

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

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

For the quarterly period ended December 28, 2019

or

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

For the transition period from _____ to _____.

Commission File Number 001-38842



Delaware

State or Other Jurisdiction of
Incorporation or Organization

83-0940635

I.R.S. Employer Identification

500 South Buena Vista Street

Burbank, California 91521

Address of Principal Executive Offices and Zip Code

(818) 560-1000

Registrant's Telephone Number, Including Area Code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	DIS	New York Stock Exchange

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ 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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

There were 1,805,438,643 shares of common stock outstanding as of January 29, 2020.

PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

THE WALT DISNEY COMPANY CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited; in millions, except per share data)

	Quarter Ended	
	December 28, 2019	December 29, 2018
Revenues:		
Services	\$ 18,075	\$ 12,866
Products	2,783	2,437
Total revenues	20,858	15,303
Costs and expenses:		
Cost of services (exclusive of depreciation and amortization)	(11,377)	(7,564)
Cost of products (exclusive of depreciation and amortization)	(1,639)	(1,437)
Selling, general, administrative and other	(3,703)	(2,152)
Depreciation and amortization	(1,298)	(732)
Total costs and expenses	(18,017)	(11,885)
Restructuring and impairment charges	(150)	—
Interest expense, net	(283)	(63)
Equity in the income of investees	224	76
Income from continuing operations before income taxes	2,632	3,431
Income taxes on continuing operations	(459)	(645)
Net income from continuing operations	2,173	2,786
Loss from discontinued operations (net of income tax benefit of \$8 and \$0, respectively)	(26)	—
Net income	2,147	2,786
Net (income) loss from continuing operations attributable to noncontrolling interests	(40)	2
Net income attributable to The Walt Disney Company (Disney)	\$ 2,107	\$ 2,788
Earnings per share attributable to Disney ⁽¹⁾ :		
Diluted		
Continuing operations	\$ 1.17	\$ 1.86
Discontinued operations	(0.01)	—
	\$ 1.16	\$ 1.86
Basic		
Continuing operations	\$ 1.18	\$ 1.87
Discontinued operations	(0.01)	—
	\$ 1.17	\$ 1.87
Weighted average number of common and common equivalent shares outstanding:		
Diluted	1,817	1,498
Basic	1,805	1,490

⁽¹⁾ Total may not equal the sum of the column due to rounding.

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended	
	December 28, 2019	December 29, 2018
Net income	\$ 2,147	\$ 2,786
Other comprehensive income (loss), net of tax:		
Market value adjustments for hedges	(107)	(9)
Pension and postretirement medical plan adjustments	107	53
Foreign currency translation and other	127	(21)
Other comprehensive income	127	23
Comprehensive income	2,274	2,809
Net (income) loss from continuing operations attributable to noncontrolling interests	(40)	2
Other comprehensive income attributable to noncontrolling interests	(43)	(2)
Comprehensive income attributable to Disney	\$ 2,191	\$ 2,809

See Notes to Condensed Consolidated Financial Statements

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

	December 28, 2019	September 28, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,833	\$ 5,418
Receivables	17,100	15,481
Inventories	1,571	1,649
Licensed content costs and advances	1,334	4,597
Other current assets	938	979
Total current assets	27,776	28,124
Produced and licensed content costs	26,539	22,810
Investments	3,312	3,224
Parks, resorts and other property		
Attractions, buildings and equipment	59,910	58,589
Accumulated depreciation	(33,057)	(32,415)
	26,853	26,174
Projects in progress	4,023	4,264
Land	1,019	1,165
	31,895	31,603
Intangible assets, net	22,669	23,215
Goodwill	80,314	80,293
Other assets	8,443	4,715
Total assets	\$ 200,948	\$ 193,984
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 19,755	\$ 17,762
Current portion of borrowings	10,018	8,857
Deferred revenue and other	5,024	4,722
Total current liabilities	34,797	31,341
Borrowings	38,057	38,129
Deferred income taxes	8,364	7,902
Other long-term liabilities	15,928	13,760
Commitments and contingencies (Note 13)		
Redeemable noncontrolling interests	9,029	8,963
Equity		
Preferred stock	—	—
Common stock, \$0.01 par value, Authorized – 4.6 billion shares, Issued – 1.8 billion shares	53,995	53,907
Retained earnings	43,202	42,494
Accumulated other comprehensive loss	(6,533)	(6,617)
Treasury stock, at cost, 19 million shares	(907)	(907)
Total Disney Shareholders' equity	89,757	88,877
Noncontrolling interests	5,016	5,012
Total equity	94,773	93,889
Total liabilities and equity	\$ 200,948	\$ 193,984

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended	
	December 28, 2019	December 29, 2018
OPERATING ACTIVITIES		
Net income from continuing operations	\$ 2,173	\$ 2,786
Depreciation and amortization	1,298	732
Deferred income taxes	534	46
Equity in the income of investees	(224)	(76)
Cash distributions received from equity investees	219	170
Net change in produced and licensed content costs and advances	(77)	468
Equity-based compensation	115	92
Other	65	61
Changes in operating assets and liabilities, net of business acquisitions:		
Receivables	(1,424)	(1,078)
Inventories	81	32
Other assets	(33)	25
Accounts payable and other liabilities	(841)	(1,289)
Income taxes	(256)	130
Cash provided by operations - continuing operations	1,630	2,099
INVESTING ACTIVITIES		
Investments in parks, resorts and other property	(1,338)	(1,195)
Other	(12)	(141)
Cash used in investing activities - continuing operations	(1,350)	(1,336)
FINANCING ACTIVITIES		
Commercial paper borrowings/(payments), net	1,172	(302)
Borrowings	51	—
Reduction of borrowings	(46)	—
Proceeds from exercise of stock options	126	37
Other	(186)	(146)
Cash provided by (used in) financing activities - continuing operations	1,117	(411)
CASH FLOWS FROM DISCONTINUED OPERATIONS		
Cash used in operations - discontinued operations	(19)	—
Impact of exchange rates on cash, cash equivalents and restricted cash	41	(44)
Change in cash, cash equivalents and restricted cash	1,419	308
Cash, cash equivalents and restricted cash, beginning of period	5,455	4,155
Cash, cash equivalents and restricted cash, end of period	\$ 6,874	\$ 4,463

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended							
	Equity Attributable to Disney							Total Equity
	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Disney Equity	Non-controlling Interests ⁽¹⁾	
Balance at September 28, 2019	1,802	\$ 53,907	\$ 42,494	\$ (6,617)	\$ (907)	\$ 88,877	\$ 5,012	\$ 93,889
Comprehensive income	—	—	2,107	84	—	2,191	17	2,208
Equity compensation activity	3	88	—	—	—	88	—	88
Dividends	—	—	(1,587)	—	—	(1,587)	—	(1,587)
Contributions	—	—	—	—	—	—	20	20
Adoption of new lease accounting guidance:	—	—	197	—	—	197	—	197
Distributions and other	—	—	(9)	—	—	(9)	(33)	(42)
Balance at December 28, 2019	1,805	\$ 53,995	\$ 43,202	\$ (6,533)	\$ (907)	\$ 89,757	\$ 5,016	\$ 94,773
Balance at September 29, 2018	1,488	\$ 36,779	\$ 82,679	\$ (3,097)	\$ (67,588)	\$ 48,773	\$ 4,059	\$ 52,832
Comprehensive income	—	—	2,788	21	—	2,809	(1)	2,808
Equity compensation activity	2	20	—	—	—	20	—	20
Dividends	—	—	(1,310)	—	—	(1,310)	—	(1,310)
Contributions	—	—	—	—	—	—	20	20
Adoption of new accounting guidance:								
Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	—	—	691	(691)	—	—	—	—
Intra-Entity Transfers of Assets Other Than Inventory	—	—	129	—	—	129	—	129
Revenues from Contracts with Customers	—	—	(116)	—	—	(116)	—	(116)
Other	—	—	22	(15)	—	7	—	7
Distributions and other	—	—	4	—	—	4	(1)	3
Balance at December 29, 2018	1,490	\$ 36,799	\$ 84,887	\$ (3,782)	\$ (67,588)	\$ 50,316	\$ 4,077	\$ 54,393

⁽¹⁾ Excludes redeemable noncontrolling interests

See Notes to Condensed Consolidated Financial Statements

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

1. Principles of Consolidation

These Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. We believe that we have included all normal recurring adjustments necessary for a fair presentation of the results for the interim period. Operating results for the quarter ended December 28, 2019 are not necessarily indicative of the results that may be expected for the year ending October 3, 2020.

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. The term “TWDC” is used to refer to the parent company.

These financial statements should be read in conjunction with the Company’s 2019 Annual Report on Form 10-K.

On March 20, 2019, the Company acquired Twenty-First Century Fox, Inc., which was subsequently renamed TFCF Corporation (TFCF). As a result of the acquisition, the Company’s ownership in Hulu LLC (Hulu) increased to 60% (67% as of December 28, 2019 and September 28, 2019). The acquired TFCF operations and Hulu have been consolidated since the acquisition. In order to obtain regulatory approval for the acquisition, the Company agreed to sell sports media operations in Brazil and Mexico, which, along with certain other businesses to be divested, are presented as discontinued operations in the Condensed Consolidated Statement of Income. At December 28, 2019 and September 28, 2019, the assets and liabilities of the businesses held for sale are not material and are included in other assets and other liabilities in the Condensed Consolidated Balance Sheet.

Variable Interest Entities

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

Redeemable Noncontrolling Interests

On May 13, 2019, the Company entered into a put/call agreement with NBC Universal (NBCU) that provided the Company with full operational control of Hulu. Under the agreement, beginning in January 2024, NBCU has the option to require the Company to purchase NBCU’s approximately 33% interest in Hulu and the Company has the option to require NBCU to sell its interest in Hulu, based on NBCU’s equity ownership percentage of the greater of Hulu’s then fair value or \$27.5 billion.

NBCU’s interest will generally not be allocated its portion of Hulu’s losses as the redeemable noncontrolling interest is required to be carried at a minimum value. The minimum value is equal to the fair value as of the May 13, 2019 agreement date accreted to the January 2024 redemption value. At December 28, 2019, NBCU’s interest in Hulu is recorded in the Company’s financial statements at \$7.9 billion.

BAMTech’s noncontrolling interest holders, Major League Baseball (MLB) and the National Hockey League (NHL), have the right to sell their interest to the Company in the future. MLB can generally sell its interest to the Company starting five years from and ending ten years after the Company’s September 25, 2017 acquisition date of BAMTech at the greater of fair value or a guaranteed floor value (\$563 million accreting at 8% annually for eight years from the date of acquisition). The NHL can sell its interest to the Company in fiscal 2020 for \$300 million or in fiscal 2021 for \$350 million. The Company has the right to purchase MLB’s interest in BAMTech starting five years from and ending ten years after the September 25, 2017

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

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 2020 or 2021 for \$500 million.

The MLB and NHL interests will generally not be allocated their portion of BAMTech losses as these interests are required to be recorded 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. The redeemable noncontrolling interest subject to accretion would have had a redemption amount of approximately \$670 million as of December 28, 2019.

Adjustments to the carrying amount of redeemable noncontrolling interests increase or decrease income available to Company shareholders and are recorded in “Net (income) loss from continuing operations attributable to noncontrolling interests” on the Condensed Consolidated Statement of Income.

Use of Estimates

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

Reclassifications

Certain reclassifications have been made in fiscal 2019 financial statements and notes to conform to the fiscal 2020 presentation.

2. Segment Information

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

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

Segment operating results reflect earnings before corporate and unallocated shared expenses, restructuring and impairment charges, net other income, net interest expense, income taxes and noncontrolling interests. Segment operating income includes equity in the income of investees and excludes impairments of certain equity investments and purchase accounting amortization of TFCF and Hulu assets (i.e. intangible assets and the fair value step-up for film and television costs) recognized in connection with the TFCF acquisition. Corporate and unallocated shared expenses principally consist of corporate functions, executive management and certain unallocated administrative support functions.

Segment operating results include allocations of certain costs, including information technology, pension, legal and other shared services costs, which are allocated based on metrics designed to correlate with consumption. These allocations are agreed-upon amounts between the businesses and may differ from amounts that would be negotiated in arm’s length transactions.

Intersegment content transactions are presented “gross” (i.e. the segment producing the content reports revenue and profit from intersegment transactions, and the required eliminations are reported on a separate “Eliminations” line when presenting a summary of our segment results). Other intersegment transactions are reported “Net” (i.e. revenue from another segment is recorded as a reduction of costs). Studio Entertainment revenues and operating income include an allocation of Parks, Experiences and Products revenues, which is meant to reflect royalties on revenue generated by Parks, Experiences and Products on merchandise based on intellectual property from Studio Entertainment films.

As it relates to film and television content that is produced by our Media Networks and Studio Entertainment segments that will be used on our direct-to-consumer (DTC) services, there are four broad categories of content:

- Content produced for exclusive DTC use, “Originals”;
- New Studio Entertainment theatrical releases following the theatrical and home entertainment windows, “Studio Pay 1”;
- New Media Networks episodic television series following their initial airing on our linear networks, “Media Pay 1”; and
- Content in all other windows, “Library”.

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The intersegment transfer price, for purposes of segment financial reporting pursuant to ASC 280 Segment Reporting, is generally cost plus a margin for Originals and Media Pay 1 content and generally based on comparable transactions for Studio Pay 1 and Library content. Imputed title by title intersegment license fees that may be necessary for other purposes are established as required by those purposes.

Intersegment revenue is recognized upon availability of the content to the DTC service except with respect to Library content for which revenue is recognized ratably over the license period.

Our DTC services generally amortize intersegment content costs for Originals and Studio Pay 1 content on an accelerated basis and for Media Pay 1 and Library content on a straight line basis.

When the DTC amortization timing is different than the timing of revenue recognition at Studio Entertainment or Media Networks, the difference results in an operating income impact in the elimination segment, which nets to zero over the DTC amortization period.

Segment revenues and segment operating income are as follows:

	Quarter Ended	
	December 28, 2019	December 29, 2018
Revenues:		
Media Networks	\$ 7,361	\$ 5,921
Parks, Experiences and Products ⁽¹⁾	7,396	6,824
Studio Entertainment ⁽¹⁾	3,764	1,824
Direct-to-Consumer & International	3,987	918
Eliminations ⁽²⁾	(1,650)	(184)
	<u>\$ 20,858</u>	<u>\$ 15,303</u>
Segment operating income (loss):		
Media Networks	\$ 1,630	\$ 1,330
Parks, Experiences and Products ⁽¹⁾	2,338	2,152
Studio Entertainment ⁽¹⁾	948	309
Direct-to-Consumer & International	(693)	(136)
Eliminations ⁽²⁾	(221)	—
	<u>\$ 4,002</u>	<u>\$ 3,655</u>

⁽¹⁾ The allocation of Parks, Experiences and Products revenues to Studio Entertainment was \$184 million and \$154 million for the quarters ended December 28, 2019 and December 29, 2018, respectively.

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

(2) Intersegment eliminations are as follows:

(in millions)	Quarter Ended	
	December 28, 2019	December 29, 2018
Revenues:		
Studio Entertainment:		
Content transactions with Media Networks	\$ (53)	\$ (21)
Content transactions with Direct-to-Consumer & International	(685)	(18)
Media Networks:		
Content transactions with Direct-to-Consumer & International	(912)	(145)
	<u>\$ (1,650)</u>	<u>\$ (184)</u>
Operating income:		
Studio Entertainment:		
Content transactions with Media Networks	\$ —	\$ —
Content transactions with Direct-to-Consumer & International	(116)	2
Media Networks:		
Content transactions with Direct-to-Consumer & International	(105)	(2)
	<u>\$ (221)</u>	<u>\$ —</u>

Equity in the income/(loss) of investees is included in segment operating income as follows:

	Quarter Ended	
	December 28, 2019	December 29, 2018
Media Networks	\$ 193	\$ 179
Parks, Experiences and Products	(3)	(12)
Direct-to-Consumer & International	42	(91)
Equity in the income of investees included in segment operating income	232	76
Amortization of TFCF intangible assets related to equity investees	(8)	—
Equity in the income (loss) of investees, net	<u>\$ 224</u>	<u>\$ 76</u>

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

	Quarter Ended	
	December 28, 2019	December 29, 2018
Segment operating income	\$ 4,002	\$ 3,655
Corporate and unallocated shared expenses	(237)	(161)
Restructuring and impairment charges	(150)	—
Interest expense, net	(283)	(63)
Amortization of TFCF and Hulu intangible assets and fair value step-up on film and television costs ⁽¹⁾	(700)	—
Income from continuing operations before income taxes	<u>\$ 2,632</u>	<u>\$ 3,431</u>

⁽¹⁾ For the quarter ended December 28, 2019 amortization of intangible assets, step-up of film and television costs and intangibles related to TFCF equity investees were \$486 million, \$206 million and \$8 million, respectively.

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

3. Revenues

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

Quarter Ended December 28, 2019						
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
Affiliate fees	\$ 3,648	\$ —	\$ —	\$ 953	\$ (174)	\$ 4,427
Advertising	2,023	2	—	1,367	—	3,392
Theme park admissions	—	2,067	—	—	—	2,067
Resort and vacations	—	1,631	—	—	—	1,631
Retail and wholesale sales of merchandise, food and beverage	—	2,313	—	—	—	2,313
TV/SVOD distribution licensing	1,538	—	1,362	203	(1,476)	1,627
Theatrical distribution licensing	—	—	1,408	—	—	1,408
Merchandise licensing	—	864	184	8	—	1,056
Subscription fees	—	—	—	1,326	—	1,326
Home entertainment	—	—	511	27	—	538
Other	152	519	299	103	—	1,073
Total revenues	\$ 7,361	\$ 7,396	\$ 3,764	\$ 3,987	\$ (1,650)	\$ 20,858

Quarter Ended December 29, 2018						
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
Affiliate fees	\$ 3,075	\$ —	\$ —	\$ 323	\$ —	\$ 3,398
Advertising	2,023	2	—	417	—	2,442
Theme park admissions	—	1,933	—	—	—	1,933
Resort and vacations	—	1,531	—	—	—	1,531
Retail and wholesale sales of merchandise, food and beverage	—	2,122	—	—	—	2,122
TV/SVOD distribution licensing	722	—	605	34	(184)	1,177
Theatrical distribution licensing	—	—	373	—	—	373
Merchandise licensing	—	741	154	15	—	910
Subscription fees	—	—	—	33	—	33
Home entertainment	—	—	425	28	—	453
Other	101	495	267	68	—	931
Total revenues	\$ 5,921	\$ 6,824	\$ 1,824	\$ 918	\$ (184)	\$ 15,303

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

Quarter Ended December 28, 2019						
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
United States and Canada	\$ 6,941	\$ 5,708	\$ 1,981	\$ 2,160	\$ (1,464)	\$ 15,326
Europe	207	892	973	486	(62)	2,496
Asia Pacific	146	732	625	707	(124)	2,086
Latin America	67	64	185	634	—	950
Total revenues	\$ 7,361	\$ 7,396	\$ 3,764	\$ 3,987	\$ (1,650)	\$ 20,858

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

	Quarter Ended December 29, 2018					
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
United States and Canada	\$ 5,688	\$ 5,142	\$ 1,038	\$ 225	\$ (164)	\$ 11,929
Europe	142	854	413	189	(15)	1,583
Asia Pacific	63	762	286	134	(5)	1,240
Latin America	28	66	87	370	—	551
Total revenues	\$ 5,921	\$ 6,824	\$ 1,824	\$ 918	\$ (184)	\$ 15,303

Revenues recognized in the current and prior-year quarter from performance obligations satisfied (or partially satisfied) in previous reporting periods primarily relate to revenues earned on TV/SVOD and theatrical distribution licensee sales on titles made available to the licensee in previous reporting periods. For the quarter ended December 28, 2019, \$468 million was recognized related to performance obligations satisfied as of September 28, 2019. For the quarter ended December 29, 2018, \$378 million was recognized related to performance obligations satisfied as of September 29, 2018.

As of December 28, 2019, revenue for unsatisfied performance obligations expected to be recognized in the future is \$16 billion, which primarily relates to content to be delivered in the future under existing agreements with television station affiliates and TV/SVOD licensees. Of this amount, we expect to recognize approximately \$5 billion in the remainder of fiscal 2020, \$5 billion in fiscal 2021, \$3 billion in fiscal 2022 and \$3 billion thereafter. These amounts include only fixed consideration or minimum guarantees and do not include amounts related to (i) contracts with an original expected term of one year or less (such as most advertising contracts) or (ii) licenses of IP that are solely based on the sales of the licensee.

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

	December 28, 2019	September 28, 2019
Contract assets	\$ 134	\$ 125
Accounts Receivable		
Current	14,452	12,755
Non-current	1,891	1,987
Allowance for doubtful accounts	(406)	(327)
Deferred revenues		
Current	4,446	4,050
Non-current	676	619

Contract assets primarily relate to certain multi-season TV/SVOD licensing contracts. Activity for the current and prior-year quarters related to contract assets and allowance for doubtful accounts was not material.

For the quarter ended December 28, 2019, the Company recognized revenues of \$2.1 billion primarily related to theme park admissions, vacation packages and licensing advances included in the deferred revenue balance at September 28, 2019. For the quarter ended December 29, 2018, the Company recognized revenues of \$1.6 billion primarily related to theme park admissions and vacation packages included in the deferred revenue balance at September 30, 2018.

4. Acquisitions

TFCF Corporation

On March 20, 2019, the Company acquired the outstanding capital stock of TFCF, a diversified global media and entertainment company.

The Company is required to allocate the TFCF purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over those fair values is recorded as goodwill. As of December 28, 2019, the Company has generally completed its allocation of the TFCF purchase price. The principal open

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items relate to the valuation of certain income tax matters. The Company is still obtaining information related to the evaluation of the income tax impact of certain pre-acquisition transactions of TFCF. Estimates have been recorded as of the acquisition date and updates to these estimates may increase or decrease goodwill.

The following table summarizes our current allocation of the March 20, 2019 purchase price:

	Initial Allocation ⁽¹⁾	Valuation Adjustments	Updated Allocation
Cash and cash equivalents	\$ 25,666	\$ 35	\$ 25,701
Receivables	4,746	471	5,217
Film and television costs	20,120	(2,304)	17,816
Investments	1,471	(509)	962
Intangible assets	20,385	(2,504)	17,881
Net assets held for sale	11,704	(295)	11,409
Accounts payable and other liabilities	(10,753)	(1,705)	(12,458)
Borrowings	(21,723)	—	(21,723)
Deferred income taxes	(6,497)	1,240	(5,257)
Other net liabilities acquired	(3,865)	(144)	(4,009)
Noncontrolling interests	(10,638)	230	(10,408)
Goodwill	43,751	5,362	49,113
Fair value of net assets acquired	74,367	(123)	74,244
Less: Disney's previously held 30% interest in Hulu	(4,860)	123	(4,737)
Total purchase price	\$ 69,507	\$ —	\$ 69,507

⁽¹⁾ As reported in our March 30, 2019 Form 10-Q.

These adjustments to the initial allocation are based on more detailed information obtained about the specific assets acquired and liabilities assumed. The adjustments made to the initial allocation during the current quarter did not result in any material net changes to amortization expense recorded in prior quarters.

The following table summarizes the revenues and net loss from continuing operations (including purchase accounting amortization and excluding restructuring and impairment charges and interest income and expense) of TFCF and Hulu included in the Company's Condensed Consolidated Statement of Income for the quarter ended December 28, 2019. In addition, the table provides the impact of intercompany eliminations of transactions between the Company, TFCF and Hulu:

TFCF (before intercompany eliminations):		
Revenues	\$	3,370
Net loss from continuing operations		(35)
Hulu (before intercompany eliminations):		
Revenues	\$	1,625
Net loss from continuing operations		(316)
Intercompany eliminations:		
Revenues	\$	(599)
Net loss from continuing operations		(48)

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Goodwill

The changes in the carrying amount of goodwill for the quarter ended December 28, 2019 are as follows:

	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to-Consumer & International	Total
Balance at September 28, 2019	\$ 33,423	\$ 5,535	\$ 17,797	\$ 23,538	\$ 80,293
Acquisitions ⁽¹⁾	17	2	1	7	27
Other, net	—	—	—	(6)	(6)
Balance at December 28, 2019	\$ 33,440	\$ 5,537	\$ 17,798	\$ 23,539	\$ 80,314

⁽¹⁾ Reflects updates to allocation of purchase price for the acquisition of TFCF.

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

Cash, Cash Equivalents and Restricted Cash

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

	December 28, 2019	September 28, 2019
Cash and cash equivalents	\$ 6,833	\$ 5,418
Restricted cash included in:		
Other current assets	1	26
Other assets	40	11
Total cash, cash equivalents and restricted cash in the statement of cash flows	\$ 6,874	\$ 5,455

Borrowings

During the quarter ended December 28, 2019, the Company's borrowing activity was as follows:

	September 28, 2019	Borrowings	Payments	Other Activity	December 28, 2019
Commercial paper with original maturities less than three months ⁽¹⁾	\$ 1,934	\$ —	\$ (1,145)	\$ 30	\$ 819
Commercial paper with original maturities greater than three months	3,408	2,935	(618)	(10)	5,715
U.S. dollar denominated notes	39,424	—	(8)	(36)	39,380
Asia Theme Parks borrowings	1,114	—	—	32	1,146
Foreign currency denominated debt and other ⁽²⁾	1,106	51	(38)	(104)	1,015
	<u>\$ 46,986</u>	<u>\$ 2,986</u>	<u>\$ (1,809)</u>	<u>\$ (88)</u>	<u>\$ 48,075</u>

⁽¹⁾ Borrowings and reductions of borrowings are reported net.

⁽²⁾ The other activity is due to market value adjustments for debt with qualifying hedges, partially offset by the impact of changes in foreign currency exchange rates.

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

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

All of the above bank facilities allow for borrowings at LIBOR-based rates plus a spread depending on the credit default swap spread applicable to the Company's debt, subject to a cap and floor that vary with the Company's debt rating assigned by Moody's Investors Service and Standard & Poor's. The spread above LIBOR can range from 0.18% to 1.63%. The facilities specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants, or events of default

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and contain only one financial covenant relating to interest coverage, which the Company met on December 28, 2019 by a significant margin. The Company also has the ability to issue up to \$500 million of letters of credit under the facility expiring in March 2023, which if utilized, reduces available borrowings under this facility. As of December 28, 2019, the Company has \$1.1 billion of outstanding letters of credit, of which none were issued under this facility.

Cruise Ship Credit Facilities

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

Interest expense, net

Interest expense, interest and investment income, and net periodic pension and postretirement benefit costs (other than service costs) (see Note 9) are reported net in the Condensed Consolidated Statements of Income and consist of the following (net of capitalized interest):

	Quarter Ended	
	December 28, 2019	December 29, 2018
Interest expense	\$ (362)	\$ (163)
Interest and investment income	76	75
Net periodic pension and postretirement benefit costs (other than service costs)	3	25
Interest expense, net	<u>\$ (283)</u>	<u>\$ (63)</u>

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

6. International Theme Parks

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

The following table summarizes the carrying amounts of the Asia Theme Parks' assets and liabilities included in the Company's Condensed Consolidated Balance Sheets:

	December 28, 2019	September 28, 2019
Cash and cash equivalents	\$ 580	\$ 655
Other current assets	110	102
Total current assets	690	757
Parks, resorts and other property	6,686	6,608
Other assets	191	9
Total assets	<u>\$ 7,567</u>	<u>\$ 7,374</u>
Current liabilities	\$ 465	\$ 447
Long-term borrowings	1,146	1,114
Other long-term liabilities	373	189
Total liabilities	<u>\$ 1,984</u>	<u>\$ 1,750</u>

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The following table summarizes the International Theme Parks' revenues and costs and expenses included in the Company's Condensed Consolidated Statement of Income for the quarter ended December 28, 2019:

Revenues	\$	852
Costs and expenses		(880)
Equity in the loss of investees		(3)

Asia Theme Parks' royalty and management fees of \$31 million for the quarter ended December 28, 2019 are eliminated in consolidation, but are considered in calculating earnings attributable to noncontrolling interests.

International Theme Parks' cash flows included in the Company's Condensed Consolidated Statement of Cash Flows for the quarter ended December 28, 2019 were \$65 million generated from operating activities, \$228 million used in investing activities and \$20 million generated in financing activities. Substantially all of the cash flows generated from operating and financing activities and one third of cash flows used in investing activities were for the Asia Theme Parks.

Hong Kong Disneyland Resort

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

The Company and HKSAR have both provided loans to Hong Kong Disneyland Resort with outstanding balances of \$145 million and \$97 million, respectively. The interest rate is three month HIBOR plus 2%, and the maturity date is September 2025. The Company's loan is eliminated in consolidation.

The Company has provided Hong Kong Disneyland Resort with a revolving credit facility of HK \$2.1 billion (\$270 million), which bears interest at a rate of three month HIBOR plus 1.25% and matures in December 2023. There is no outstanding balance under the line of credit at December 28, 2019.

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 \$839 million, bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. The Company has also provided Shanghai Disney Resort with a \$157 million line of credit bearing interest at 8%. There is no outstanding balance under the line of credit at December 28, 2019. These balances are eliminated in consolidation.

Shendi has provided Shanghai Disney Resort with loans totaling 7.3 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 \$0.2 billion) line of credit bearing interest at 8%. There is no outstanding balance under the line of credit at December 28, 2019.

7. Produced and Acquired/Licensed Content Costs and Advances

At the beginning of fiscal 2020, the Company adopted, on a prospective basis, new Financial Accounting Standards Board (FASB) guidance that updates the accounting for film and television content costs. Therefore, reporting periods beginning after September 29, 2019 are presented under the new guidance, while prior periods continue to be reported in accordance with our historical accounting. The new guidance does the following:

- Allows for the classification of acquired/licensed television content rights as long-term assets. Previously, we reported a portion of these rights in current assets. The Company has classified approximately \$3 billion of these rights as long-term in the Q1 2020 balance sheet. Advances for live programming rights made prior to the live event continue to be reported in current assets.
- Aligns the capitalization of production costs for episodic television content with the capitalization of production costs for theatrical content. Previously, theatrical content production costs could be fully capitalized while episodic television production costs were generally limited to the amount of contracted revenues. We do not expect this change to have a material impact on the Company's financial statements for fiscal year 2020.
- Introduces the concept of "predominant monetization strategy" to classify capitalized content costs for purposes of amortization and impairment as follows:
 - Individual - lifetime value is predominantly derived from third-party revenues that are directly attributable to the specific film or television title (e.g. theatrical revenues or sales to third-party television programmers).

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- Group - lifetime value is predominantly derived from third-party revenues that are attributable only to a bundle of titles (e.g. subscription revenue for a DTC service or affiliate fees for a cable television network).

The determination of the predominant monetization strategy is made at commencement of production on a consolidated basis and is based on the means by which we derive third-party revenues from use of the content. Imputed title by title intersegment license fees that may be necessary for other purposes are established as required by those purposes.

For these accounting purposes, we generally, classify content that is initially intended for use on our DTC services or on our linear television networks as group assets. Content initially intended for theatrical release or for sale to third-party licensees, we generally classify as individual assets. Because the new accounting guidance is applied prospectively, the predominant monetization strategy for content released prior to the beginning of fiscal 2020 is determined based on the expected means of monetization over the remaining life of the content. Thus for example, film titles that were released theatrically and in home entertainment prior to fiscal year 2020 and are now distributed on Disney+ are generally considered group content.

The classification of content as individual or group only changes if there is a significant change to the title's monetization strategy relative to its initial assessment (e.g. content that was initially intended for license to a third-party is instead used on an owned DTC service).

Production costs for content predominantly individually monetized will continue to be amortized based upon the ratio of the current period's revenues to the estimated remaining total revenues (Ultimate Revenues). For film productions, Ultimate Revenues include revenues from all sources, which may include intersegment license fees, that will be earned within ten years from the date of the initial release for theatrical films. For episodic 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.

Production costs predominantly monetized as a group are amortized based on projected usage (which may be, for example derived from historical viewership patterns), typically resulting in an accelerated or straight-line amortization pattern.

Licensed rights to film and television content and other programs for broadcast on our linear networks or distribution on our DTC services are expensed on an accelerated or straight-line basis over their useful life or over the number of times the program is expected to be aired, as appropriate. 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. If annual contractual payments related to each season approximate each season's estimated relative value, we expense the related contractual payments during the applicable season.

The costs of produced and licensed film and television content are subject to regular recoverability assessments. For content that is predominantly monetized individually, the unamortized costs are compared to the estimated fair value. The fair value is determined based on a discounted cash flow analysis of the cash flows directly attributable to the title. To the extent the unamortized costs exceed the fair value, an impairment charge is recorded for the excess. For content that is predominantly monetized as a group, the aggregate unamortized costs of the group are compared to the present value of the discounted cash flows using the lowest level for which identifiable cash flows are independent of other produced and licensed content. If the unamortized costs exceed the present value of discounted cash flows, an impairment charge is recorded for the excess and allocated to individual titles based on the relative carrying value of each title in the group. If there are no plans to continue to use an individual film or television program that is part of a group, the unamortized cost of the individual title is written-off immediately. Licensed content is included as part of the group within which it is monetized for purposes of assessing recoverability.

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Total capitalized produced and licensed content by predominant monetization strategy is as follows:

As of December 28, 2019			
	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total
Produced content			
Theatrical film costs			
Released, less amortization	\$ 3,545	\$ 2,633	\$ 6,178
Completed, not released	86	—	86
In-process	3,604	80	3,684
In development or pre-production	352	—	352
	<u>\$ 7,587</u>	<u>\$ 2,713</u>	<u>10,300</u>
Television costs			
Released, less amortization	2,700	6,321	9,021
Completed, not released	424	709	1,133
In-process	522	1,495	2,017
In development or pre-production	—	38	38
	<u>\$ 3,646</u>	<u>\$ 8,563</u>	<u>12,209</u>
Licensed content - Television programming rights and advances			5,364
Total produced and licensed content			<u>\$ 27,873</u>
Current portion			\$ 1,334
Non-current portion			\$ 26,539

Amortization of produced and licensed content is as follows:

Quarter Ended December 28, 2019:			
	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total
Theatrical film costs	\$ 526	\$ 311	\$ 837
Television costs	754	927	1,681
Total produced content costs	<u>\$ 1,280</u>	<u>\$ 1,238</u>	<u>2,518</u>
Television programming rights and advances			3,731
Total produced and licensed content costs ⁽¹⁾			<u>\$ 6,249</u>

⁽¹⁾ Primarily included in “Costs of services” in the Condensed Consolidated Statement of Income.

Amortization of produced and licensed content for the quarter ended December 29, 2018 was \$4.2 billion.

8. Income Taxes

Intra-Entity Transfers of Assets Other Than Inventory

At the beginning of fiscal 2019, the Company adopted new FASB accounting 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. In the first quarter of fiscal 2019, the Company recorded a \$0.1 billion deferred tax asset with an offsetting increase to retained earnings.

Unrecognized Tax Benefits

At December 28, 2019, the Company’s unrecognized tax benefits were \$2.9 billion (before interest and penalties). The change for the quarter ended December 28, 2019 was not material. 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 \$0.2 billion, of which \$0.1 billion would reduce our income tax expense and effective tax rate if recognized.

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9. Pension and Other Benefit Programs

The components of net periodic benefit cost are as follows:

	Pension Plans		Postretirement Medical Plans	
	Quarter Ended		Quarter Ended	
	December 28, 2019	December 29, 2018	December 28, 2019	December 29, 2018
Service costs	\$ 103	\$ 83	\$ 3	\$ 2
Other costs (benefits):				
Interest costs	133	145	14	16
Expected return on plan assets	(273)	(239)	(14)	(14)
Amortization of prior-year service costs	3	3	—	—
Recognized net actuarial loss	131	64	3	—
Total other costs (benefits)	(6)	(27)	3	2
Net periodic benefit cost	\$ 97	\$ 56	\$ 6	\$ 4

During the quarter ended December 28, 2019, the Company did not make any material contributions to its pension and postretirement medical plans. The Company expects total pension and postretirement medical plan contributions in fiscal 2020 of approximately \$600 million to \$675 million. However, final funding amounts for fiscal 2020 will be assessed based on our January 1, 2020 funding actuarial valuation, which will be available in the fourth quarter of fiscal 2020.

10. Earnings Per Share

Diluted earnings per share amounts are based upon the weighted average number of common and common equivalent shares outstanding during the period and are calculated using the treasury stock method for equity-based compensation awards (Awards). A reconciliation of the weighted average number of common and common equivalent shares outstanding and the number of Awards excluded from the diluted earnings per share calculation, as they were anti-dilutive, are as follows:

	Quarter Ended	
	December 28, 2019	December 29, 2018
Shares (in millions):		
Weighted average number of common and common equivalent shares outstanding (basic)	1,805	1,490
Weighted average dilutive impact of Awards	12	8
Weighted average number of common and common equivalent shares outstanding (diluted)	1,817	1,498
Awards excluded from diluted earnings per share	9	11

11. Equity

The Company paid the following dividends in fiscal 2020 and 2019:

Per Share	Total Paid	Payment Timing	Related to Fiscal Period
\$0.88	\$1.6 billion	Second Quarter of Fiscal 2020	Second Half 2019
\$0.88	\$1.6 billion	Fourth Quarter of Fiscal 2019	First Half 2019
\$0.88	\$1.3 billion	Second Quarter of Fiscal 2019	Second Half 2018

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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:

	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
<u>AOCI, before tax</u>	Investments	Cash Flow Hedges			
<i>First quarter of fiscal 2020</i>					
Balance at September 28, 2019	\$ —	\$ 129	\$ (7,502)	\$ (1,086)	\$ (8,459)
Quarter Ended December 28, 2019:					
Unrealized gains (losses) arising during the period	—	(81)	—	82	1
Reclassifications of realized net (gains) losses to net income	—	(60)	139	—	79
Balance at December 28, 2019	\$ —	\$ (12)	\$ (7,363)	\$ (1,004)	\$ (8,379)
<i>First quarter of fiscal 2019</i>					
Balance at September 29, 2018	\$ 24	\$ 177	\$ (4,323)	\$ (727)	\$ (4,849)
Quarter Ended December 29, 2018:					
Unrealized gains (losses) arising during the period	—	27	—	(16)	11
Reclassifications of realized net (gains) losses to net income	—	(39)	69	—	30
Reclassifications to retained earnings	(24)	1	—	—	(23)
Balance at December 29, 2018	\$ —	\$ 166	\$ (4,254)	\$ (743)	\$ (4,831)

	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	
Tax on AOCI	Investments	Cash Flow Hedges			AOCI
First quarter of fiscal 2020					
Balance at September 28, 2019	\$ —	\$ (29)	\$ 1,756	\$ 115	\$ 1,842
Quarter Ended December 28, 2019:					
Unrealized gains (losses) arising during the period	—	20	—	2	22
Reclassifications of realized net (gains) losses to net income	—	14	(32)	—	(18)
Balance at December 28, 2019	\$ —	\$ 5	\$ 1,724	\$ 117	\$ 1,846
First quarter of fiscal 2019					
Balance at September 29, 2018	\$ (9)	\$ (32)	\$ 1,690	\$ 103	\$ 1,752
Quarter Ended December 29, 2018:					
Unrealized gains (losses) arising during the period	—	(6)	—	(7)	(13)
Reclassifications of realized net (gains) losses to net income	—	9	(16)	—	(7)
Reclassifications to retained earnings ⁽¹⁾	9	(9)	(667)	(16)	(683)
Balance at December 29, 2018	\$ —	\$ (38)	\$ 1,007	\$ 80	\$ 1,049

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	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
<u>AOCI, after tax</u>	Investments	Cash Flow Hedges			
<i>First quarter of fiscal 2020</i>					
Balance at September 28, 2019	\$ —	\$ 100	\$ (5,746)	\$ (971)	\$ (6,617)
Quarter Ended December 28, 2019:					
Unrealized gains (losses) arising during the period	—	(61)	—	84	23
Reclassifications of realized net (gains) losses to net income	—	(46)	107	—	61
Balance at December 28, 2019	\$ —	\$ (7)	\$ (5,639)	\$ (887)	\$ (6,533)
<i>First quarter of fiscal 2019</i>					
Balance at September 29, 2018	\$ 15	\$ 145	\$ (2,633)	\$ (624)	\$ (3,097)
Quarter Ended December 29, 2018:					
Unrealized gains (losses) arising during the period	—	21	—	(23)	(2)
Reclassifications of realized net (gains) losses to net income	—	(30)	53	—	23
Reclassifications to retained earnings ⁽¹⁾	(15)	(8)	(667)	(16)	(706)
Balance at December 29, 2018	\$ —	\$ 128	\$ (3,247)	\$ (663)	\$ (3,782)

⁽¹⁾ At the beginning of fiscal 2019, the Company adopted new FASB accounting guidance, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, and reclassified \$691 million from AOCI to retained earnings.

In addition, at the beginning of fiscal 2019, the Company adopted new FASB accounting guidance, Recognition and Measurement of Financial Assets and Liabilities, and reclassified \$24 million (\$15 million after tax) of market value adjustments on investments previously recorded in AOCI to retained earnings.

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

	Affected line item in the Condensed Consolidated Statements of Income:	Quarter Ended	
		December 28, 2019	December 29, 2018
Gain (loss) in net income:			
Cash flow hedges	Primarily revenue	\$ 60	\$ 39
Estimated tax	Income taxes	(14)	(9)
		46	30
Pension and postretirement medical expense	Interest expense, net	(139)	(69)
Estimated tax	Income taxes	32	16
		(107)	(53)
Total reclassifications for the period		\$ (61)	\$ (23)

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12. Equity-Based Compensation

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

	Quarter Ended	
	December 28, 2019	December 29, 2018
Stock options	\$ 21	\$ 19
RSUs ⁽¹⁾	94	73
Total equity-based compensation expense ⁽²⁾	\$ 115	\$ 92
Equity-based compensation expense capitalized during the period	\$ 24	\$ 16

⁽¹⁾ Includes TFCF Performance RSUs converted to Company RSUs in connection with the TFCF acquisition. For the quarter ended December 28, 2019 the Company recognized \$20 million of equity based compensation in connection with the TFCF acquisition.

⁽²⁾ Equity-based compensation expense is net of capitalized equity-based compensation and estimated forfeitures and excludes amortization of previously capitalized equity-based compensation costs.

Unrecognized compensation cost related to unvested stock options and RSUs was \$222 million and \$1.1 billion, respectively, as of December 28, 2019.

The weighted average grant date fair values of options granted during the quarter ended December 28, 2019 and December 29, 2018 were \$36.35 and \$28.72, respectively.

During the quarter ended December 28, 2019, the Company made equity compensation grants consisting of 4.2 million stock options and 4.8 million RSUs.

13. Commitments and Contingencies

Legal Matters

The Company, together with, in some instances, certain of its directors and officers, is a defendant in various legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not believe that the Company has incurred a probable material loss by reason of any of those actions.

Contractual Guarantees

The Company has guaranteed bond issuances by the Anaheim Public Authority that were used by the City of Anaheim to finance construction of infrastructure and a public parking facility adjacent to the Disneyland Resort. Revenues from sales, occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds, which mature in 2037. In the event of a debt service shortfall, the Company will be responsible to fund the shortfall. As of December 28, 2019, the remaining debt service obligation guaranteed by the Company was \$285 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.

Long-Term Receivables and the Allowance for Credit Losses

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

The Company estimates the allowance for credit losses related to receivables from the sale of film and television programs based upon a number of factors, including historical experience and the financial condition of individual companies with which we do business. The balance of film and television program sales receivables recorded in other non-current assets, net of an immaterial allowance for credit losses, was \$1.2 billion as of December 28, 2019. The activity for the quarter ended December 28, 2019 related to the allowance for credit losses was not material.

The Company estimates the allowance for credit losses related to receivables from sales of its vacation club properties based primarily on historical collection experience. Estimates of uncollectible amounts also consider the economic environment and the age of receivables. The balance of mortgage receivables recorded in other non-current assets, net of an immaterial

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allowance for credit losses, was \$0.8 billion as of December 28, 2019. The activity for the quarter ended December 28, 2019 related to the allowance for credit losses was not material.

14. Leases

At the beginning of fiscal 2020, the Company adopted new lease accounting guidance issued by the FASB. The most significant change requires lessee's to record the present value of operating lease payments as right-of-use assets and lease liabilities on the balance sheet. The new guidance continues to require lessees to classify leases between operating and finance leases (formerly "capital leases").

We adopted the new guidance using the modified retrospective method at the beginning of fiscal year 2020. Reporting periods beginning after September 29, 2019 are presented under the new guidance, while prior periods continue to be reported in accordance with our historical accounting. The Company adopted the new guidance by applying practical expedients that permit us not to reassess our prior conclusions concerning whether:

- Any of our existing arrangements contain a lease;
- Our existing lease arrangements are operating or finance leases;
- To capitalize indirect costs; and
- Existing land easements are leases.

The adoption of the new guidance resulted in the recognition of right-of-use assets and lease liabilities of approximately \$3.7 billion, which were measured by the present value of the remaining minimum lease payments. In accordance with the guidance, the Company elected to exclude from the measurement of the right-of-use asset and lease liability leases with a remaining term of one year ("Short-term leases").

The present value of the lease payments was calculated using the Company's incremental borrowing rate applicable to the lease, which is determined by estimating what it would cost the Company to borrow a collateralized amount equal to the total lease payments over the lease term based on the contractual terms of the lease and the location of the leased asset.

At adoption, in the Condensed Consolidated Balance Sheet we also reclassified:

- Deferred rent of approximately \$0.3 billion for operating leases at the end of fiscal year 2019 from "Accounts payable and other accrued liabilities" (current portion) and "Other long-term liabilities" (non-current portion) to "Other assets" (right-of-use asset);
- A deferred sale leaseback gain of approximately \$0.3 billion from "Deferred revenue and other" (current portion) and "Other long-term liabilities" (non-current portion) to "Retained earnings"; and
- Capitalized lease assets of approximately \$0.2 billion from "Parks, resorts and other property" to "Other assets" related to finance leases.

Lessee Arrangements

The Company's operating leases primarily consist of real estate and equipment, including retail outlets and distribution centers for consumer products, production facilities, content broadcast equipment and office space for general and administrative purposes. The Company also has finance leases, primarily for land and broadcast equipment.

We determine whether a new contract is a lease at contract inception or for a modified contract at the modification date. Our leases may require us to make fixed rental payments, variable lease payments based on usage or sales and fixed non-lease costs relating to the leased asset. Variable lease payments are generally not included in the measurement of the right-of-use asset and lease liability. Fixed non-lease costs, for example common-area maintenance costs, are included in the measurement of the right-of-use asset and lease liability as the Company does not separate lease and non-lease components.

Some of our leases include renewal and/or termination options. If it is reasonably certain that a renewal or termination option will be exercised, the exercise of the option is considered in calculating the term of the lease. As of December 28, 2019, our operating leases have a weighted-average remaining lease term of approximately 8 years, and our finance leases have a weighted-average remaining lease term of approximately 25 years. The weighted-average incremental borrowing rate is 2.6% and 6.6%, for our operating leases and finance leases, respectively.

Additionally, as of December 28, 2019, the Company had signed non-cancelable lease agreements with total estimated future lease payments of approximately \$900 million that had not yet commenced and therefore are not included in the measurement of the right-of-use asset and lease liability.

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The Company's operating and finance right-of-use assets and lease liabilities are as follows:

	December 28, 2019
Right-of-use assets⁽¹⁾	
Operating leases	\$ 3,277
Finance leases	331
Total right-of-use assets	\$ 3,608
Short-term lease liabilities⁽²⁾	
Operating leases	\$ 806
Finance leases	29
	835
Long-term lease liabilities⁽³⁾	
Operating leases	\$ 2,770
Finance leases	252
	3,022
Total lease liabilities	\$ 3,857

⁽¹⁾ Included in "Other assets" in the Condensed Consolidated Balance Sheets

⁽²⁾ Included in "Accounts payable and other accrued liabilities" in the Condensed Consolidated Balance Sheets

⁽³⁾ Included in "Other long-term liabilities" in the Condensed Consolidated Balance Sheet

The components of lease expense for the quarter ended December 28, 2019 are as follows:

Finance lease cost	
Amortization of right-of-use assets	\$ 2
Interest on lease liabilities	4
Operating lease cost	223
Variable fees and other ⁽¹⁾	146
Total lease cost	\$ 375

⁽¹⁾ Includes variable lease payments related to our operating and finance leases and costs of Short-term leases, net of sublease income.

Cash paid during the quarter ended December 28, 2019 for amounts included in the measurement of lease liabilities as of the beginning of the reporting period is as follows:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows for operating leases	\$ 225
Operating cash flows for finance leases	4
Financing cash flows for finance leases	7
Total	\$ 236

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Future minimum lease payments, as of December 28, 2019, are as follows:

	Operating	Financing
Fiscal year:		
2020	\$ 708	\$ 43
2021	816	47
2022	593	46
2023	456	40
2024	329	37
Thereafter	1,521	517
Total undiscounted future lease payments	4,423	730
Less: Imputed interest	(847)	(449)
Total reported lease liability	<u>\$ 3,576</u>	<u>\$ 281</u>

15. Fair Value Measurements

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants and is generally classified in one of the following categories:

Level 1 - Quoted prices for identical instruments in active markets

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

The Company's assets and liabilities measured at fair value are summarized in the following tables by fair value measurement Level:

Fair Value Measurement at December 28, 2019				
	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ 10	\$ —	\$ —	\$ 10
Derivatives				
Interest rate	—	43	—	43
Foreign exchange	—	571	—	571
Other	—	2	—	2
Liabilities				
Derivatives				
Interest rate	—	(155)	—	(155)
Foreign exchange	—	(518)	—	(518)
Other	—	(1)	—	(1)
Total recorded at fair value	<u>\$ 10</u>	<u>\$ (58)</u>	<u>\$ —</u>	<u>\$ (48)</u>
Fair value of borrowings	<u>\$ —</u>	<u>\$ 49,834</u>	<u>\$ 1,294</u>	<u>\$ 51,128</u>

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	Fair Value Measurement at September 28, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ 13	\$ —	\$ —	\$ 13
Derivatives				
Interest rate	—	89	—	89
Foreign exchange	—	771	—	771
Other	—	1	—	1
Liabilities				
Derivatives				
Interest rate	—	(93)	—	(93)
Foreign exchange	—	(544)	—	(544)
Other	—	(4)	—	(4)
Total recorded at fair value	\$ 13	\$ 220	\$ —	\$ 233
Fair value of borrowings	\$ —	\$ 48,709	\$ 1,249	\$ 49,958

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. dollar denominated notes and certain foreign currency denominated borrowings, are valued based on quoted prices for similar instruments in active markets or identical instruments in markets that are not active.

Level 3 borrowings include the Asia Theme Park borrowings, which are valued based on the current borrowing cost and credit risk of the Asia Theme Parks as well as prevailing market interest rates.

The Company's financial instruments also include cash, cash equivalents, receivables and accounts payable. The carrying values of these financial instruments approximate the fair values.

16. Derivative Instruments

The Company manages its exposure to various risks relating to its ongoing business operations according to a risk management policy. The primary risks managed with derivative instruments are interest rate risk and foreign exchange risk.

The Company's derivative positions measured at fair value are summarized in the following tables:

	As of December 28, 2019			
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 217	\$ 157	\$ (73)	\$ (235)
Interest rate	—	43	(142)	—
Other	2	—	(1)	—
Derivatives not designated as hedges				
Foreign exchange	41	156	(98)	(112)
Interest rate	—	—	—	(13)
Gross fair value of derivatives	260	356	(314)	(360)
Counterparty netting	(222)	(289)	257	254
Cash collateral (received)/paid	(2)	—	19	22
Net derivative positions	\$ 36	\$ 67	\$ (38)	\$ (84)

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As of September 28, 2019

	Current Assets	Other Assets	Other Current Liabilities	Other Long- Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 302	\$ 241	\$ (67)	\$ (244)
Interest rate	—	89	(82)	—
Other	1	—	(3)	(1)
Derivatives not designated as hedges				
Foreign exchange	65	163	(107)	(126)
Interest rate	—	—	—	(11)
Gross fair value of derivatives	368	493	(259)	(382)
Counterparty netting	(231)	(345)	258	318
Cash collateral (received)/paid	(55)	(6)	—	7
Net derivative positions	\$ 82	\$ 142	\$ (1)	\$ (57)

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 December 28, 2019 and September 28, 2019, the total notional amount of the Company's pay-floating interest rate swaps was \$10.0 billion and \$9.9 billion, respectively.

The following table summarizes fair value hedge adjustments to hedged borrowings at December 28, 2019 and September 28, 2019:

	Carrying Amount of Hedged Borrowings ⁽¹⁾		Fair Value Adjustments Included in Hedged Borrowings ⁽¹⁾	
	December 28, 2019	September 28, 2019	December 28, 2019	September 28, 2019
Borrowings:				
Current	\$ 1,123	\$ 1,121	\$ (2)	\$ (3)
Long-term	9,461	9,562	(81)	34
	\$ 10,584	\$ 10,683	\$ (83)	\$ 31

⁽¹⁾ Includes \$36 million and \$37 million of gains on terminated interest rate swaps as of December 28, 2019 and September 28, 2019, respectively.

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

	Quarter Ended	
	December 28, 2019	December 29, 2018
Gain (loss) on:		
Pay-floating swaps	\$ (113)	\$ 117
Borrowings hedged with pay-floating swaps	113	(117)
Benefit (expense) associated with interest accruals on pay-floating swaps	(12)	(14)

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

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Company did not have pay-fixed interest rate swaps that were designated as cash flow hedges of interest payments at December 28, 2019 or at September 28, 2019, and gains and losses related to pay-fixed swaps recognized in earnings for the quarter ended December 28, 2019 and December 29, 2018 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 future pay-floating interest rate swaps indexed to LIBOR for \$2.0 billion in future borrowings. The fair values of these contracts as of December 28, 2019 and September 28, 2019 were \$13 million and \$11 million, respectively. The options are not designated as hedges and do not qualify for hedge accounting; accordingly, changes in their fair value are recorded in earnings. Gains and losses on the options for the quarter ended December 28, 2019 and December 29, 2018 were not material.

Foreign Exchange Risk Management

The Company transacts business globally and is subject to risks associated with changing foreign currency exchange rates. The Company's objective is to reduce earnings and cash flow fluctuations associated with foreign currency exchange rate changes, enabling management to focus on core business issues and challenges.

The Company enters into option and forward contracts that change in value as foreign currency exchange rates change to protect the value of its existing foreign currency assets, liabilities, firm commitments and forecasted but not firmly committed foreign currency transactions. In accordance with policy, the Company hedges its forecasted foreign currency transactions for periods generally not to exceed four years within an established minimum and maximum range of annual exposure. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related forecasted transaction, asset, liability or firm commitment. The principal currencies hedged are the euro, Japanese yen, British pound, Chinese yuan and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings into U.S. dollar denominated borrowings.

The Company designates foreign exchange forward and option contracts as cash flow hedges of firmly committed and forecasted foreign currency transactions. As of December 28, 2019 and September 28, 2019, the notional amounts of the Company's net foreign exchange cash flow hedges were \$5.6 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. Net deferred gains recorded in AOCI for contracts that will mature in the next twelve months total \$152 million. The following table summarizes the effect of foreign exchange cash flow hedges on AOCI for the quarter ended December 28, 2019:

Gain (loss) recognized in Other Comprehensive Income	\$	(85)
Gain (loss) reclassified from AOCI into the Statement of Income ⁽¹⁾		60

⁽¹⁾ Primarily recorded in revenue.

Foreign exchange risk management contracts with respect to foreign currency denominated assets and liabilities are not designated as hedges and do not qualify for hedge accounting. The notional amounts of these foreign exchange contracts at December 28, 2019 and September 28, 2019 were \$4.1 billion and \$3.8 billion, respectively. The following table summarizes the net foreign exchange gains or losses recognized on foreign currency denominated assets and liabilities and the net foreign exchange gains or losses on the foreign exchange contracts we entered into to mitigate our exposure with respect to foreign currency denominated assets and liabilities for the quarter ended December 28, 2019 and December 29, 2018 by the corresponding line item in which they are recorded in the Condensed Consolidated Statements of Income:

Quarter Ended:	Costs and Expenses		Interest expense, net		Income Tax Expense	
	December 28, 2019	December 29, 2018	December 28, 2019	December 29, 2018	December 28, 2019	December 29, 2018
Net gains (losses) on foreign currency denominated assets and liabilities	\$ 69	\$ (27)	\$ (12)	\$ 40	\$ (15)	\$ 15
Net gains (losses) on foreign exchange risk management contracts not designated as hedges	(80)	24	10	(39)	17	(18)
Net gains (losses)	\$ (11)	\$ (3)	\$ (2)	\$ 1	\$ 2	\$ (3)

Commodity Price Risk Management

The Company is subject to the volatility of commodities prices and the Company designates certain commodity forward contracts as cash flow hedges of forecasted commodity purchases. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of commodity purchases. The notional amount of these commodities contracts at December 28, 2019 and September 28, 2019 and

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related gains or losses recognized in earnings for the quarter ended December 28, 2019 and December 29, 2018 were not material.

Risk Management – Other Derivatives Not Designated as Hedges

The Company enters into certain other risk management contracts that are not designated as hedges and do not qualify for hedge accounting. These contracts, which include certain swap contracts, are intended to offset economic exposures of the Company and are carried at market value with any changes in value recorded in earnings. The notional amount and fair value of these contracts at December 28, 2019 and September 28, 2019 were not material. The related gains or losses recognized in earnings for the quarter ended December 28, 2019 and December 29, 2018 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 \$163 million and \$65 million on December 28, 2019 and September 28, 2019, respectively.

17. Restructuring and Impairment Charges

In fiscal 2019, the Company implemented a restructuring and integration plan as a part of its initiative to realize cost synergies from the acquisition of TFCF. We expect to substantially complete the restructuring plan by the end of fiscal 2021. In connection with this plan, during the quarter ended December 28, 2019, the Company recorded \$150 million of restructuring and impairment charges, which included \$138 million of severance and vendor contract termination costs. To date, we have recorded restructuring charges of \$1.3 billion, including \$1.0 billion related to severance (including employee contract terminations) in connection with the plan and \$0.3 billion of equity based compensation costs, primarily for TFCF awards that were accelerated to vest upon the closing of the TFCF acquisition. Integration efforts are still underway and we anticipate that the total severance costs will be on the order of \$1.5 billion. The Company currently expects other remaining restructuring costs will not be material.

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The changes in restructuring reserves related to TFCF integration plan for fiscal 2019 and the quarter ended December 28, 2019 are as follows:

Balance at September 29, 2018	\$	—
Additions for fiscal 2019:		
Media Networks		90
Parks, Experiences and Products		11
Studio Entertainment		197
Direct-to-Consumer & International		426
Corporate		182
Total additions for fiscal 2019		906
Payments in fiscal 2019		(230)
Balance at September 28, 2019	\$	676
Additions for the quarter ended December 28, 2019:		
Media Networks		3
Parks, Experiences and Products		6
Studio Entertainment		19
Direct-to-Consumer & International		93
Corporate		17
Total addition for the quarter ended December 28, 2019		138
Payments in the quarter ended December 28, 2019		(214)
Balance at December 28, 2019:	\$	600

18. Condensed Consolidating Financial Information

TWDC has provided a full and unconditional guarantee of public debt held by one of its subsidiaries, TWDC Enterprises 18 Corp. (“Legacy Disney”). In addition, Legacy Disney has provided a full and unconditional guarantee of debt held by TWDC.

Set forth below are condensed consolidating financial statements presenting the results of operations, financial position and cash flows of TWDC, Legacy Disney and non-guarantor subsidiaries on a combined basis along with eliminations necessary to arrive at the reported information on a consolidated basis. This condensed consolidating financial information has been prepared and presented pursuant to the Securities and Exchange Commission Regulation S-X Rule 3-10, “Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or being Registered.” This information is not intended to present the financial position, results of operations and cash flows of the individual companies or groups of companies in accordance with U.S. GAAP. Eliminations represent adjustments to eliminate investments in subsidiaries and intercompany balances and transactions.

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SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Quarter Ended December 28, 2019
(unaudited; in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
Revenues	\$ —	\$ —	\$ 20,780	\$ 78	\$ 20,858
Costs and expenses					
Operating expenses	—	—	(13,016)	—	(13,016)
Selling, general, administrative and other	—	(126)	(3,577)	—	(3,703)
Depreciation and amortization	—	—	(1,298)	—	(1,298)
Total costs and expenses	—	(126)	(17,891)	—	(18,017)
Restructuring and impairment charges	—	—	(150)	—	(150)
Allocations to non-guarantor subsidiaries	(2)	118	(116)	—	—
Other income (expense), net	(1)	(2)	81	(78)	—
Interest income (expense), net	(313)	(104)	134	—	(283)
Equity in the income (loss) of investees, net	—	—	224	—	224
Income from continuing operations before income taxes	(316)	(114)	3,062	—	2,632
Income taxes from continuing operations	55	20	(534)	—	(459)
Earnings from subsidiary entities	2,394	2,488	—	(4,882)	—
Net income from continuing operations	2,133	2,394	2,528	(4,882)	2,173
Income (loss) from discontinued operations	(26)	(26)	(26)	52	(26)
Net income	2,107	2,368	2,502	(4,830)	2,147
Less: Net income from continuing operations attributable to noncontrolling interests	—	—	(40)	—	(40)
Net income excluding noncontrolling interests	\$ 2,107	\$ 2,368	\$ 2,462	\$ (4,830)	\$ 2,107
Comprehensive income excluding noncontrolling interests	\$ 2,191	\$ 2,556	\$ 2,549	\$ (5,105)	\$ 2,191

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Quarter Ended December 29, 2018
(unaudited; in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
Revenues	\$ —	\$ —	\$ 15,248	\$ 55	\$ 15,303
Costs and expenses					
Operating expenses	—	—	(9,001)	—	(9,001)
Selling, general, administrative and other	—	(141)	(2,011)	—	(2,152)
Depreciation and amortization	—	—	(732)	—	(732)
Total costs and expenses	—	(141)	(11,744)	—	(11,885)
Allocations to non-guarantor subsidiaries	—	127	(127)	—	—
Other income (expense), net	—	76	(21)	(55)	—
Interest income (expense), net	(65)	(125)	127	—	(63)
Equity in the income (loss) of investees, net	—	—	76	—	76
Income before taxes	(65)	(63)	3,559	—	3,431
Income taxes	12	12	(669)	—	(645)
Earnings from subsidiary entities	—	2,839	—	(2,839)	—
Net income	(53)	2,788	2,890	(2,839)	2,786
Less: Net income attributable to noncontrolling interests	—	—	2	—	2
Net income excluding noncontrolling interests	\$ (53)	\$ 2,788	\$ 2,892	\$ (2,839)	\$ 2,788
Comprehensive income excluding noncontrolling interests	\$ (53)	\$ 2,809	\$ 2,853	\$ (2,800)	\$ 2,809

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CONDENSED CONSOLIDATING BALANCE SHEET

As of December 28, 2019

(unaudited; in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ 978	\$ —	\$ 5,855	\$ —	\$ 6,833
Receivables, net	303	—	16,797	—	17,100
Inventories	—	4	1,567	—	1,571
Licensed content costs and advances	—	—	1,334	—	1,334
Other current assets	30	1	907	—	938
Total current assets	1,311	5	26,460	—	27,776
Produced and licensed content costs	—	—	26,539	—	26,539
Investments in subsidiaries	128,748	283,789	—	(412,537)	—
Other investments	—	—	3,312	—	3,312
Parks, resorts and other property, net	—	8	31,887	—	31,895
Intangible assets, net	—	—	22,669	—	22,669
Goodwill	—	—	80,314	—	80,314
Intercompany receivables	—	—	143,037	(143,037)	—
Other assets	225	1,003	8,341	(1,126)	8,443
Total assets	\$ 130,284	\$ 284,805	\$ 342,559	\$ (556,700)	\$ 200,948
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and other accrued liabilities	\$ 1,898	\$ 197	\$ 17,660	\$ —	\$ 19,755
Current portion of borrowings	6,915	3,007	96	—	10,018
Deferred revenues and other	77	9	4,938	—	5,024
Total current liabilities	8,890	3,213	22,694	—	34,797
Non-current liabilities					
Borrowings	23,060	13,044	1,953	—	38,057
Deferred income taxes	—	—	9,490	(1,126)	8,364
Other long-term liabilities	711	4,629	10,588	—	15,928
Intercompany payables	7,866	135,171	—	(143,037)	—
Total non-current liabilities	31,637	152,844	22,031	(144,163)	62,349
Redeemable noncontrolling interests	—	—	9,029	—	9,029
Total Disney Shareholders' equity	89,757	128,748	283,789	(412,537)	89,757
Noncontrolling interests	—	—	5,016	—	5,016
Total equity	89,757	128,748	288,805	(412,537)	94,773
Total liabilities and equity	\$ 130,284	\$ 284,805	\$ 342,559	\$ (556,700)	\$ 200,948

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

CONDENSED CONSOLIDATING BALANCE SHEET
As of September 28, 2019
(unaudited; in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ 554	\$ —	\$ 4,864	\$ —	\$ 5,418
Receivables, net	499	1	14,981	—	15,481
Inventories	—	4	1,645	—	1,649
Licensed content costs and advances	—	—	4,597	—	4,597
Other current assets	83	4	898	(6)	979
Total current assets	1,136	9	26,985	(6)	28,124
Produced and licensed content costs	—	—	22,810	—	22,810
Investments in subsidiaries	125,999	281,041	—	(407,040)	—
Other investments	—	—	3,224	—	3,224
Parks, resorts and other property, net	—	8	31,595	—	31,603
Intangible assets, net	—	—	23,215	—	23,215
Goodwill	—	—	80,293	—	80,293
Intercompany receivables	—	—	143,574	(143,574)	—
Other assets	314	1,076	4,541	(1,216)	4,715
Total assets	\$ 127,449	\$ 282,134	\$ 336,237	\$ (551,836)	\$ 193,984
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and other accrued liabilities	\$ 371	\$ 279	\$ 17,112	\$ —	\$ 17,762
Current portion of borrowings	5,721	3,007	129	—	8,857
Deferred revenues and other	—	27	4,701	(6)	4,722
Total current liabilities	6,092	3,313	21,942	(6)	31,341
Non-current liabilities					
Borrowings	23,182	13,061	1,886	—	38,129
Deferred income taxes	—	—	9,118	(1,216)	7,902
Other long-term liabilities	859	4,626	8,275	—	13,760
Intercompany payables	8,439	135,135	—	(143,574)	—
Total non-current liabilities	32,480	152,822	19,279	(144,790)	59,791
Redeemable noncontrolling interests	—	—	8,963	—	8,963
Total Disney Shareholders' equity	88,877	125,999	281,041	(407,040)	88,877
Noncontrolling interests	—	—	5,012	—	5,012
Total equity	88,877	125,999	286,053	(407,040)	93,889
Total liabilities and equity	\$ 127,449	\$ 282,134	\$ 336,237	\$ (551,836)	\$ 193,984

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

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Quarter Ended December 28, 2019
(unaudited; in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
OPERATING ACTIVITIES					
Cash provided by operations	\$ (258)	\$ (30)	\$ 1,918	\$ —	\$ 1,630
INVESTING ACTIVITIES					
Investments in parks, resorts and other property	—	—	(1,338)	—	(1,338)
Other	—	—	(12)	—	(12)
Cash used in investing activities	—	—	(1,350)	—	(1,350)
FINANCING ACTIVITIES					
Commercial paper, net	1,172	—	—	—	1,172
Borrowings	—	—	51	—	51
Reduction of borrowings	—	—	(46)	—	(46)
Proceeds from exercise of stock options	126	—	—	—	126
Intercompany financing, net	(441)	30	411	—	—
Other	(175)	—	(11)	—	(186)
Cash used in financing activities	682	30	405	—	1,117
Discontinued operations	—	—	(19)	—	(19)
Impact of exchange rates on cash, cash equivalents and restricted cash	—	—	41	—	41
Change in cash, cash equivalents and restricted cash	424	—	995	—	1,419
Cash, cash equivalents and restricted cash, beginning of year	554	—	4,901	—	5,455
Cash, cash equivalents and restricted cash, end of period	\$ 978	\$ —	\$ 5,896	\$ —	\$ 6,874

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Quarter Ended December 29, 2018
(unaudited; in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
OPERATING ACTIVITIES					
Cash provided by operations	\$ (20)	\$ 135	\$ 1,984	\$ —	\$ 2,099
INVESTING ACTIVITIES					
Investments in parks, resorts and other property	—	—	(1,195)	—	(1,195)
Intercompany investing activities, net	—	(11)	—	11	—
Other	—	—	(141)	—	(141)
Cash used in investing activities	—	(11)	(1,336)	11	(1,336)
FINANCING ACTIVITIES					
Commercial paper, net	—	(302)	—	—	(302)
Proceeds from exercise of stock options	—	37	—	—	37
Intercompany financing, net	20	75	(84)	(11)	—
Other	—	(125)	(21)	—	(146)
Cash used in financing activities	20	(315)	(105)	(11)	(411)
Impact of exchange rates on cash, cash equivalents and restricted cash	—	—	(44)	—	(44)
Change in cash, cash equivalents and restricted cash	—	(191)	499	—	308
Cash, cash equivalents and restricted cash, beginning of year	—	1,367	2,788	—	4,155
Cash, cash equivalents and restricted cash, end of period	\$ —	\$ 1,176	\$ 3,287	\$ —	\$ 4,463

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

19. New Accounting Pronouncements

Accounting Pronouncements Adopted in Fiscal 2020

- Leases - See Note 14
- Improvements to Accounting for Costs of Films and License Agreements for Program Materials - See Note 7

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued guidance which simplifies the accounting for income taxes. The guidance amends the rules for recognizing deferred taxes for investments, performing intraperiod tax allocations and calculating income taxes in interim periods. It also reduces complexity in certain areas, including the accounting for transactions that result in a step-up in the tax basis of goodwill and allocating taxes to members of a consolidated group. The guidance is effective beginning in the first quarter of the Company's 2022 fiscal year (with early adoption permitted). The Company is currently assessing the impact of the new guidance on its financial statements, including potential early adoption.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued new accounting guidance which modifies existing guidance related to the measurement of credit losses on financial instruments, including trade and loan receivables. The new guidance requires impairments to be measured based on expected losses over the life of the asset rather than incurred losses. We currently do not expect the new guidance will have a material impact on our financial statements. The guidance is effective beginning in the first quarter of the Company's 2021 fiscal year (with early adoption permitted). The Company plans to adopt the new guidance in fiscal 2021.

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
- Corporate and Unallocated Shared Expenses
- Restructuring in Connection with the Acquisition of TFCF
- Significant Developments
- 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 Better/ (Worse)
	December 28, 2019	December 29, 2018	
(in millions, except per share data)			
Revenues:			
Services	\$ 18,075	\$ 12,866	40 %
Products	2,783	2,437	14 %
Total revenues	20,858	15,303	36 %
Costs and expenses:			
Cost of services (exclusive of depreciation and amortization)	(11,377)	(7,564)	(50)%
Cost of products (exclusive of depreciation and amortization)	(1,639)	(1,437)	(14)%
Selling, general, administrative and other	(3,703)	(2,152)	(72)%
Depreciation and amortization	(1,298)	(732)	(77)%
Total costs and expenses	(18,017)	(11,885)	(52)%
Restructuring and impairment charges	(150)	—	nm
Interest expense, net	(283)	(63)	>(100)%
Equity in the income of investees	224	76	>100 %
Income from continuing operations before income taxes	2,632	3,431	(23)%
Income taxes on continuing operations	(459)	(645)	29 %
Net income from continuing operations	2,173	2,786	(22)%
Loss from discontinued operations (net of income tax benefit of \$8 and \$0, respectively)	(26)	—	nm
Net income	2,147	2,786	(23)%
Net (income) loss from continuing operations attributable to noncontrolling interests	(40)	2	nm
Net income attributable to Disney	\$ 2,107	\$ 2,788	(24)%
Diluted earnings per share from continuing operations attributable to Disney	\$ 1.17	\$ 1.86	(37)%

Quarter Results

As discussed in Note 4 to the Condensed Consolidated Financial Statements, the Company acquired TFCF on March 20, 2019. Additionally, in connection with the acquisition of TFCF, we acquired a controlling interest in Hulu. The Company began consolidating the results of TFCF and Hulu effective March 20, 2019.

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

Revenues for the quarter increased 36%, or \$5.6 billion, to \$20.9 billion; net income attributable to Disney decreased 24%, or \$0.7 billion, to \$2.1 billion; and diluted earnings per share from continuing operations attributable to Disney (EPS) decreased 37% from \$1.86 to \$1.17. The EPS decrease for the quarter was due to amortization of intangibles and fair value step-up on film and television costs from the TFCF acquisition and the consolidation of Hulu, an increase in shares outstanding, higher interest expense and restructuring costs in connection with the integration of TFCF. The increases in shares outstanding and interest expense were due to the acquisition of TFCF. These adverse impacts were partially offset by higher segment operating income, which included a \$0.3 billion benefit from the consolidation of TFCF and Hulu. Segment operating income from our legacy operations was comparable to the prior-year quarter as growth at Studio Entertainment and Parks, Experiences and Products was offset by increased losses at Direct-to-Consumer & International and lower results at Media Networks.

Revenues

Service revenues for the quarter increased 40%, or \$5.2 billion, to \$18.1 billion due to the consolidation of TFCF and Hulu's operations and growth at our legacy operations. The increase at our legacy operations was due to growth in theatrical distribution revenue, higher guest spending at our theme parks and resorts and an increase in subscription revenue driven by the launch of Disney+, partially offset by decreases in program sales and advertising revenue.

Product revenues for the quarter increased 14%, or \$0.3 billion, to \$2.8 billion driven by the consolidation of TFCF's operations and growth at our legacy operations. The increase at our legacy operations was driven by guest spending growth at our theme parks and resorts, partially offset by lower home entertainment volumes.

Costs and expenses

Cost of services for the quarter increased 50%, or \$3.8 billion, to \$11.4 billion due to the consolidation of TFCF and Hulu's operations and higher costs at our legacy operations. The increase at our legacy operations was due to higher technology costs to support the launch of Disney+ and labor cost inflation at our theme parks and resorts.

Cost of products for the quarter increased 14%, or \$0.2 billion, to \$1.6 billion due to higher costs at our legacy operations and the consolidation of TFCF's operations. The increase in costs at our legacy operations was due to labor cost inflation and higher sales of food, beverage and merchandise at our theme parks and resorts, partially offset by lower home entertainment volumes.

Selling, general, administrative and other costs increased 72%, or \$1.6 billion, to \$3.7 billion due to the consolidation of TFCF and Hulu's operations and higher marketing costs primarily due to the launch of Disney+.

Depreciation and amortization increased 77%, or \$0.6 billion, to \$1.3 billion, due to the amortization of intangible assets arising from the acquisition of TFCF and Hulu.

Restructuring and impairment charges

Restructuring and impairment charges of \$150 million for the current quarter were primarily for severance in connection with the acquisition and integration of TFCF.

Interest expense, net

Interest expense, net is as follows:

(in millions)	Quarter Ended		% Change Better/(Worse)
	December 28, 2019	December 29, 2018	
Interest expense	\$ (362)	\$ (163)	>(100) %
Interest income, investment income and other	79	100	(21) %
Interest expense, net	\$ (283)	\$ (63)	>(100) %

The increase in interest expense was due to higher debt balances as a result of the TFCF acquisition.

The decrease in interest income, investment income and other was due to a lower benefit related to pension and postretirement benefit costs, other than service cost.

Equity in the income of investees

Equity in the income of investees increased from \$76 million to \$224 million for the quarter due to the impact of consolidating Hulu and, to a lesser extent, the inclusion of income from TFCF's equity investments. In the current quarter, Hulu's results are reported in revenues and expenses. In the prior-year quarter, the Company recognized its ownership share of Hulu's results in equity in the income of investees.

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

Effective Income Tax Rate

	Quarter Ended		Change Better/(Worse)
	December 28, 2019	December 29, 2018	
Effective income tax rate - continuing operations	17.4 %	18.8 %	1.4 ppt

The decrease in the effective income tax rate was due to higher tax benefits from the exercise and vesting of employee share-based awards. These tax benefits arise when the value of employee share-based awards on the exercise or vesting date is higher than the fair value on the grant date.

Noncontrolling Interests

(in millions)	Quarter Ended		% Change Better/(Worse)
	December 28, 2019	December 29, 2018	
Net (income) loss from continuing operations attributable to noncontrolling interests	\$ (40)	\$ 2	nm

The increase in net income from continuing operations attributable to noncontrolling interests was primarily due to the accretion of the redeemable noncontrolling interest in Hulu and growth at Shanghai Disney Resort. The increase was partially offset by lower operating results at Hong Kong Disney Resort and a higher loss from our direct-to-consumer (DTC) sports business.

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

Certain Items Impacting Comparability

Results for the quarter ended December 28, 2019 were impacted by the following:

- Amortization expense of \$700 million related to TFCF and Hulu intangible assets and fair value step-up on film and television costs
- Restructuring charges of \$150 million

Results for the quarter ended December 29, 2018 were impacted by the following:

- A benefit of \$34 million from U.S. federal income tax legislation, the "Tax Cuts and Jobs Act" (Tax Act) enacted in fiscal 2018

A summary of the impact of these items on EPS is as follows:

(in millions, except per share data)	Pre-Tax Income (Loss)	Tax Benefit (Expense) ⁽¹⁾	After-Tax Income (Loss)	EPS Favorable (Adverse) ⁽²⁾
Quarter Ended December 28, 2019:				
Amortization of TFCF and Hulu intangible assets and fair value step-up on film and television costs ⁽³⁾	\$ (700)	\$ 162	\$ (538)	\$ (0.30)
Restructuring and impairment charges	(150)	35	(115)	(0.06)
Total	\$ (850)	\$ 197	\$ (653)	\$ (0.36)
Quarter Ended December 29, 2018:				
Net benefit from the Tax Act	\$ —	\$ 34	\$ 34	\$ 0.02

⁽¹⁾ Tax benefit (expense) amounts are determined using the tax rate applicable to the individual item.

⁽²⁾ EPS is net of noncontrolling interest share, where applicable. Total may not equal the sum of the column due to rounding.

⁽³⁾ Includes amortization of intangibles related to TFCF equity investees.

SEASONALITY

The Company's businesses are subject to the effects of seasonality. Consequently, the operating results for the quarter ended December 28, 2019 for each business segment, and for the Company as a whole, are not necessarily indicative of results to be expected for the full year.

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

Media Networks revenues are subject to seasonal advertising patterns, changes in viewership levels and timing of program sales. In general, advertising revenues are somewhat higher during the fall and somewhat lower during the summer months. Affiliate fees are generally recognized ratably throughout the year.

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

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

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

BUSINESS SEGMENT RESULTS

The following table reconciles income from continuing operations before income taxes to total segment operating income:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	December 28, 2019	December 29, 2018	
Income from continuing operations before income taxes	\$ 2,632	\$ 3,431	(23)%
Add:			
Corporate and unallocated shared expenses	237	161	(47)%
Restructuring and impairment charges	150	—	nm
Interest expense, net	283	63	>(100)%
Amortization of TFCF and Hulu intangible assets and fair value step-up on film and television costs ⁽¹⁾	700	—	nm
Total segment operating income	<u>\$ 4,002</u>	<u>\$ 3,655</u>	9 %

⁽¹⁾ Includes amortization of intangibles related to TFCF equity investees.

The following is a summary of segment revenue and operating income:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	December 28, 2019	December 29, 2018	
Revenues:			
Media Networks	\$ 7,361	\$ 5,921	24 %
Parks, Experiences and Products	7,396	6,824	8 %
Studio Entertainment	3,764	1,824	>100 %
Direct-to-Consumer & International	3,987	918	>100 %
Eliminations	(1,650)	(184)	>(100)%
	<u>\$ 20,858</u>	<u>\$ 15,303</u>	36 %
Segment operating income (loss):			
Media Networks	\$ 1,630	\$ 1,330	23 %
Parks, Experiences and Products	2,338	2,152	9 %
Studio Entertainment	948	309	>100 %
Direct-to-Consumer & International	(693)	(136)	>(100)%
Eliminations	(221)	—	nm
	<u>\$ 4,002</u>	<u>\$ 3,655</u>	9 %

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

Depreciation expense is as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	December 28, 2019	December 29, 2018	
Media Networks			
Cable Networks	\$ 27	\$ 24	(13)%
Broadcasting	22	20	(10)%
Total Media Networks	49	44	(11)%
Parks, Experiences and Products			
Domestic	398	352	(13)%
International	169	186	9 %
Total Parks, Experiences and Products	567	538	(5)%
Studio Entertainment	22	14	(57)%
Direct-to-Consumer & International	70	32	>(100)%
Corporate	31	39	21 %
Total depreciation expense	\$ 739	\$ 667	(11)%

Amortization of intangible assets is as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	December 28, 2019	December 29, 2018	
Media Networks	\$ 1	\$ —	nm
	27	27	— %
Parks, Experiences and Products			
Studio Entertainment	15	16	6 %
Direct-to-Consumer & International	30	22	(36)%
TFCF and Hulu	486	—	nm
Total amortization of intangible assets	\$ 559	\$ 65	>(100)%

Media Networks

Operating results for the Media Networks segment are as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	December 28, 2019	December 29, 2018	
Revenues			
Affiliate fees	\$ 3,648	\$ 3,075	19 %
Advertising	2,023	2,023	— %
TV/SVOD distribution and other	1,690	823	>100 %
Total revenues	7,361	5,921	24 %
Operating expenses	(5,214)	(4,248)	(23)%
Selling, general, administrative and other	(660)	(478)	(38)%
Depreciation and amortization	(50)	(44)	(14)%
Equity in the income of investees	193	179	8 %
Operating Income	\$ 1,630	\$ 1,330	23 %

Revenues

The increase in affiliate fees was due to increases of 14% from the consolidation of TFCF's operations and 7% from higher contractual rates, partially offset by a decrease of 2% from fewer subscribers. The subscriber decline was net of a benefit from the ACC Network, which launched in August 2019.

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

Advertising revenues were flat as an increase of \$79 million at Cable Networks, from \$1,007 million to \$1,086 million, was offset by a decrease of \$79 million at Broadcasting, from \$1,016 million to \$937 million. Cable Networks advertising revenue reflected increases of 15% from the consolidation of TFCF's operations and 2% from higher rates, partially offset by a decrease of 6% from lower impressions reflecting lower average viewership. Broadcasting advertising revenue reflected decreases of 7% from the owned television stations and 6% from lower average network viewership, partially offset by increases of 5% from higher network rates and 3% from the consolidation of TFCF's operations. The decrease at the owned television stations reflected lower rates driven by lower political advertising.

The increase in TV/SVOD distribution and other revenue of \$867 million was due to the consolidation of TFCF's operations, which consisted primarily of program sales.

Costs and Expenses

Operating expenses include programming and production costs, which increased \$877 million, from \$4,101 million to \$4,978 million. At Cable Networks, programming and production costs increased \$472 million due to the consolidation of TFCF's operations and, to a lesser extent, contractual increases for sports programming as well as costs for the ACC Network. At Broadcasting, programming and production costs increased \$405 million due to the consolidation of TFCF's operations and, to a lesser extent, a higher cost mix of network programming in the current quarter compared to the prior-year quarter. These increases were partially offset by a timing benefit from the adoption of new accounting guidance, which removed certain limitations on the capitalization of episodic television costs (see Note 7 to the Condensed Consolidated Financial Statements). Compared to the previous accounting, programming and production expense will generally be lower in the first half of the fiscal year and higher in the second half of the fiscal year as the capitalized costs are amortized.

Selling, general, administrative and other costs increased \$182 million, from \$478 million to \$660 million, due to the consolidation of TFCF's operations.

Equity in the Income of Investees

Income from equity investees increased \$14 million, from \$179 million to \$193 million, primarily due to higher income from A+E driven by lower programming costs and higher advertising revenue.

Segment Operating Income

Segment operating income increased 23%, or \$300 million to \$1,630 million due to the consolidation of TFCF's operations, partially offset by lower income from the owned television stations and ESPN.

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

(in millions)	Quarter Ended		% Change Better/ (Worse)
	December 28, 2019	December 29, 2018	
<i>Supplemental revenue detail</i>			
Cable Networks	\$ 4,766	\$ 3,986	20 %
Broadcasting	2,595	1,935	34 %
	<u>\$ 7,361</u>	<u>\$ 5,921</u>	24 %
<i>Supplemental operating income detail</i>			
Cable Networks	\$ 862	\$ 743	16 %
Broadcasting	575	408	41 %
Equity in the income of investees	193	179	8 %
	<u>\$ 1,630</u>	<u>\$ 1,330</u>	23 %

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

Items Excluded from Segment Operating Income Related to Media Networks

The following table presents supplemental information for items related to the Media Network segment that are excluded from segment operating income:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	December 28, 2019	December 29, 2018	
Amortization of TFCF intangible assets and fair value step-up on film and television costs ⁽¹⁾	\$ (300)	\$ —	nm
Restructuring and impairment charges	(4)	—	nm

⁽¹⁾ Amortization of intangible assets was \$153 million and step-up on film and television costs was \$147 million.

Parks, Experiences and Products

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

(in millions)	Quarter Ended		% Change Better/ (Worse)
	December 28, 2019	December 29, 2018	
Revenues			
Theme park admissions	\$ 2,067	\$ 1,933	7 %
Parks & Experiences merchandise, food and beverage	1,691	1,565	8 %
Resorts and vacations	1,631	1,531	7 %
Merchandise licensing and retail	1,485	1,300	14 %
Parks licensing and other	522	495	5 %
Total revenues	7,396	6,824	8 %
Operating expenses	(3,703)	(3,406)	(9) %
Selling, general, administrative and other	(758)	(689)	(10) %
Depreciation and amortization	(594)	(565)	(5) %
Equity in the loss of investees	(3)	(12)	75 %
Operating Income	\$ 2,338	\$ 2,152	9 %

Revenues

The increase in theme park admissions revenue was due to an increase of 7% from higher average ticket prices.

Parks & Experiences merchandise, food and beverage revenue growth was due to an increase of 8% from higher average guest spending.

The increase in resorts and vacations revenue was driven by increases of 3% from higher average daily hotel room rates, 2% from the consolidation of TFCF's operations and 1% from higher average ticket prices for cruise line sailings. These increases were partially offset by a decrease of 2% from lower occupied room nights driven by Hong Kong Disneyland Resort.

Merchandise licensing and retail revenue growth was due to increases of 8% from merchandise licensing and 5% from our retail business. The increase in merchandise licensing revenues was due to higher revenue from Frozen, Star Wars and Toy Story merchandise, partially offset by a decrease from Mickey and Minnie merchandise. Higher revenues at our retail business were primarily due to increases in comparable store sales and online revenue.

The increase in parks licensing and other revenue was due to higher real estate sales.

**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	
	Dec 28, 2019	Dec 29, 2018	Dec 28, 2019	Dec 29, 2018	Dec 28, 2019	Dec 29, 2018
Parks						
Increase/(decrease)						
Attendance	2 %	— %	(8) %	(5) %	(1) %	(1) %
Per Capita Guest Spending	10 %	7 %	3 %	8 %	9 %	8 %
Hotels ⁽¹⁾						
Occupancy	92 %	94 %	73 %	86 %	88 %	92 %
Available Room Nights (in thousands)	2,535	2,491	800	799	3,335	3,290
Per Room Guest Spending	\$375	\$360	\$326	\$311	\$365	\$349

⁽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 2019 first quarter average foreign exchange rate.

Costs and Expenses

Operating expenses include operating labor, which increased \$99 million from \$1,493 million to \$1,592 million, cost of goods sold and distribution costs, which increased \$86 million from \$817 million to \$903 million, and infrastructure costs, which increased \$55 million from \$550 million to \$605 million. The increase in operating labor was due to inflation, including the impact of wage increases for our union employees. The increase in cost of goods sold and distribution costs was due to higher sales of food, beverage and merchandise at our theme parks and resorts and increased real estate sales. Higher infrastructure costs were primarily due to an increase in costs for new guest offerings, including expenses associated with *Star Wars: Galaxy's Edge*, and higher technology spending. Other operating expenses, which include costs for such items as supplies, commissions/fees and entertainment offerings, increased \$57 million, from \$546 million to \$603 million driven by the consolidation of TFCF's operations and costs for new guest offerings.

Selling, general, administrative and other costs increased \$69 million from \$689 million to \$758 million driven by inflation and higher marketing spend.

Depreciation and amortization increased \$29 million from \$565 million to \$594 million primarily due to new attractions at our domestic parks and resorts.

Equity in the Loss of Investees

Loss from equity investees decreased \$9 million, from \$12 million to \$3 million, primarily due to a lower loss from Villages Nature, in which Disneyland Paris has a 50% interest.

Segment Operating Income

Segment operating income increased 9%, or \$186 million to \$2,338 million due to increases at merchandise licensing and domestic parks and resorts, partially offset by lower results at our international parks and resorts.

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

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

	Quarter Ended		% Change Better / (Worse)
(in millions)	December 28, 2019	December 29, 2018	
<i>Supplemental revenue detail</i>			
Parks & Experiences			
Domestic	\$ 4,939	\$ 4,473	10 %
International	950	1,012	(6) %
Consumer Products	1,507	1,339	13 %
	<u>\$ 7,396</u>	<u>\$ 6,824</u>	8 %
<i>Supplemental operating income detail</i>			
Parks & Experiences			
Domestic	\$ 1,572	\$ 1,481	6 %
International	51	99	(48) %
Consumer Products	715	572	25 %
	<u>\$ 2,338</u>	<u>\$ 2,152</u>	9 %

Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

	Quarter Ended		% Change
(in millions)	December 28, 2019	December 29, 2018	Better/ (Worse)
Revenues			
Theatrical distribution	\$ 1,408	\$ 373	>100 %
Home entertainment	511	425	20 %
TV/SVOD distribution and other	1,845	1,026	80 %
Total revenues	3,764	1,824	>100 %
Operating expenses	(1,793)	(876)	>(100)%
Selling, general, administrative and other	(986)	(609)	(62)%
Depreciation and amortization	(37)	(30)	(23)%
Operating Income	\$ 948	\$ 309	>100 %

Revenues

The increase in theatrical distribution revenue was due to the performance of *Frozen II* and *Star Wars: The Rise of the Skywalker* in the current quarter compared to *Ralph Breaks the Internet* and no comparable *Star Wars* title in the prior-year quarter. Additionally, the current quarter included *Maleficent: Mistress of Evil* and TFCF's *Ford v. Ferrari* and *Terminator: Dark Fate*, while the prior-year quarter included *Mary Poppins Returns* and *The Nutcracker and the Four Realms*.

Higher home entertainment revenue was primarily due to an increase of 30% from the consolidation of TFCF's operations, partially offset by a decrease of 18% from lower domestic unit sales at our legacy operations. The decrease in domestic unit sales at our legacy operations was driven by the performance of *Incredibles 2* and *Ant-Man and the Wasp* in the prior-year quarter compared to *Toy Story 4* and no comparable Marvel release in the current quarter. Other significant titles in release included *The Lion King* in the current quarter and *Christopher Robin* in the prior-year quarter.

Growth in TV/SVOD distribution and other revenue was due to an increase of 74% from TV/SVOD distribution due to sales of content to Disney+ and the consolidation of TFCF's operations, partially offset by lower third-party pay television sales at our legacy operations.

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

Costs and Expenses

Operating expenses include film cost amortization, which increased \$785 million, from \$618 million to \$1,403 million, due to an increase at our legacy operations and the consolidation of TFCF's operations. The increase at our legacy operations was due to higher TV/SVOD and theatrical distribution revenues in the current quarter. Operating expenses also include cost of goods sold and distribution costs, which increased \$132 million, from \$258 million to \$390 million, driven by the consolidation of TFCF's operations.

Selling, general, administrative and other costs increased \$377 million from \$609 million to \$986 million, due to the consolidation of TFCF's operations.

Segment Operating Income

Segment operating income increased \$639 million, to \$948 million due to higher theatrical and TV/SVOD distribution results at our legacy operations, partially offset by the consolidation of TFCF's operations.

Items Excluded from Segment Operating Income Related to Studio Entertainment

The following table presents supplemental information for items related to the Studio Entertainment segment that are excluded from segment operating income:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	December 28, 2019	December 29, 2018	
Amortization of TFCF intangible assets and fair value step-up on film and television costs ⁽¹⁾	\$ (81)	\$ —	nm
Restructuring and impairment charges	(20)	—	nm

⁽¹⁾ Amortization of step-up on film and television costs was \$54 million and amortization of intangible assets was \$27 million.

Direct-to-Consumer & International

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

(in millions)	Quarter Ended		% Change Better/ (Worse)
	December 28, 2019	December 29, 2018	
Revenues			
Affiliate fees	\$ 953	\$ 323	>100 %
Advertising	1,367	417	>100 %
Subscription fees	1,326	33	>100 %
TV/SVOD distribution and other	341	145	>100 %
Total revenues	3,987	918	>100 %
Operating expenses	(3,529)	(655)	>(100)%
Selling, general, administrative and other	(1,093)	(254)	>(100)%
Depreciation and amortization	(100)	(54)	(85)%
Equity in the income (loss) of investees	42	(91)	nm
Operating Loss	\$ (693)	\$ (136)	>(100)%

Revenues

The increase in affiliate fees was due to the consolidation of TFCF's operations.

The increase in advertising revenues was due to increases of \$597 million in addressable ad sales driven by the consolidation of Hulu's operations and \$353 million at our International Channels driven by the consolidation of TFCF's operations.

The increase in subscription fees was due to the consolidation of Hulu's operations and, to a lesser extent, the launch of Disney+ in November 2019 and subscriber growth at ESPN+.

Growth in TV/SVOD distribution and other revenue was due to the consolidation of TFCF's operations and Ultimate Fighting Championship (UFC) pay-per-view fees.

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

The following table presents the number of paid subscribers ⁽¹⁾ (in millions) for Disney+, ESPN+ and Hulu:

	As of		% Change Better / (Worse)
	December 28, 2019	December 29, 2018	
Disney+	26.5	—	na
ESPN+	6.6	1.4	>100 %
Hulu ⁽²⁾			
SVOD Only	27.2	21.1	29 %
Live TV + SVOD	3.2	1.7	88 %
Total Hulu	30.4	22.8	33 %

The following table presents the average monthly revenue per paid subscriber⁽³⁾ for these services:

	Quarter ended		% Change Better / (Worse)
	December 28, 2019	December 29, 2018	
Disney+	\$ 5.56	\$ —	na
ESPN+ ⁽⁴⁾	\$ 4.44	\$ 4.67	(5) %
Hulu ^{(2), (5)}			
SVOD Only	\$ 13.15	\$ 14.49	(9) %
Live TV + SVOD	\$ 59.47	\$ 52.31	14 %

⁽¹⁾ A subscriber for which we recognized subscription revenue. A subscriber ceases to be a paid subscriber as of their effective cancellation date or as a result of a failed payment method. A subscription bundle is considered a paid subscriber for each service included in the bundle.

⁽²⁾ Hulu's paid subscribers as of December 29, 2018 and average monthly revenue per paid subscriber for the quarter ended December 29, 2018 are not reflected in the Company's prior-year quarter revenues.

⁽³⁾ Revenue per paid subscriber is calculated based upon the average of the monthly average paid subscribers for each month in the period. The monthly average paid subscribers is calculated as the sum of the beginning of the month and end of the month paid subscriber count, divided by two. Disney+ average monthly revenue per paid subscriber for the quarter ended December 28, 2019 is calculated using a daily average of paid subscribers for the period beginning at launch and ending on the last day of the quarter. The average revenue per subscriber is net of discounts offered on bundled services. The discount is allocated to each service based on the relative retail price of each service on a standalone basis.

⁽⁴⁾ Excludes Pay-Per-View revenue.

⁽⁵⁾ Includes advertising revenue (including amounts generated during free trial subscription periods).

The average monthly revenue per paid subscriber for ESPN+ decreased from \$4.67 to \$4.44 due to a shift in the mix of subscribers to our bundled offering. In November 2019, the Company began offering a bundled subscription package of Disney+, ESPN+ and Hulu. The bundled offering has a lower average retail price per service compared to the average retail price of each service on a standalone basis.

The average monthly revenue per paid subscriber for our Hulu SVOD Only service decreased from \$14.49 to \$13.15 driven by lower retail pricing and a shift in the mix of subscribers to our bundled offering. The average monthly revenue per paid subscriber for our Hulu Live TV + SVOD service increased from \$52.31 to \$59.47 due to higher retail pricing.

Costs and Expenses

Operating expenses include a \$2,433 million increase in programming and production costs, from \$446 million to \$2,879 million and a \$441 million increase in other operating expenses, from \$209 million to \$650 million. The increase in programming and production costs was due to the consolidation of Hulu's and TFCF's operations, the launch of Disney+ and higher programming costs at ESPN+, primarily for UFC rights. Other operating expenses, which include technical support and distribution costs, increased due to the consolidation of Hulu's and TFCF's operations and the launch of Disney+.

Selling, general, administrative and other costs increased \$839 million from \$254 million to \$1,093 million due to the consolidation of Hulu's and TFCF's operations and the launch of Disney+.

Depreciation and amortization increased \$46 million from \$54 million to \$100 million driven by the consolidation of Hulu's and TFCF's operations.

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

Equity in the Income/(Loss) of Investees

Loss from equity investees in the prior-year quarter of \$91 million improved by \$133 million to income of \$42 million in the current quarter, due to the consolidation of Hulu's operations and, to a lesser extent, income from TFCF's equity investments. In the current quarter, Hulu's results are reported in revenues and expenses. In the prior-year quarter, the Company recognized its ownership share of Hulu's results in equity in the loss of investees.

Segment Operating Loss

Segment operating loss increased to \$693 million due to costs associated with the launch of Disney+, the consolidation of Hulu's operations and a higher loss at ESPN+. These increases were partially offset by a benefit from the consolidation of TFCF's operations driven by income at the international channels including Star.

The following table presents supplemental revenue and operating income/(loss) detail for the Direct-to-Consumer & International segment:

	Quarter Ended		% Change
(in millions)	December 28, 2019	December 29, 2018	Better / (Worse)
<i>Supplemental revenue detail</i>			
International Channels	\$ 1,567	\$ 494	>100 %
Direct-to-Consumer services	2,006	56	>100 %
Other ⁽¹⁾	414	368	13 %
	<u>\$ 3,987</u>	<u>\$ 918</u>	>100 %
<i>Supplemental operating income (loss) detail</i>			
International Channels	\$ 370	\$ 137	>100 %
Direct-to-Consumer services	(1,062)	(117)	>(100)%
Other ⁽¹⁾	(43)	(65)	34 %
Equity in the income (loss) of investees	42	(91)	nm
	<u>\$ (693)</u>	<u>\$ (136)</u>	>(100)%

⁽¹⁾ Primarily addressable ad sales related to domestic Media Networks branded properties (addressable ad sales related to our Direct-to-Consumer services, principally Hulu, are reflected in "Direct-to-Consumer services")

Items Excluded from Segment Operating Loss Related to Direct-to-Consumer & International

The following table presents supplemental information for items related to the Direct-to-Consumer & International segment that are excluded from segment operating loss:

(in millions)	Quarter Ended		% Change Better / (Worse)
	December 28, 2019	December 29, 2018	
Amortization of TFCF and Hulu intangible assets and fair value step-up on film and television costs ⁽¹⁾	\$ (317)	\$ —	nm
Restructuring and impairment charges	(103)	—	nm

⁽¹⁾ Amortization of intangible assets was \$304 million, amortization of intangible assets related to TFCF equity investees was \$8 million and amortization of step-up on film and television costs was \$5 million.

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

Eliminations

Intersegment content transactions are as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	December 28, 2019	December 29, 2018	
Revenues			
Studio Entertainment:			
Content transactions with Media Networks	\$ (53)	\$ (21)	>(100)%
Content transactions with Direct-to-Consumer & International	(685)	(18)	>(100)%
Media Networks:			
Content transactions with Direct-to-Consumer & International	(912)	(145)	>(100)%
Total	\$ (1,650)	\$ (184)	>(100)%
Operating income			
Studio Entertainment:			
Content transactions with Media Networks	\$ —	\$ —	nm
Content transactions with Direct-to-Consumer & International	(116)	2	nm
Media Networks:			
Content transactions with Direct-to-Consumer & International	(105)	(2)	>(100)%
Total	\$ (221)	\$ —	nm

Revenues and Operating Income

The increase in the impact from eliminations was driven by sales of Studio Entertainment content to Disney+ and sales of ABC Studios and Twentieth Century Fox Television content to Hulu and Disney+.

CORPORATE AND UNALLOCATED SHARED EXPENSES

(in millions)	Quarter Ended		% Change Better/ (Worse)
	December 28, 2019	December 29, 2018	
Corporate and unallocated shared expenses	\$ (237)	\$ (161)	(47) %

Corporate and unallocated shared expenses increased \$76 million from \$161 million to \$237 million for the quarter primarily due to higher compensation costs and the absence of a benefit from amortization of a deferred gain on a sale leaseback due to the adoption of new lease accounting guidance, partially offset by lower costs related to TFCF. The decrease in costs related to TFCF was due to lower acquisition related professional fees, partially offset by the consolidation of TFCF.

SIGNIFICANT DEVELOPMENTS

The recent closure of our parks in both Shanghai and Hong Kong due to the ongoing coronavirus situation will negatively impact second-quarter and full year results. The magnitude of the financial impact is highly dependent on the duration of the closures and how quickly we can resume normal operations.

In November 2019, the Company launched Disney+, a subscription based DTC streaming service with Disney, Pixar, Marvel, Star Wars and National Geographic branded programming in the U.S. and four other countries. Further launches are planned for Western Europe in spring and summer of calendar 2020, Latin America in fall of calendar 2020, Eastern Europe starting in late calendar 2020 and continuing in calendar 2021, and various Asia-Pacific territories throughout calendar 2020 and calendar 2021. As we will use our branded film and television content on the Disney+ service, we expect to forgo licensing revenue from the sale of this content to third parties in TV/SVOD markets. In addition, we anticipate an increase in programming and production investments to create exclusive content for Disney+.

RESTRUCTURING IN CONNECTION WITH THE ACQUISITION OF TFCF

See Note 17 to the Condensed Consolidated Financial Statements for information regarding the Company's restructuring activities in connection with the acquisition of TFCF.

**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)	Quarter Ended		% Change Better/ (Worse)
	December 28, 2019	December 29, 2018	
Cash provided by operations - continuing operations	\$ 1,630	\$ 2,099	(22)%
Cash used in investing activities - continuing operations	(1,350)	(1,336)	(1)%
Cash provided by (used in) financing activities - continuing operations	1,117	(411)	nm
Cash used in operations - discontinued operations	(19)	—	nm
Impact of exchange rates on cash, cash equivalents and restricted cash	41	(44)	nm
Change in cash, cash equivalents and restricted cash	<u>\$ 1,419</u>	<u>\$ 308</u>	>100 %

Operating Activities

Cash provided by continuing operating activities decreased 22% to \$1.6 billion for the current quarter compared to \$2.1 billion in the prior-year quarter due to lower operating cash flows at Direct-to-Consumer & International and higher interest and restructuring payments, partially offset by increased operating cash flows at Studio Entertainment. Lower operating cash flows at Direct-to-Consumer & International were due to higher film and television spending and an increase in operating cash disbursements, partially offset by higher operating cash receipts driven by increased revenues. These impacts at Direct-to-Consumer & International were driven by the consolidation of TFCF's and Hulu's operations. Higher operating cash flows at Studio Entertainment were due to an increase in operating cash receipts driven by revenue growth, partially offset by higher operating cash disbursements due to increased film distribution costs.

Produced and licensed content costs

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

**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 quarter ended December 28, 2019 and December 29, 2018 are as follows:

(in millions)	Quarter Ended	
	December 28, 2019	December 29, 2018
Beginning balances:		
Produced and licensed content assets	\$ 27,407	\$ 9,202
Programming liabilities	(4,061)	(1,178)
	<u>23,346</u>	<u>8,024</u>
Spending:		
Television program licenses and rights	3,198	2,060
Film and television production	3,128	1,636
	<u>6,326</u>	<u>3,696</u>
Amortization:		
Television program licenses and rights	(3,731)	(2,819)
Film and television production	(2,518)	(1,345)
	<u>(6,249)</u>	<u>(4,164)</u>
Change in film and television production and licensed content	77	(468)
Other non-cash activity	28	(93)
Ending balances:		
Produced and licensed content assets	27,873	9,001
Programming liabilities	(4,422)	(1,525)
	<u>\$ 23,451</u>	<u>\$ 7,476</u>

Investing Activities

Investing activities consist principally of investments in parks, resorts and other property and acquisition and divestiture activity. The Company's investments in parks, resorts and other property for the quarter ended December 28, 2019 and December 29, 2018 are as follows:

(in millions)	Quarter Ended	
	December 28, 2019	December 29, 2018
Media Networks		
Cable Networks	\$ 33	\$ 32
Broadcasting	27	33
Total Media Networks	<u>60</u>	<u>65</u>
Parks, Experiences and Products		
Domestic	820	838
International	229	206
Total Parks, Experiences and Products	<u>1,049</u>	<u>1,044</u>
Studio Entertainment	19	20
Direct-to-Consumer & International	109	24
Corporate	101	42
	<u>\$ 1,338</u>	<u>\$ 1,195</u>

Capital expenditures for the Parks, Experiences and Products segment are principally for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure.

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

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

Capital expenditures at Direct-to-Consumer & International primarily reflect investments in technology. The increase in the current quarter compared to the prior-year quarter was due to investments in technology.

Capital expenditures at Corporate primarily reflect investments in corporate facilities, information technology infrastructure and equipment. The increase in the current quarter compared to the prior-year quarter was due higher spending on equipment, facilities and technology.

The Company currently expects its fiscal 2020 capital expenditures will be approximately \$0.5 billion higher than fiscal 2019 capital expenditures of \$4.9 billion due to increased spending on technology at Direct-to-Consumer & International and facilities, equipment and technology at Corporate.

Financing Activities

Cash provided by financing activities was \$1.1 billion in the current quarter compared to a use of \$0.4 billion in the prior-year quarter. In the current quarter, the Company had net borrowings of \$1.2 billion compared to a \$0.3 billion decrease in net borrowings in the prior-year quarter.

See Note 5 to the Condensed Consolidated Financial Statements for a summary of the Company's borrowing activities during the quarter ended December 28, 2019 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 11 to the Condensed Consolidated Financial Statements for a summary of the Company's dividends in fiscal 2020 and 2019.

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 ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects. However, the Company's operating cash flow and access to the capital markets can be impacted by macroeconomic factors outside of its control. In addition to macroeconomic factors, the Company's borrowing costs can be impacted by short- and long-term debt ratings assigned by nationally recognized rating agencies, which are based, in significant part, on the Company's performance as measured by certain credit metrics such as interest coverage and leverage ratios. As of December 28, 2019, 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. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on December 28, 2019, by a significant margin. The Company's bank facilities also specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants or events of default.

COMMITMENTS AND CONTINGENCIES

Legal Matters

As disclosed in Note 13 to the Condensed Consolidated Financial Statements, the Company has exposure for certain legal matters.

Guarantees

See Note 15 to the Consolidated Financial Statements in the 2019 Annual Report on Form 10-K for information regarding the Company's guarantees.

Tax Matters

As disclosed in Note 10 to the Consolidated Financial Statements in the 2019 Annual Report on Form 10-K, the Company has exposure for certain tax matters.

Contractual Commitments

See Note 15 to the Consolidated Financial Statements in the 2019 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

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

accounting policies, including the accounting policies discussed below, see Note 2 to the Consolidated Financial Statements in the 2019 Annual Report on Form 10-K.

Produced and Acquired/Licensed Content Costs

At the beginning of fiscal 2020, the Company adopted on a prospective basis, new FASB guidance that updates the accounting for film and television content costs. Under that new guidance, we amortize and test for impairment capitalized film and television production costs based on whether the content is predominantly monetized individually or as a group. See Note 7 to the Condensed Consolidated Financial Statements for further discussion.

Production costs that are classified as individual are amortized based upon the ratio of the current period's revenues to the estimated remaining total revenues (Ultimate Revenues).

With respect to produced films intended for theatrical release, the most sensitive factor affecting our estimate of Ultimate Revenues is theatrical performance. Revenues derived from other markets subsequent to the theatrical release are generally highly correlated with 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, including intersegment content transactions, and markets are revised based on historical relationships and an analysis of current market trends.

With respect to capitalized television production costs that are classified as individual, the most sensitive factors affecting estimates of Ultimate Revenues are program ratings of the content on our licensees' platforms. Program ratings, which are an indication of market acceptance, directly affect the program's ability to generate advertising and subscriber revenues and are correlated with the license fees we can charge for the content in subsequent windows and for subsequent seasons.

Ultimate Revenues are reassessed each reporting period and the impact of any changes on amortization of production cost is accounted for as if the change occurred at the beginning of the current fiscal year. If our estimate of Ultimate Revenues decreases, amortization of costs may be accelerated or result in an impairment. Conversely, if our estimate of Ultimate Revenues increases, cost amortization may be slowed.

Produced content costs that are part of a group and acquired/licensed content costs are amortized based on projected usage typically resulting in an accelerated or straight-line amortization pattern. The determination of projected usage requires judgement and is reviewed periodically for changes. If projected usage changes we may need to accelerate or slow the recognition of amortization expense.

The amortization of multi-year sports rights is based on our projections of revenues over the contract period, which include advertising revenue and an allocation of affiliate revenue (relative value). 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 estimated relative values by year were to change significantly, amortization of our sports rights costs may be accelerated or slowed.

Revenue Recognition

The Company has revenue recognition policies for its various operating segments that are appropriate to the circumstances of each business. Refer to Note 3 to the Consolidated Financial Statements in the 2019 Annual Report on Form 10-K for our revenue recognition policies.

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 2019 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.

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

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

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

The impairment test for goodwill requires judgment related to the identification of reporting units, the assignment of assets and liabilities to reporting units including goodwill, and the determination of fair value of the reporting units. 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.

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. In addition, the projected cash flows of our reporting units reflect intersegment revenues and expenses for the sale and use of intellectual property as if it was licensed to an unrelated third party. We believe our estimates are consistent with how a marketplace participant would value our reporting units.

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.

The Company has investments in equity securities. For equity securities that do not have a readily determinable fair value, we consider forecasted financial performance of the investee companies, as well as volatility inherent in the external markets for these investments. If these forecasts are not met, impairment charges may be recorded.

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 13 to the Condensed Consolidated Financial Statements for more detailed information on litigation exposure.

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

See Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 16 to the Condensed Consolidated Financial Statements.

Item 4. Controls and Procedures

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

Based on their evaluation as of December 28, 2019, 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.

Changes in Internal Controls – There have been no changes in our internal controls over financial reporting during the first quarter of fiscal 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. In the second quarter of fiscal 2019, we completed the acquisition of TFCF and began consolidating Hulu (see Note 4 to the Condensed Consolidation Financial Statements). We are currently integrating TFCF and Hulu into our operations and internal control processes.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

As disclosed in Note 13 to the Condensed Consolidated Financial Statements, the Company is engaged in certain legal matters, and the disclosure set forth in Note 13 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.

A variety of uncontrollable events may reduce demand for our products and services, impair our ability to provide our products and services or increase the cost of providing our products and services.

Demand for our products and services, particularly our theme parks and resorts, is highly dependent on the general environment for travel and tourism. The environment for travel and tourism, as well as demand for other entertainment products, can be significantly adversely affected in the U.S., globally or in specific regions as a result of a variety of factors beyond our control, including: adverse weather conditions arising from short-term weather patterns or long-term change, catastrophic events or natural disasters (such as excessive heat or rain, hurricanes, typhoons, floods, tsunamis and earthquakes); health concerns; international, political or military developments; and terrorist attacks. These events and others, such as fluctuations in travel and energy costs and computer virus attacks, intrusions or other widespread computing or telecommunications failures, may also damage our ability to provide our products and services or to obtain insurance coverage with respect to these events. An incident that affected our property directly would have a direct impact on our ability to provide goods and services and could have an extended effect of discouraging consumers from attending our facilities. Moreover, the costs of protecting against such incidents reduces the profitability of our operations.

For example, events in Hong Kong have impacted profitability of our Hong Kong operations and may continue to do so there and elsewhere; past hurricanes have impacted profitability of Walt Disney World Resort in Florida and future hurricanes may also do so; and health concerns regarding coronavirus are impacting our operations and may continue to do so.

In addition, we derive affiliate fees and royalties from the distribution of our programming, sales of our licensed goods and services by third parties, and the management of businesses operated under brands licensed from the Company, and we are therefore dependent on the successes of those third parties for that portion of our revenue. A wide variety of factors could influence the success of those third parties and if negative factors significantly impacted a sufficient number of those third parties, the profitability of one or more of our businesses could be adversely affected.

We obtain insurance against the risk of losses relating to some of these events, generally including physical damage to our property and resulting business interruption, certain injuries occurring on our property and some liabilities for alleged breach of legal responsibilities. When insurance is obtained it is subject to deductibles, exclusions, terms, conditions and limits of liability. The types and levels of coverage we obtain vary from time to time depending on our view of the likelihood of specific types and levels of loss in relation to the cost of obtaining coverage for such types and levels of loss and we may experience material losses not covered by our insurance.

Additional factors are discussed in the 2019 Annual Report on Form 10-K under the Item 1A, “Risk Factors.”

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

(a) The following table provides information about Company purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended December 28, 2019:

Period	Total Number of Shares Purchased ⁽¹⁾	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
September 29, 2019 - October 31, 2019	25,115	\$ 131.03	—	na
November 1, 2019 - November 30, 2019	21,114	145.35	—	na
December 1, 2019 - December 28, 2019	20,640	147.87	—	na
Total	66,869	140.75	—	na

⁽¹⁾ 66,869 shares were purchased on the open market to provide shares to participants in the Walt Disney Investment Plan. These purchases were not made pursuant to a publicly announced repurchase plan or program.

⁽²⁾ Not applicable as the Company no longer has a stock repurchase plan or program.

ITEM 5. Other Items
None.

ITEM 6. Exhibits

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
10.1 Form of Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC Tests)	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
99 Waiver of Rights to Extension Bonus, dated as of December 20, 2019, by Robert A. Iger	Filed herewith
101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended December 28, 2019 formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, (v) the Condensed Consolidated Statements of Equity and (vi) related notes	Filed

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

SIGNATURE

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

THE WALT DISNEY COMPANY

(Registrant)

By:

/s/ CHRISTINE M. MCCARTHY

Christine M. McCarthy,
Senior Executive Vice President and Chief Financial Officer

February 4, 2020
Burbank, California

THE WALT DISNEY COMPANY
Schedule of Provisions for
Performance-Based Restricted Stock Unit Award
Pursuant to the 2011 Stock Incentive Plan
(Three-Year Vesting subject to Total Shareholder Return/ROIC Tests)

Section 1. **Restricted Stock Unit Award.** This schedule relates to an Award of “**Restricted Stock Units**” pursuant to the 2011 Stock Incentive Plan (the “**Plan**”) by The Walt Disney Company (“**Disney**”). All capitalized terms not defined herein shall have the meaning set forth in the Plan. The Award referred to herein constitutes a “**Stock Unit Award**” under the Plan. The Restricted Stock Units are notional units of measurement denominated in Shares of Disney (i.e. one Restricted Stock Unit is equivalent in value to one Share, subject to the terms hereof). The Restricted Stock Units represent an unfunded, unsecured obligation of Disney.

Section 2. **Vesting Requirements.** The vesting of this Award (other than pursuant to accelerated vesting in certain circumstances as provided in Section 3 below or vesting pursuant to Section 6 below) shall be subject to the satisfaction of the conditions set forth in each of subsections A and B, as applicable, **and**, in each case, subsection C of this Section 2:

A. **Total Shareholder Return Test.** The vesting of fifty percent of the Stock Units subject to this Award (the “**TSR Target Award Amount**”) shall be conditioned upon the satisfaction of a performance vesting requirement (the “**TSR Performance Requirement**”) based on Total Shareholder Return of Disney as compared to the Total Shareholder Returns of the S&P 500 Companies, in each case, with respect to the three-year period ending on the Determination Date (as each such term is defined below). To satisfy the TSR Performance Requirement, the TSR Percentile (as hereinafter defined) of Disney must equal or exceed the TSR Percentile of 25.00% of the S&P 500 Companies (the “**S&P 25th TSR Percentile**”). If this requirement is met, the number of Stock Units as to which the TSR Performance Requirement shall be satisfied shall be determined as follows:

- i. If the TSR Percentile of Disney is equal to “**S&P 25th TSR Percentile**”, then the number of Stock Units which shall satisfy the TSR Performance Requirement shall be 50% of the TSR Target Award Amount.
- ii. If the TSR Percentile of Disney equals or exceeds the TSR Percentile of 75.00% of the S&P 500 Companies (the “**S&P 75th TSR Percentile**”), the number of Stock Units which shall satisfy the TSR Performance Requirement shall be 150% of the TSR Target Award Amount.*
- iii. If the TSR Percentile of Disney exceeds the S&P 25th TSR Percentile but is less than the S&P 75th TSR Percentile, the percentage of Stock Units as to which the TSR Performance Requirement shall have been satisfied shall be determined by multiplying the TSR Percentile of Disney by two. For example, if the TSR Percentile of Disney is 40.00%, then Stock Units equal to 80% of the TSR Target Award Amount shall have satisfied the TSR Performance Requirement; if the TSR Percentile of Disney is 60.55%, then 121.10% of the TSR Target Award Amount shall have satisfied the TSR Performance Requirement.

* With respect to Mr. Iger, if Total Shareholder Return of Disney with respect to the applicable performance period is negative, not more than 100% of the units subject to such award shall be earned and payable.

For the purposes hereof, the terms set forth below shall have the following meanings:

“Determination Date” shall mean the date which precedes the Scheduled Vesting Date (as hereinafter defined) by one month. For example, for an Award vesting on a January 14 of any specified year, the Determination Date of such Award is December 14 of the prior year.

“Total Shareholder Return” shall mean an amount equal to the average of the total return figures for the three-year periods ending on the twenty (20) trading days referred to below as currently reported under “Comparative Returns” by Bloomberg L.P. (**“Bloomberg”**) (or any other reporting service that the Committee may designate from time to time):

- (i) for Disney (as such total return figures for Disney may be adjusted by the Committee, by no later than the Scheduled Vesting Date, to take into account any factors which the Committee has determined are not properly reflected in such reported figures) or
- (ii) for any other S&P 500 Company,

in each case for the twenty (20) latest trading days up to and (if the Determination Date is a trading day) including the Determination Date.

“TSR Percentile” shall mean the percentile ranking (which shall be carried out to two decimal points) as determined by Disney on the basis of the Total Shareholder Return figures reported by Bloomberg (or any other reporting service that the Committee may designate from time to time) for each of the S&P 500 Companies, including Disney (provided that in the case of Disney adjustments may be made by the Committee with respect to Total Shareholder Return as provided above).

“S&P 500 Companies” shall mean all of the companies which are listed on the Standard & Poor’s 500 Composite Index, including Disney, on the date which is three years and twenty (20) trading days prior to the Determination Date and which remain continuously listed on the Standard & Poor’s 500 Composite Index through and including the Determination Date; provided however, that for the purposes hereof the Standard & Poor’s 500 Composite Index shall be deemed to include companies that were removed therefrom during the measurement period but that continued during the entire measurement period to have their shares listed on at least one of the NYSE, NASDAQ, American Stock Exchange, Boston Stock Exchange, Chicago Stock Exchange, National Stock Exchange (formerly Cincinnati Stock Exchange), NYSE Arca (formerly known as the Pacific Stock Exchange), Philadelphia Stock Exchange or any other exchange(s) that the Committee may designate from time to time.

B. **ROIC Test.** The vesting of the remaining fifty percent of the Stock Units subject to this Award (the **“ROIC Target Award Amount”**) shall be conditioned upon the satisfaction of a performance vesting requirement (the **“ROIC Performance Requirement”**) based upon Average ROIC with respect to the three-fiscal year period commencing with the fiscal year in which the Award is made (the **“ROIC Performance Period”**). To satisfy the ROIC Performance Requirement, the Committee must determine that the Average ROIC with respect to the ROIC Performance Period equals or exceeds the ROIC Threshold. If this requirement is met, the number of Stock Units as to which the ROIC Performance Requirement shall be satisfied shall be determined as follows:

- i. If Average ROIC equals the ROIC Threshold, then the number of Stock Units which shall satisfy the ROIC Performance Requirement shall be 50% of the ROIC Target Award Amount.
- ii. If Average ROIC equals the ROIC Target, the number of Stock Units which shall satisfy the ROIC Performance Requirement shall be 100% of the ROIC Target Award Amount.
- iii. If Average ROIC equals or exceeds the ROIC Maximum, the number of Stock Units which shall satisfy the ROIC Performance Requirement shall be 150% of the ROIC Target Award Amount.
- iv. If Average ROIC is above one but below the next performance level specified above, the number of Stock Units which shall satisfy the ROIC Performance Requirement shall be determined by mathematical interpolation between such two performance levels.

For the purposes hereof, the terms set forth below shall have the following meanings:

“Annual After-Tax Operating Performance” with respect to any fiscal year means the sum of (i) and (ii), minus (iii), where (i), (ii) and (iii) are:

- (i) segment operating income for such fiscal year, as reported in Disney’s audited financial statements for such fiscal year,
- (ii) corporate and unallocated shared expenses for such fiscal year, as reported in Disney’s audited financial statements for such fiscal year, and
- (iii) the amount determined by multiplying the sum of (i) and (ii) by the effective Federal Corporate Tax Rate at the beginning of the Fiscal Year for the year of the grant.

Notwithstanding the foregoing, segment operating income and corporate and unallocated shared expenses as referenced in (i) and (ii) above shall be subject to such adjustments thereto as the Committee deems appropriate in its sole discretion (x) to exclude the effect of extraordinary, unusual and/or nonrecurring items and (y) to reflect such other factors as the Committee deems appropriate to fairly reflect operating performance for the applicable fiscal year.

“Average ROIC” shall mean the percentage equal to the average of the ROIC determined separately for each of the three fiscal years in the ROIC Performance Period.

“Invested Capital” as of the end of any fiscal year means the remainder of (i) minus (ii), where (i) and (ii) are:

- (i) Disney’s total assets as of the last day of such fiscal year, and
- (ii) the sum of
 - (1) Disney’s cash, cash equivalents and restricted cash as such last day of such fiscal years,
 - (2) Disney’s deferred tax assets, and
 - (3) Disney’s Non-Interest Bearing Liabilities.

in the case of each item in clause (i) or (ii)(1), (2) and (3) above, as reported in Disney's audited financial statements for such fiscal year, but subject to adjustment by the Committee, by no later than the Scheduled Vesting Date, to take into account any factors or occurrences (such as an acquisition of assets in exchange for stock or a disposition of assets in a spin-off or similar transaction) which the Committee determines inequitably and substantially enlarge or diminish the rights of the Participant and other Plan participants with respect to the Award and similar awards granted under the Plan.

"ROIC" with respect to any fiscal year means the percentage determined by dividing (i) the Annual After-Tax Operating Performance for such fiscal year by (ii) the average of Invested Capital at the end of such fiscal year and at the end of the immediately prior fiscal year.

"ROIC Maximum" means the level of Average ROIC specified by the Committee at which the maximum amount payable with respect to the ROIC Target Award Amount shall be earned.

"ROIC Target" means the level of Average ROIC specified by the Committee at which the ROIC Target Award Amount shall be earned.

"ROIC Threshold" means the level of Average ROIC specified by the Committee below which no portion of the ROIC Target Award Amount shall be earned.

"Non-Interest Bearing Liabilities" means the amount of money that a company owes (a liability on the balance sheet, current or non-current), without any interest or penalties accruing to the amount owed. For the avoidance of any doubt, Non-Interest Bearing Liabilities exclude liabilities related to deferred taxes, pension, retirement and leases.

- C. **Service Vesting Requirement.** In addition to whichever of the performance vesting requirements of subsection A or B of this Section 2 is applicable to a stated portion of the Stock Units subject to this Award, the right of the Participant to receive payment of this Award shall become vested only if he or she remains continuously employed by Disney or an Affiliate from the date hereof until the Scheduled Vesting Date.

If the service vesting requirements of this Section 2.C are not satisfied, all of the Stock Units subject to this Award shall be immediately forfeited and the Participant's rights with respect thereto shall cease.

All Stock Units for which all of the requirements of this Section 2 have been satisfied shall become vested and shall thereafter be payable in accordance with Section 5 hereof. Subject to the terms, conditions and performance-based vesting requirements set forth herein, the Stock Units subject to this Award will vest on the third anniversary date of the Date of Grant (the **"Scheduled Vesting Date"**).

Section 3. **Accelerated Vesting.** Notwithstanding the terms and conditions of Section 2 hereof, upon the Participant's death or disability (within the meaning of Section 409A of the Internal Revenue Code), or upon the occurrence of a Triggering Event within the 12-month period following a Change in Control (in accordance with Section 11 of the Plan as in effect as of the date of the Triggering Event), in any case, prior to the Scheduled Vesting Date, the provisions of this Section 3 shall apply to determine the extent to which the Participant's Restricted Stock Units that have not previously been forfeited shall become vested. If such death, disability or Triggering Event occurs while the Participant is employed by Disney (or an affiliate) and

- A. prior to the Determination Date, this Award shall become fully vested (provided that, for this purpose, the performance conditions applicable under subsection A or B of Section 2 shall in each case be deemed to have been satisfied at the 50th percentile of comparative performance), or
- B. after the Determination Date but before the Scheduled Vesting Date, then the number of Restricted Stock Units which shall become vested shall be determined on the same basis as if the Participant had been continuously employed by Disney (or an Affiliate) until the Scheduled Vesting Date.

Any Restricted Stock Units that become vested pursuant to this Section 3 shall be payable in accordance with Section 5 hereof.

Section 4. **Dividend Equivalents.** Any dividends paid in cash on Shares of Disney will be credited to the Participant as additional Restricted Stock Units as if the Restricted Stock Units previously held by the Participant were outstanding Shares, as follows: such credit shall be made in whole Restricted Stock Units only (rounded downward to the nearest whole unit) and shall be based on the fair market value (as defined in the Plan) of the Shares on the date of payment of such dividend. All such additional Restricted Stock Units shall be subject to the same vesting requirements applicable to the Restricted Stock Units in respect of which they were credited and shall be payable in accordance with Section 5 hereof.

Section 5. **Payment of Award.** Payment of vested Restricted Stock Units shall be made within 30 days following the applicable date under Section 2 hereof as of which the vesting requirements under Section 2 hereof shall have been satisfied with respect to any tranche, as applicable (or within 30 days following acceleration of vesting under Section 3 hereof, if applicable). The Restricted Stock Units shall be paid in cash or in Shares (or some combination thereof), as determined by the Committee in its discretion at the time of payment, and in either case shall be paid to the Participant after deduction of applicable withholding taxes in the amount determined by the Committee. If the Participant is a U.S. taxpayer, Disney will withhold all U.S. federal and state taxes as required by law at the then-current rate for supplemental wage income as applicable. If the Participant is resident in a foreign country, the Participant shall be responsible for the payment of any applicable local country taxes, including, without limitation, income taxes, social security taxes, and fringe benefit taxes, and Disney will either withhold such taxes as required by local law, or, alternatively, Participant will be required to pay such taxes directly or, where permitted by local law with respect to fringe benefit taxes, to reimburse Disney or the affiliated entity by whom you are employed for such taxes paid by Disney or such affiliated entity.

Section 6. **Extended Vesting.**

(a) In the event that Participant's employment with Disney or an Affiliate thereof terminates for any reason other than death, disability or "cause" (as further provided in the Plan) at a time when (i) the Participant has attained the age of sixty and has completed at least ten consecutive Service Years (as hereinafter defined) and (ii) at least one year has passed since the Date of Grant of this Award, then the remaining then unvested tranche(s) of this Award shall vest in accordance with the terms and provisions hereof in the same manner as if Participant's employment had continued through the scheduled vesting date(s) of such tranche(s). For purposes of the foregoing, "Service Year" shall mean any full 12-month period during which the Participant was continuously employed by Disney or an affiliate thereof. In determining the total number of consecutive Service Years that the Participant has been so employed, Disney shall apply such rules regarding the bridging of service as the Committee may adopt from time to time.

(b) Notwithstanding any other term or provision hereof, if at the time of termination of employment (other than upon the scheduled expiration date of an employment agreement) Participant is employed pursuant to an employment agreement with Disney or an Affiliate which provides under certain circumstances for the

continued vesting of any Stock Units subject to this Award in the event of the termination of such employment agreement prior to its scheduled expiration date (a “Contractual Extension Provision”), then, except as otherwise provided in such employment agreement, (i) this Section 6 shall be interpreted and applied in all respects as if Participant had remained continuously employed by Disney or an Affiliate thereof from the Date of Grant of this Award through the scheduled expiration date of such employment agreement and (ii) the date of termination of Participant’s employment for all purposes under this Section 6 shall be deemed to be the scheduled expiration date of such employment agreement.

(c) Solely for purposes of determining whether, and to what extent, the Participant shall have satisfied the service vesting requirement in Section 2.C, the Participant shall be deemed to have continued in employment (without duplication of any service credit afforded with respect to a Contractual Extension Provision) with Disney or an Affiliate during any period for which such entity provides Participant pay in lieu of notice in connection with The Worker Adjustment and Retraining Notification Act, as currently in effect and as the same may be amended from time to time, or any successor statute thereto or any comparable provision of state, local or foreign law applicable to the Participant.

Section 7. **Restrictions on Transfer**. Neither this Award nor any Restricted Stock Units covered hereby may be sold, assigned, transferred, encumbered, hypothecated or pledged by the Participant, other than to Disney as a result of forfeiture of the Restricted Stock Units as provided herein.

Section 8. **No Voting Rights**. The Restricted Stock Units granted pursuant to this Award, whether or not vested, will not confer any voting rights upon the Participant, unless and until the Award is paid in Shares.

Section 9. **Award Subject to Plan**. This Restricted Stock Unit Award is subject to the terms of the Plan, the terms and provisions of which are hereby incorporated by reference. In the event of a conflict or ambiguity between any term or provision contained herein and a term or provision of the Plan, the Plan will govern and prevail.

Section 10. **Changes in Capitalization**. The Restricted Stock Units under this Award shall be subject to the provisions of the Plan relating to adjustments for changes in corporate capitalization.

Section 11. **No Right of Employment**. Nothing in this Award Agreement shall confer upon the Participant any right to continue as an employee of Disney or an Affiliate nor interfere in any way with the right of Disney or an Affiliate to terminate the Participant's employment at any time or to change the terms and conditions of such employment.

Section 12. **Data Privacy**. The Participant expressly authorizes and consents to the collection, possession, use, retention and transfer of personal data of the Participant, whether in electronic or other form, by and among Disney, its Affiliates, third-party administrator(s) and other possible recipients, in each case for the exclusive purpose of implementing, administering, facilitating and/or managing the Participant’s Awards under, and participation in, the Plan. Such personal data may include, without limitation, the Participant’s name, home address and telephone number, date of birth, Social Security Number, social insurance number or other identification number, salary, nationality, job title and other job-related information, tax information, the number of Disney shares held or sold by the Participant, and the details of all Awards (including any information contained in this Award and all Award-related materials) granted to the Participant, whether exercised, unexercised, vested, unvested, cancelled or outstanding (“**Data**”). The Participant acknowledges, understands and agrees that Data will be transferred to Merrill Lynch, which is assisting Disney with the implementation, administration and management of the Plan, and/or to such other third-party plan administrator(s) and/or recipients as may be selected by Disney in the future. The Participant understands that one or more of the administrators or recipients of Data may be located in countries other than the country of Participant’s current

residence, and that such other countries may have data privacy laws and protections different from, and less protective than, the laws and protections of the country of Participant's current residence, the Member States of the European Union or any other country to which the Participant may be at any time relocated.

Section 13. **Governing Law.** This Award Agreement shall be construed and enforced in accordance with the laws of the State of Delaware, without giving effect to the choice of law principles thereof.

Note: Restricted Stock Units are granted and vested in the United States. You are responsible for any applicable taxes whether you are in the United States or any other country. At the time of vesting, Disney will withhold any minimum statutory local or U.S. taxes, as applicable.

**RULE 13a-14(a) CERTIFICATION IN
ACCORDANCE WITH SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert A. Iger, Chairman and Chief Executive Officer of The Walt Disney Company (the "Company"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 4, 2020

By:

/s/ ROBERT A. IGER

Robert A. Iger

Chairman and Chief Executive Officer

**RULE 13a-14(a) CERTIFICATION IN
ACCORDANCE WITH SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Christine M. McCarthy, Senior Executive Vice President and Chief Financial Officer of The Walt Disney Company (the "Company"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 4, 2020

By: /s/ CHRISTINE M. MCCARTHY

Christine M. McCarthy
Senior Executive Vice President
and Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002***

In connection with the Quarterly Report of The Walt Disney Company (the “Company”) on Form 10-Q for the fiscal quarter ended December 28, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert A. Iger, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ ROBERT A. IGER

Robert A. Iger

Chairman and Chief Executive Officer

February 4, 2020

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

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002***

In connection with the Quarterly Report of The Walt Disney Company (the “Company”) on Form 10-Q for the fiscal quarter ended December 28, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Christine M. McCarthy, Senior Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ CHRISTINE M. MCCARTHY

Christine M. McCarthy

Senior Executive Vice President
and Chief Financial Officer

February 4, 2020

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

December 20, 2019

The Compensation Committee
of the Board of Directors
The Walt Disney Company
500 S. Burns Vista Drive
Burbank, CA

Ladies and Gentlemen:

Waiver of Rights to Extension Bonus

Pursuant to an amendment to my Employment Agreement, dated March 22, 2017, the Company agreed to provide me a one-time, non-recurring cash bonus of \$5 million, subject to the terms and conditions specified in such amendment (the “Extension Bonus”), in consideration of my agreeing to extend the then current term of my Employment Agreement. In recognition of the compensation opportunities that will continue to be available to me by reason of my employment continuing following the date of such extension, this hereby confirms my agreement to irrevocably waive any and all rights I currently have or may hereafter have to receive any payment in respect of such Extension Bonus.

Sincerely,

/s/ ROBERT A. IGER

Robert A. Iger