panel (the “Hearings Committee”) reviewed the ruling made by the U.K. Takeover Panel that set the mandatory offer price at £14.00 per share at a hearing held on July 27, 2018, and upheld such ruling. It is expected that there will be an appeal to the U.K. Takeover Appeal Board, which could agree or disagree with the offer price set by the U.K. Takeover Panel. In the event that there is a further appeal and the U.K. Takeover Appeal Board does not agree with such offer price, the price at which we may be required to make such mandatory offer may be increased or decreased. An increase in the mandatory offer price could adversely affect our financial position.

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 June 30, 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]
April 1, 2018 - April 30, 2018	4,754,175	$ 100.47	4,726,100	162 million
May 1, 2018 - May 31, 2018	4,883,104	101.77	4,857,000	157 million
June 1, 2018 - June 30, 2018	23,964	105.63	—	157 million
Total	9,661,243	101.14	9,583,100	157 million

(1) 78,143 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

August 7, 2018
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
2.1	Amended and Restated Agreement and Plan of Merger, dated as of June 20, 2018, among Twenty-First Century Fox Inc., The Walt Disney Company, TWDC Holdco 613 Corp., WDC Merger Enterprises I, Inc. and WDC Merger Enterprises II, Inc.*	Exhibit 2.1 to the Current Report on Form 8-K of the Company filed June 20, 2018
10.1	Amended and Restated Voting Agreement dated as of June 20, 2018, among The Walt Disney Company, Murdoch Family Trust, and Cruden Financial Services, LLC	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed June 20, 2018
10.2	Description of Directors Compensation	Filed herewith
12.1	Ratio of Earnings to Fixed Charges	Filed herewith
31(a)	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
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 June 30, 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

* Certain schedules and exhibits have been omitted pursuant to 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request.

** 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.