

WALT DISNEY CO/  
Form 10-Q  
August 09, 2016

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 Commission File Number 1-11605  
July 2, 2016

Incorporated in Delaware I.R.S. Employer Identification  
No. 95-4545390  
500 South Buena Vista Street, Burbank, California 91521  
(818) 560-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Non-accelerated filer (do not check if smaller reporting company)  Smaller reporting company

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

There were 1,607,101,183 shares of common stock outstanding as of August 3, 2016.

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## PART I. FINANCIAL INFORMATION

## Item 1: Financial Statements

## THE WALT DISNEY COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited; in millions, except per share data)

|   | Quarter Ended   |                  | Nine Months Ended |                  |
|---|-----------------|------------------|-------------------|------------------|
|   | July 2,<br>2016 | June 27,<br>2015 | July 2,<br>2016   | June 27,<br>2015 |
| Revenues:   |                 |                  |                   |                  |
| Services  | \$ 12,113       | \$ 11,308        | \$ 35,906         | \$ 32,587        |
| Products  | 2,164           | 1,793            | 6,584             | 6,366            |
| Total revenues  | 14,277          | 13,101           | 42,490            | 38,953           |
| Costs and expenses:   |                 |                  |                   |                  |
| Cost of services (exclusive of depreciation and amortization)               | (5,946 )        | (5,547 )         | (18,568 )         | (17,224 )        |
| Cost of products (exclusive of depreciation and amortization)               | (1,255 )        | (1,116 )         | (4,120 )          | (3,785 )         |
| Selling, general, administrative and other                                  | (2,305 )        | (2,101 )         | (6,467 )          | (6,117 )         |
| Depreciation and amortization   | (626 )          | (575 )           | (1,838 )          | (1,751 )         |
| Total costs and expenses  | (10,132 )       | (9,339 )         | (30,993 )         | (28,877 )        |
| Restructuring and impairment charges  | (44 )           | —                | (125 )            | —                |
| Interest expense, net   | (70 )           | (12 )            | (161 )            | (62 )            |
| Equity in the income of investees   | 152             | 212              | 776               | 630              |
| Income before income taxes  | 4,183           | 3,962            | 11,987            | 10,644           |
| Income taxes  | (1,471 )        | (1,323 )         | (4,089 )          | (3,533 )         |
| Net income  | 2,712           | 2,639            | 7,898             | 7,111            |
| Less: Net income attributable to noncontrolling interests                   | (115 )          | (156 )           | (278 )            | (338 )           |
| Net income attributable to The Walt Disney Company (Disney)                 | \$ 2,597        | \$ 2,483         | \$ 7,620          | \$ 6,773         |
| Earnings per share attributable to Disney:                                  |                 |                  |                   |                  |
| Diluted   | \$ 1.59         | \$ 1.45          | \$ 4.63           | \$ 3.95          |
| Basic   | \$ 1.60         | \$ 1.46          | \$ 4.66           | \$ 3.99          |
| Weighted average number of common and common equivalent shares outstanding: |                 |                  |                   |                  |
| Diluted   | 1,631           | 1,711            | 1,647             | 1,714            |
| Basic   | 1,621           | 1,696            | 1,636             | 1,699            |
| Dividends declared per share  | \$ 0.71         | \$ 0.66          | \$ 1.42           | \$ 1.81          |
| See Notes to Condensed Consolidated Financial Statements                    |                 |                  |                   |                  |

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

|  | Quarter Ended   |                  | Nine Months Ended |                  |
|--|-----------------|------------------|-------------------|------------------|
|  | July 2,<br>2016 | June 27,<br>2015 | July 2,<br>2016   | June 27,<br>2015 |
| Net income   | \$2,712         | \$2,639          | \$7,898           | \$7,111          |
| Other comprehensive income/(loss), net of tax:                                   |                 |                  |                   |                  |
| Market value adjustments for investments   | (7 )            | (11 )            | (11 )             | (81 )            |
| Market value adjustments for hedges  | (84 )           | (109 )           | (313 )            | 155              |
| Pension and postretirement medical plan adjustments                              | 28              | 43               | 110               | 121              |
| Foreign currency translation and other   | (84 )           | 20               | (143 )            | (159 )           |
| Other comprehensive income/(loss)  | (147 )          | (57 )            | (357 )            | 36               |
| Comprehensive income   | 2,565           | 2,582            | 7,541             | 7,147            |
| Less: Net income attributable to noncontrolling interests                        | (115 )          | (156 )           | (278 )            | (338 )           |
| Less: Other comprehensive (income)/loss attributable to noncontrolling interests | 47              | (4 )             | 79                | 28               |
| Comprehensive income attributable to Disney                                      | \$2,497         | \$2,422          | \$7,342           | \$6,837          |
| See Notes to Condensed Consolidated Financial Statements                         |                 |                  |                   |                  |

THE WALT DISNEY COMPANY  
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited; in millions, except per share data)

|   | July 2,<br>2016 | October 3,<br>2015 |
|---|-----------------|--------------------|
| <b>ASSETS</b>   |                 |                    |
| Current assets  |                 |                    |
| Cash and cash equivalents   | \$5,227         | \$4,269            |
| Receivables   | 8,958           | 8,019              |
| Inventories   | 1,354           | 1,571              |
| Television costs and advances   | 1,231           | 1,170              |
| Deferred income taxes   | —               | 767                |
| Other current assets  | 847             | 962                |
| Total current assets  | 17,617          | 16,758             |
| Film and television costs   | 6,091           | 6,183              |
| Investments   | 3,228           | 2,643              |
| Parks, resorts and other property   |                 |                    |
| Attractions, buildings and equipment  | 49,526          | 42,745             |
| Accumulated depreciation  | (26,275 )       | (24,844 )          |
|   | 23,251          | 17,901             |
| Projects in progress  | 2,371           | 6,028              |
| Land  | 1,243           | 1,250              |
|   | 26,865          | 25,179             |
| Intangible assets, net  | 6,995           | 7,172              |
| Goodwill  | 27,802          | 27,826             |
| Other assets  | 2,316           | 2,421              |
| Total assets  | \$90,914        | \$88,182           |
| <b>LIABILITIES AND EQUITY</b>   |                 |                    |
| Current liabilities   |                 |                    |
| Accounts payable and other accrued liabilities  | \$8,719         | \$7,844            |
| Current portion of borrowings   | 5,312           | 4,563              |
| Unearned royalties and other advances   | 4,041           | 3,927              |
| Total current liabilities   | 18,072          | 16,334             |
| Borrowings  | 15,129          | 12,773             |
| Deferred income taxes   | 4,076           | 4,051              |
| Other long-term liabilities   | 5,491           | 6,369              |
| Commitments and contingencies (Note 10)   |                 |                    |
| Equity  |                 |                    |
| Preferred stock, \$.01 par value, Authorized – 100 million shares, Issued – none  | —               | —                  |
| Common stock, \$.01 par value, Authorized – 4.6 billion shares, Issued – 2.9 billion shares at July 2, 2016 and 2.8 billion shares at October 3, 2015 | 35,683          | 35,122             |
| Retained earnings   | 64,321          | 59,028             |
| Accumulated other comprehensive loss  | (2,699 )        | (2,421 )           |
|   | 97,305          | 91,729             |
| Treasury stock, at cost, 1.2 billion shares   | (53,112 )       | (47,204 )          |
| Total Disney Shareholders' equity   | 44,193          | 44,525             |
| Noncontrolling interests  | 3,953           | 4,130              |
| Total equity  | 48,146          | 48,655             |
| Total liabilities and equity  | \$90,914        | \$88,182           |

See Notes to Condensed Consolidated Financial Statements

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

|  | Nine Months<br>Ended |                  |
|--|----------------------|------------------|
|  | July 2,<br>2016      | June 27,<br>2015 |
| <b>OPERATING ACTIVITIES</b>                              |                      |                  |
| Net income   | \$7,898              | \$7,111          |
| Depreciation and amortization                            | 1,838                | 1,751            |
| Gains on sales of investments                            | (27 )                | (89 )            |
| Deferred income taxes                                    | 885                  | (167 )           |
| Equity in the income of investees                        | (776 )               | (630 )           |
| Cash distributions received from equity investees        | 594                  | 553              |
| Net change in film and television costs and advances     | (224 )               | (623 )           |
| Equity-based compensation                                | 305                  | 309              |
| Other  | 403                  | 214              |
| Changes in operating assets and liabilities:             |                      |                  |
| Receivables  | (821 )               | (229 )           |
| Inventories  | 214                  | 48               |
| Other assets   | (87 )                | (274 )           |
| Accounts payable and other accrued liabilities           | (628 )               | (507 )           |
| Income taxes   | (188 )               | 114              |
| Cash provided by operations                              | 9,386                | 7,581            |
| <b>INVESTING ACTIVITIES</b>                              |                      |                  |
| Investments in parks, resorts and other property         | (3,691 )             | (3,061 )         |
| Sales of investments                                     | 44                   | 143              |
| Acquisitions   | (400 )               | —                |
| Other  | (179 )               | (137 )           |
| Cash used in investing activities                        | (4,226 )             | (3,055 )         |
| <b>FINANCING ACTIVITIES</b>                              |                      |                  |
| Commercial paper borrowings, net                         | (216 )               | 2,352            |
| Borrowings   | 4,046                | 181              |
| Reduction of borrowings                                  | (672 )               | (2,006 )         |
| Dividends  | (1,168 )             | (1,948 )         |
| Repurchases of common stock                              | (5,908 )             | (2,823 )         |
| Proceeds from exercise of stock options                  | 216                  | 292              |
| Contributions from noncontrolling interest holders       | —                    | 1,012            |
| Other  | (389 )               | (301 )           |
| Cash used in financing activities                        | (4,091 )             | (3,241 )         |
| Impact of exchange rates on cash and cash equivalents    | (111 )               | (231 )           |
| Change in cash and cash equivalents                      | 958                  | 1,054            |
| Cash and cash equivalents, beginning of period           | 4,269                | 3,421            |
| Cash and cash equivalents, end of period                 | \$5,227              | \$4,475          |
| See Notes to Condensed Consolidated Financial Statements |                      |                  |



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

|                              | Quarter Ended |             |          | June 27, 2015 |             |          |
|------------------------------|---------------|-------------|----------|---------------|-------------|----------|
|                              | July 2, 2016  |             |          |               |             |          |
|                              | Disney        | Non-        | Total    | Disney        | Non-        | Total    |
|                              | Shareholders  | controlling | Equity   | Shareholders  | controlling | Equity   |
|                              |               | Interests   |          |               | Interests   |          |
| Beginning balance            | \$44,124      | \$ 3,886    | \$48,010 | \$46,038      | \$ 3,699    | \$49,737 |
| Comprehensive income         | 2,497         | 68          | 2,565    | 2,422         | 160         | 2,582    |
| Equity compensation activity | 235           | —           | 235      | 219           | —           | 219      |
| Dividends                    | (1,145 )      | —           | (1,145 ) | (1,115 )      | —           | (1,115 ) |
| Common stock repurchases     | (1,517 )      | —           | (1,517 ) | (1,035 )      | —           | (1,035 ) |
| Contributions                | —             | —           | —        | —             | 183         | 183      |
| Distributions and other      | (1 )          | (1 )        | (2 )     | (10 )         | (54 )       | (64 )    |
| Ending balance               | \$44,193      | \$ 3,953    | \$48,146 | \$46,519      | \$ 3,988    | \$50,507 |

See Notes to Condensed Consolidated Financial Statements

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

|                              | Nine Months Ended      |                                  |                 | June 27, 2015          |                                  |                 |
|------------------------------|------------------------|----------------------------------|-----------------|------------------------|----------------------------------|-----------------|
|                              | July 2, 2016           |                                  |                 | June 27, 2015          |                                  |                 |
|                              | Disney<br>Shareholders | Non-<br>controlling<br>Interests | Total<br>Equity | Disney<br>Shareholders | Non-<br>controlling<br>Interests | Total<br>Equity |
| Beginning balance            | \$44,525               | \$ 4,130                         | \$48,655        | \$44,958               | \$ 3,220                         | \$48,178        |
| Comprehensive income         | 7,342                  | 199                              | 7,541           | 6,837                  | 310                              | 7,147           |
| Equity compensation activity | 557                    | —                                | 557             | 642                    | —                                | 642             |
| Dividends                    | (2,313 )               | —                                | (2,313 )        | (3,063 )               | —                                | (3,063 )        |
| Common stock repurchases     | (5,908 )               | —                                | (5,908 )        | (2,823 )               | —                                | (2,823 )        |
| Contributions                | —                      | —                                | —               | —                      | 1,012                            | 1,012           |
| Distributions and other      | (10 )                  | (376 )                           | (386 )          | (32 )                  | (554 )                           | (586 )          |
| Ending balance               | \$44,193               | \$ 3,953                         | \$48,146        | \$46,519               | \$ 3,988                         | \$50,507        |

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 nine months ended July 2, 2016 are not necessarily indicative of the results that may be expected for the year ending October 1, 2016. Certain reclassifications have been made in the prior-year financial statements to conform to the current-year presentation.

These financial statements should be read in conjunction with the Company's 2015 Annual Report on Form 10-K. The Company enters into relationships or investments with other entities that may be a variable interest entity (VIE). A VIE is consolidated in the financial statements if the Company has the power to direct activities that most significantly impact the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE (as defined by ASC 810-10-25-38). Disneyland Paris, Hong Kong Disneyland Resort (HKDL) and Shanghai Disney Resort (collectively the International Theme Parks) are VIEs. Company subsidiaries (the Management Companies) have management agreements with the International Theme Parks, which provide the Management Companies, subject to certain protective rights of joint venture partners, with the ability to direct the day-to-day operating activities and the development of business strategies that we believe most significantly impact the economic performance of the International Theme Parks. In addition, the Management Companies receive management fees under these arrangements that we believe could be significant to the International Theme Parks. Therefore, the Company has consolidated the International Theme Parks in its financial statements.

The terms "Company," "we," "us," and "our" are used in this report to refer collectively to the parent company and the subsidiaries through which our various businesses are actually conducted.

### 2. Segment Information

The operating segments reported below are the segments of the Company for which separate financial information is available and for which segment results are evaluated regularly by the Chief Executive Officer in deciding how to allocate resources and in assessing performance. Fiscal 2015 segment financial information has been restated to reflect the combination of the Consumer Products and Interactive segments into a single segment effective at the beginning of fiscal 2016.

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

Equity in the income of investees is included in segment operating income as follows:

|  | Quarter Ended |               | Nine Months Ended |               |
|--|---------------|---------------|-------------------|---------------|
|  | July 2, 2016  | June 27, 2015 | July 2, 2016      | June 27, 2015 |
| Media Networks   |               |               |                   |               |
| Cable Networks   | \$197         | \$220         | \$586             | \$685         |
| Broadcasting   | (43)          | (8)           | (139)             | (55)          |
| Equity in the income of investees included in segment operating income | 154           | 212           | \$447             | \$630         |
| Vice Gain  | —             | —             | 332               | —             |

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|   |       |        |       |        |
|---|-------|--------|-------|--------|
| Other                                   | (2 )  | —      | (3 )  | —      |
| Total equity in the income of investees | \$152 | \$ 212 | \$776 | \$ 630 |

During the nine months ended July 2, 2016, the Company recognized its share of a net gain recorded by A&E Television Networks (A&E), a joint venture owned 50% by the Company, in connection with A&E's acquisition of an interest in Vice

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

Group Holding, Inc. (Vice) (Vice Gain). The Company's \$332 million share of the Vice Gain is recorded in "Equity in the income of investees" in the Condensed Consolidated Statement of Income but is not included in segment operating income. See Note 3 for further discussion of the transaction.

|   | Quarter Ended |               | Nine Months Ended |               |
|---|---------------|---------------|-------------------|---------------|
|   | July 2, 2016  | June 27, 2015 | July 2, 2016      | June 27, 2015 |
| Revenues <sup>(1)</sup> :                 |               |               |                   |               |
| Media Networks                            | \$5,906       | \$5,768       | \$18,031          | \$17,438      |
| Parks and Resorts                         | 4,379         | 4,131         | 12,588            | 11,801        |
| Studio Entertainment                      | 2,847         | 2,040         | 7,630             | 5,583         |
| Consumer Products & Interactive Media     | 1,145         | 1,162         | 4,241             | 4,131         |
|   | \$14,277      | \$13,101      | \$42,490          | \$38,953      |
| Segment operating income <sup>(1)</sup> : |               |               |                   |               |
| Media Networks                            | \$2,372       | \$2,378       | \$6,083           | \$5,974       |
| Parks and Resorts                         | 994           | 922           | 2,599             | 2,293         |
| Studio Entertainment                      | 766           | 472           | 2,322             | 1,443         |
| Consumer Products & Interactive Media     | 324           | 348           | 1,541             | 1,437         |
|   | \$4,456       | \$4,120       | \$12,545          | \$11,147      |

<sup>(1)</sup> Studio Entertainment segment revenues and operating income include an allocation of Consumer Products & Interactive Media revenues, which is meant to reflect royalties on sales of merchandise based on certain film properties. The increase to Studio Entertainment revenues and operating income and corresponding decrease to Consumer Products & Interactive Media revenues and operating income totaled \$131 million and \$109 million for the quarters ended July 2, 2016 and June 27, 2015, respectively, and \$573 million and \$387 million for the nine months ended July 2, 2016 and June 27, 2015, respectively.

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

|   | Quarter Ended |               | Nine Months Ended |               |
|---|---------------|---------------|-------------------|---------------|
|   | July 2, 2016  | June 27, 2015 | July 2, 2016      | June 27, 2015 |
| Segment operating income                  | \$4,456       | \$4,120       | \$12,545          | \$11,147      |
| Corporate and unallocated shared expenses | (159 )        | (146 )        | (457 )            | (441 )        |
| Restructuring and impairment charges      | (44 )         | —             | (125 )            | —             |
| Interest expense, net                     | (70 )         | (12 )         | (161 )            | (62 )         |
| Vice Gain                                 | —             | —             | 332               | —             |
| Infinity Charge <sup>(1)</sup>            | —             | —             | (147 )            | —             |
| Income before income taxes                | \$4,183       | \$3,962       | \$11,987          | \$10,644      |

In the second quarter of fiscal 2016, the Company decided to discontinue its Infinity console game business, which <sup>(1)</sup>is reported in the Consumer Products & Interactive Media segment, and recorded a charge primarily to write down inventory. The charge also included severance and other asset impairments. The charge was reported in Cost of products in the Condensed Consolidated Statement of Income.



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

### 3. Acquisitions

#### Vice/A&E

Vice is a media company targeting a millennial audience through news and pop culture content and creative brand integration. During the first quarter of fiscal 2016, A&E acquired an 8% interest in Vice in exchange for a 49.9% interest in one of A&E's cable channels, H2, which has been rebranded as Viceland and programmed with Vice content. As a result of this exchange, A&E recognized a net non-cash gain based on the estimated fair value of H2. The Company's share of the Vice Gain totaled \$332 million and was recorded in "Equity in the income of investees" in the Condensed Consolidated Statement of Income in the first quarter of fiscal 2016. At July 2, 2016, A&E had a 20% interest in Vice.

In addition, during the first quarter of fiscal 2016, the Company acquired an 11% interest in Vice for \$400 million of cash.

The Company accounts for its interests in A&E and Vice as equity method investments.

#### Maker Studios

On May 7, 2014, the Company acquired Maker Studios, Inc. (Maker), a leading network of online video content, for approximately \$500 million of cash consideration. Maker shareholders were eligible to receive up to \$450 million of additional cash upon Maker's achievement of certain performance targets for calendar years 2014 and 2015. At the date of the acquisition, the Company recorded a \$198 million liability for the fair value of the contingent consideration (determined by a probability weighting of potential payouts). In fiscal 2015, the Company paid \$105 million, and in January 2016, the Company made a final payment of \$70 million for the contingent consideration.

### 4. Borrowings

During the nine months ended July 2, 2016, the Company's borrowing activity was as follows:

|   | October 3,<br>2015 | Borrowings | Payments  | Other<br>Activity | July 2,<br>2016 |
|---|--------------------|------------|-----------|-------------------|-----------------|
| Commercial paper with original maturities less than three months <sup>(1)</sup> | \$ 2,330           | \$ —       | \$(583)   | \$ 4              | \$ 1,751        |
| Commercial paper with original maturities greater than three months             | 100                | 4,051      | (3,684)   | 5                 | 472             |
| U.S. medium-term notes  | 13,873             | 2,987      | (500)     | 13                | 16,373          |
| International Theme Parks borrowings <sup>(2)</sup>                             | 319                | 855        | —         | (133)             | 1,041           |
| Foreign currency denominated debt and other <sup>(3)</sup>                      | 714                | 192        | (172)     | 70                | 804             |
| Total   | \$ 17,336          | \$ 8,085   | \$(4,939) | \$(41)            | \$ 20,441       |

<sup>(1)</sup> Borrowings and payments are reported net.

<sup>(2)</sup> The other activity is primarily the conversion of HKDL debt into equity and the impact of changes in foreign currency exchange rates. See Note 5 for further discussion of the transaction.

<sup>(3)</sup> The other activity is primarily market value adjustments for debt with qualifying hedges.

The Company has bank facilities with a syndicate of lenders to support commercial paper borrowings. The following is a summary of the bank facilities at July 2, 2016:

|                              | Committed<br>Capacity | Capacity<br>Used | Unused<br>Capacity |
|------------------------------|-----------------------|------------------|--------------------|
| Facility expiring March 2017 | \$ 1,500              | \$ —             | \$ 1,500           |
| Facility expiring March 2019 | 2,250                 | —                | 2,250              |
| Facility expiring March 2021 | 2,250                 | —                | 2,250              |
| Total                        | \$ 6,000              | \$ —             | \$ 6,000           |

The Company had bank facilities for \$1.5 billion and \$2.25 billion, which were expiring in March 2016 and June 2017, respectively. These facilities were refinanced in the second quarter of fiscal 2016 and the maturities were

extended to March 2017 and 2021, respectively. All of the above bank facilities allow for borrowings at LIBOR-based rates plus a spread depending on the credit default swap spread applicable to the Company's debt, subject to a cap and floor that vary with the Company's debt rating assigned by Moody's Investors Service and Standard and Poor's. The spread above LIBOR can range

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

from 0.23% to 1.63%. The Company also has the ability to issue up to \$800 million of letters of credit under the facility expiring in March 2019, which if utilized, reduces available borrowings under this facility. As of July 2, 2016, \$189 million of letters of credit were outstanding, of which none were issued under this facility. The facilities contain only one financial covenant, relating to interest coverage, which the Company met on July 2, 2016 by a significant margin, and specifically exclude certain entities, including the International Theme Parks, from any representations, covenants, or events of default.

On July 7, 2016, the Company issued \$2.0 billion in debt under its U.S. medium-term note program. The proceeds will be used for general corporate purposes.

Interest expense, net

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

|                                | Quarter Ended |               | Nine Months Ended |               |
|--------------------------------|---------------|---------------|-------------------|---------------|
|                                | July 2, 2016  | June 27, 2015 | July 2, 2016      | June 27, 2015 |
| Interest expense               | \$(88)        | \$(62)        | \$(235)           | \$(197)       |
| Interest and investment income | 18            | 50            | 74                | 135           |
| Interest expense, net          | \$(70)        | \$(12)        | \$(161)           | \$(62)        |

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

Realized net gains on publicly and non-publicly traded investments are as follows:

|                     | Quarter Ended | Nine Months Ended |
|---------------------|---------------|-------------------|
|                     | July 2, 2016  | June 27, 2015     |
| Publicly traded     | \$—           | \$ 79             |
| Non-publicly traded | 1             | 26                |
| Realized net gains  | \$—           | \$ 87             |

5. International Theme Park Investments

At July 2, 2016, the Company had an 81% effective ownership interest in the operations of Disneyland Paris, a 47% ownership interest in the operations of HKDL and a 43% ownership interest in the operations of Shanghai Disney Resort, all of which are VIEs consolidated in the Company's financial statements. See Note 1 for the Company's policy on consolidating VIEs.

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The following tables present summarized balance sheet information for the Company as of July 2, 2016 and October 3, 2015, reflecting the impact of consolidating the International Theme Parks balance sheets.

|   | As of July 2, 2016   |  |          |
|---|--|--|----------|
|   | Before<br>International<br>Theme<br>Parks<br>Consolidation | International<br>Theme Parks<br>and<br>Adjustments | Total    |
| Cash and cash equivalents                             | \$4,249  | \$ 978   | \$5,227  |
| Other current assets                                  | 12,031   | 359  | 12,390   |
| Total current assets                                  | 16,280   | 1,337  | 17,617   |
| Investments/Advances                                  | 8,141  | (4,913 )   | 3,228    |
| Parks, resorts and other property                     | 17,775   | 9,090  | 26,865   |
| Other assets  | 43,118   | 86   | 43,204   |
| Total assets  | \$85,314   | \$ 5,600   | \$90,914 |
| Current portion of borrowings                         | \$5,312  | \$ —   | \$5,312  |
| Other current liabilities                             | 11,373   | 1,387  | 12,760   |
| Total current liabilities                             | 16,685   | 1,387  | 18,072   |
| Borrowings  | 14,088   | 1,041  | 15,129   |
| Deferred income taxes and other long-term liabilities | 9,341  | 226  | 9,567    |
| Equity  | 45,200   | 2,946  | 48,146   |
| Total liabilities and equity                          | \$85,314   | \$ 5,600   | \$90,914 |
|   | As of October 3, 2015                                      |  |          |
|   | Before<br>International<br>Theme<br>Parks<br>Consolidation | International<br>Theme Parks<br>and<br>Adjustments | Total    |
| Cash and cash equivalents                             | \$3,488  | \$ 781   | \$4,269  |
| Other current assets                                  | 12,237   | 252  | 12,489   |
| Total current assets                                  | 15,725   | 1,033  | 16,758   |
| Investments/Advances                                  | 7,505  | (4,862 )   | 2,643    |
| Parks, resorts and other property                     | 17,431   | 7,748  | 25,179   |
| Other assets  | 43,540   | 62   | 43,602   |
| Total assets  | \$84,201   | \$ 3,981   | \$88,182 |
| Current portion of borrowings                         | \$4,562  | \$ 1   | \$4,563  |
| Other current liabilities                             | 11,331   | 440  | 11,771   |
| Total current liabilities                             | 15,893   | 441  | 16,334   |
| Borrowings  | 12,454   | 319  | 12,773   |
| Deferred income taxes and other long-term liabilities | 10,225   | 195  | 10,420   |
| Equity  | 45,629   | 3,026  | 48,655   |
| Total liabilities and equity                          | \$84,201   | \$ 3,981   | \$88,182 |



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The following table presents summarized income statement information of the Company for the nine months ended July 2, 2016, reflecting the impact of consolidating the International Theme Parks income statements.

|                                      | Before<br>International<br>Theme Parks<br>Consolidation <sup>(1)</sup> | International<br>Theme Parks<br>and<br>Adjustments | Total     |
|--------------------------------------|--|--|-----------|
| Revenues                             | \$ 41,013  | \$ 1,477   | \$42,490  |
| Cost and expenses                    | (29,049 )  | (1,944 )   | (30,993 ) |
| Restructuring and impairment charges | (125 )   | —  | (125 )    |
| Interest expense, net                | (121 )   | (40 )  | (161 )    |
| Equity in the income of investees    | 443  | 333  | 776       |
| Income before income taxes           | 12,161   | (174 )   | 11,987    |
| Income taxes                         | (4,089 )   | —  | (4,089 )  |
| Net income                           | \$ 8,072   | \$ (174 )  | \$7,898   |

In the nine months ended July 2, 2016, royalty and management fees from the International Theme Parks totaling <sup>(1)</sup> \$108 million are included in Revenues, and our share of the net income/(loss) of the International Theme Parks is included in Equity in the income of investees.

The following table presents summarized cash flow statement information of the Company for the nine months ended July 2, 2016, reflecting the impact of consolidating the International Theme Parks cash flow statements.

|   | Before<br>International<br>Theme Parks<br>Consolidation | International<br>Theme Parks<br>and<br>Adjustments | Total    |
|---|---|--|----------|
| Cash provided by operations                           | \$ 9,161  | \$ 225   | \$9,386  |
| Investments in parks, resorts and other property      | (2,002 )  | (1,689 )   | (3,691 ) |
| Cash (used in)/provided by other investing activities | (1,353 )  | 818  | (535 )   |
| Cash (used in)/provided by financing activities       | (4,946 )  | 855  | (4,091 ) |
| Impact of exchange rates on cash and cash equivalents | (99 )   | (12 )  | (111 )   |
| Change in cash and cash equivalents                   | 761   | 197  | 958      |
| Cash and cash equivalents, beginning of period        | 3,488   | 781  | 4,269    |
| Cash and cash equivalents, end of period              | \$ 4,249  | \$ 978   | \$5,227  |

#### Disneyland Paris

During calendar 2015, Disneyland Paris completed a recapitalization consisting of the following:

In February 2015, Disneyland Paris completed a €0.4 billion equity rights offering of which the Company funded €0.2 billion. The Company purchased shares that were unsubscribed by other Disneyland Paris shareholders, which increased the Company's effective ownership by approximately four percentage points.

In February 2015, the Company converted €0.6 billion of its loans to Disneyland Paris into equity at a conversion price of €1.25 per share. The conversion increased the Company's effective ownership by an additional 23 percentage points. In addition, Disneyland Paris repaid €0.3 billion that was outstanding under then existing lines of credit from the Company. These lines of credit have been replaced by a new €0.4 billion line of credit from the Company bearing interest at EURIBOR plus 2% and maturing in 2023. There is €40 million outstanding under the new line of credit at July 2, 2016. As of July 2, 2016, the total outstanding balance of loans provided by the Company to Disneyland Paris was €1.0 billion.

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In September 2015, the Company completed a mandatory tender offer to the other Disneyland Paris shareholders and acquired €0.1 billion in shares at €1.25 per share, which increased the Company's effective ownership by an additional eight percentage points.

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In November 2015, to offset the dilution caused by the loan conversion Disneyland Paris shareholders purchased €0.05 billion in shares from the Company at €1.25 per share, which decreased the Company's effective ownership by four percentage points.

As of July 2, 2016, the Company had an 81% effective ownership interest in Disneyland Paris.

#### Hong Kong Disneyland Resort

At July 2, 2016, the Government of the Hong Kong Special Administrative Region (HKSAR) and the Company had 53% and 47% equity interests in HKDL, respectively. HKSAR holds a right to receive additional shares over time to the extent HKDL exceeds certain return on asset performance targets. The amount of additional shares HKSAR can receive is capped on both an annual and cumulative basis and could decrease the Company's equity interest by up to an additional seven percentage points over a period no shorter than 16 years.

HKDL is building a third hotel at the resort, which is expected to open in 2017 and cost approximately \$550 million. To fund the construction, the Company contributed \$219 million of equity and HKSAR converted an equal amount of its outstanding loan to HKDL into equity. Additionally, the Company and HKSAR will provide shareholder loans of up to approximately \$149 million and \$104 million, respectively. The loans will mature on dates from fiscal 2022 through fiscal 2025 and bear interest at a rate of three month HIBOR plus 2%. At July 2, 2016, the outstanding balances of these loans provided by the Company and HKSAR were \$62 million and \$41 million, respectively.

#### Shanghai Disney Resort

On June 16, 2016, Shanghai Disney Resort opened in the Pudong district of Shanghai. The resort includes a theme park, two hotels and a retail, dining and entertainment complex.

Shanghai Disney Resort is owned through two joint venture companies, in which Shanghai Shendi (Group) Co., Ltd (Shendi) owns 57% and the Company owns 43%. A management company, in which the Company has a 70% interest and Shendi a 30% interest, is responsible for operating Shanghai Disney Resort. The investment in Shanghai Disney Resort has been funded in accordance with each shareholder's ownership percentage, with approximately 67% from equity contributions and 33% from shareholder loans. As of July 2, 2016, the outstanding balance of loans provided by the Company and Shendi to Shanghai Disney Resort were 5.0 billion yuan (\$747 million) and 6.3 billion yuan (\$954 million), respectively.

## 6. Pension and Other Benefit Programs

The components of net periodic benefit cost are as follows:

|  | Pension Plans |               |                   |               | Postretirement Medical Plans |               |                   |               |
|--|---------------|---------------|-------------------|---------------|------------------------------|---------------|-------------------|---------------|
|  | Quarter Ended |               | Nine Months Ended |               | Quarter Ended                |               | Nine Months Ended |               |
|  | July 2, 2016  | June 27, 2015 | July 2, 2016      | June 27, 2015 | July 2, 2016                 | June 27, 2015 | July 2, 2016      | June 27, 2015 |
| Service costs                            | \$80          | \$82          | \$239             | \$248         | \$2                          | \$4           | \$8               | \$11          |
| Interest costs                           | 115           | 129           | 344               | 391           | 16                           | 17            | 46                | 51            |
| Expected return on plan assets           | (186)         | (178)         | (560)             | (534)         | (12)                         | (10)          | (34)              | (29)          |
| Amortization of prior-year service costs | 3             | 4             | 10                | 12            | (1)                          | —             | (1)               | (1)           |
| Recognized net actuarial loss            | 61            | 62            | 182               | 185           | 2                            | 3             | 6                 | 8             |
| Net periodic benefit cost                | \$73          | \$99          | \$215             | \$302         | \$7                          | \$14          | \$25              | \$40          |

During the nine months ended July 2, 2016, the Company made \$887 million of contributions to its pension and postretirement medical plans. The Company currently does not expect to make any additional material contributions to its pension and postretirement medical plans during the remainder of fiscal 2016. However, final funding amounts

for fiscal 2016 will be assessed based on our January 1, 2016 funding actuarial valuation, which will be available by the end of the fourth quarter of fiscal 2016.

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### 7. Earnings Per Share

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

|  | Quarter Ended |               | Nine Months Ended |               |
|--|---------------|---------------|-------------------|---------------|
|  | July 2, 2016  | June 27, 2015 | July 2, 2016      | June 27, 2015 |
| Shares (in millions):  |               |               |                   |               |
| Weighted average number of common and common equivalent shares outstanding (basic)   | 1,621         | 1,696         | 1,636             | 1,699         |
| Weighted average dilutive impact of Awards   | 10            | 15            | 11                | 15            |
| Weighted average number of common and common equivalent shares outstanding (diluted) | 1,631         | 1,711         | 1,647             | 1,714         |
| Awards excluded from diluted earnings per share                                      | 4             | —             | 6                 | 5             |

### 8. Equity

The Company paid the following dividends in fiscal 2016 and 2015:

| Per Share | Total Paid    | Payment Timing                | Related to Fiscal Period |
|-----------|---------------|-------------------------------|--------------------------|
| \$0.71    | \$1.1 billion | Fourth Quarter of Fiscal 2016 | First Half 2016          |
| \$0.71    | \$1.2 billion | Second Quarter of Fiscal 2016 | Second Half 2015         |
| \$0.66    | \$1.1 billion | Fourth Quarter of Fiscal 2015 | First Half 2015          |
| \$1.15    | \$1.9 billion | Second Quarter of Fiscal 2015 | 2014                     |

During the nine months ended July 2, 2016, the Company repurchased 57 million shares of its common stock for \$5.9 billion. As of July 2, 2016, the Company had remaining authorization in place to repurchase approximately 298 million additional shares. The repurchase program does not have an expiration date.

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

|   | Market Value Adjustments |                     | Unrecognized  | Foreign                              | AOCI      |
|---|--------------------------|---------------------|---|--------------------------------------|-----------|
|   | Investments,<br>net      | Cash Flow<br>Hedges | Pension and<br>Postretirement<br>Medical<br>Expense | Currency<br>Translation<br>and Other |           |
| Balance at April 2, 2016                              | \$ 9                     | \$ 105              | \$ (2,415 )   | \$ (298 )                            | \$(2,599) |
| Quarter Ended July 2, 2016:                           |                          |                     |   |                                      |           |
| Unrealized gains (losses) arising during the period   | (7 )                     | (49 )               | (13 )   | (37 )                                | (106 )    |
| Reclassifications of net (gains) losses to net income | —                        | (35 )               | 41  | —                                    | 6         |
| Balance at July 2, 2016                               | \$ 2                     | \$ 21               | \$ (2,387 )   | \$ (335 )                            | \$(2,699) |
| Balance at March 28, 2015                             | \$ 30                    | \$ 468              | \$ (2,118 )   | \$ (223 )                            | \$(1,843) |
| Quarter Ended June 27, 2015:                          |                          |                     |   |                                      |           |
| Unrealized gains (losses) arising during the period   | 9                        | (16 )               | —   | 16                                   | 9         |
| Reclassifications of net (gains) losses to net income | (20 )                    | (93 )               | 43  | —                                    | (70 )     |
| Balance at June 27, 2015                              | \$ 19                    | \$ 359              | \$ (2,075 )   | \$ (207 )                            | \$(1,904) |
| Balance at October 3, 2015                            | \$ 13                    | \$ 334              | \$ (2,497 )   | \$ (271 )                            | \$(2,421) |
| Nine Months Ended July 2, 2016:                       |                          |                     |   |                                      |           |
| Unrealized gains (losses) arising during the period   | (11 )                    | (170 )              | (15 )   | (64 )                                | (260 )    |
| Reclassifications of net (gains) losses to net income | —                        | (143 )              | 125   | —                                    | (18 )     |
| Balance at July 2, 2016                               | \$ 2                     | \$ 21               | \$ (2,387 )   | \$ (335 )                            | \$(2,699) |
| Balance at September 27, 2014                         | \$ 100                   | \$ 204              | \$ (2,196 )   | \$ (76 )                             | \$(1,968) |
| Nine Months Ended June 27, 2015:                      |                          |                     |   |                                      |           |
| Unrealized gains (losses) arising during the period   | (31 )                    | 343                 | (9 )  | (131 )                               | 172       |
| Reclassifications of net (gains) losses to net income | (50 )                    | (188 )              | 130   | —                                    | (108 )    |
| Balance at June 27, 2015                              | \$ 19                    | \$ 359              | \$ (2,075 )   | \$ (207 )                            | \$(1,904) |

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

| Gains/(losses) in net income:              | Affected line item in the Condensed Consolidated Statements of Income: | Quarter Ended |               | Nine Months Ended |               |
|--|--|---------------|---------------|-------------------|---------------|
|  |  | July 2, 2016  | June 27, 2015 | July 2, 2016      | June 27, 2015 |
| Investments, net                           | Interest expense, net  | \$ —          | \$ 31         | \$—               | \$ 79         |
| Estimated tax                              | Income taxes   | —             | (11 )         | —                 | (29 )         |
|  |  | —             | 20            | —                 | 50            |
| Cash flow hedges                           | Primarily revenue  | 56            | 148           | 228               | 299           |
| Estimated tax                              | Income taxes   | (21 )         | (55 )         | (85 )             | (111 )        |
|  |  | 35            | 93            | 143               | 188           |
| Pension and postretirement medical expense | Costs and expenses   | (65 )         | (68 )         | (199)             | (206 )        |
| Estimated tax                              | Income taxes   | 24            | 25            | 74                | 76            |
|  |  | (41 )         | (43 )         | (125)             | (130 )        |
| Total reclassifications for the period     |  | \$ (6 )       | \$ 70         | \$ 18             | \$ 108        |

At July 2, 2016 and October 3, 2015, the Company held available-for-sale investments in unrecognized gain positions totaling \$10 million and \$21 million, respectively, and no investments in significant unrecognized loss positions.

### 9. Equity-Based Compensation

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

|   | Quarter Ended |               | Nine Months Ended |               |
|---|---------------|---------------|-------------------|---------------|
|   | July 2, 2016  | June 27, 2015 | July 2, 2016      | June 27, 2015 |
| Stock options/rights <sup>(1)</sup>                             | \$ 26         | \$ 25         | \$72              | \$ 77         |
| RSUs  | 74            | 71            | 233               | 233           |
| Total equity-based compensation expense <sup>(2)</sup>          | \$ 100        | \$ 96         | \$305             | \$ 310        |
| Equity-based compensation expense capitalized during the period | \$ 18         | \$ 13         | \$52              | \$ 42         |

<sup>(1)</sup> Includes stock appreciation rights.

Equity-based compensation expense is net of capitalized equity-based compensation and excludes amortization of previously capitalized equity-based compensation costs. During the quarter and nine months ended July 2, 2016,

<sup>(2)</sup> amortization of previously capitalized equity-based compensation totaled \$21 million and \$55 million, respectively. During the quarter and nine months ended June 27, 2015, amortization of previously capitalized equity-based compensation totaled \$12 million and \$30 million, respectively.

Unrecognized compensation cost related to unvested stock options/rights and RSUs totaled approximately \$162 million and \$597 million, respectively, as of July 2, 2016.

The weighted average grant date fair values of options issued during the nine months ended July 2, 2016 and June 27, 2015 were \$31.08 and \$22.64, respectively.

During the nine months ended July 2, 2016, the Company made equity compensation grants consisting of 3.8 million stock options and 3.3 million RSUs.



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10. Commitments and Contingencies

Legal Matters

Beef Products, Inc. v. American Broadcasting Companies, Inc. On September 13, 2012, plaintiffs filed an action in South Dakota state court against certain subsidiaries and employees of the Company and others, asserting claims for defamation arising from alleged false statements and implications, statutory and common law product disparagement and tortious interference with existing and prospective business relationships. The claims arise out of ABC News reports published in March and April 2012 about a product, Lean Finely Textured Beef, that was included in ground beef and hamburger meat. Plaintiffs' complaint sought actual and consequential damages in excess of \$400 million (which in March 2016 they asserted could be as much as \$1.9 billion), statutory damages (including treble damages) pursuant to South Dakota's Agricultural Food Products Disparagement Act, and punitive damages. Trial is set for June 2017. At this time, the Company is not able to predict the ultimate outcome of this matter, nor can it estimate the range of possible loss.

The Company, together with, in some instances, certain of its directors and officers, is a defendant or codefendant in various other legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses.

Management does not believe that the Company has incurred a probable material loss by reason of any of the above actions.

Contractual Guarantees

The Company has guaranteed bond issuances by the Anaheim Public Authority that were used by the City of Anaheim to finance construction of infrastructure and a public parking facility adjacent to the Disneyland Resort. Revenues from sales, occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds. In the event of a debt service shortfall, the Company will be responsible to fund the shortfall. As of July 2, 2016, the remaining debt service obligation guaranteed by the Company was \$321 million, of which \$56 million was principal. To the extent that tax revenues exceed the debt service payments in subsequent periods, the Company would be reimbursed for any previously funded shortfalls. To date, tax revenues have exceeded the debt service payments for these bonds.

Long-Term Receivables and the Allowance for Credit Losses

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

The Company estimates the allowance for credit losses related to receivables from the sale of television programs based upon a number of factors, including historical experience and the financial condition of individual companies with which we do business. The balance of television program sales receivables recorded in other non-current assets, net of an immaterial allowance for credit losses, was \$0.9 billion as of July 2, 2016. The activity in the current period related to the allowance for credit losses was not material.

The Company estimates the allowance for credit losses related to receivables from sales of its vacation ownership units based primarily on historical collection experience. Estimates of uncollectible amounts also consider the economic environment and the age of receivables. The balance of mortgage receivables recorded in other non-current assets, net of a related allowance for credit losses of approximately 4%, was approximately \$0.7 billion as of July 2, 2016. The activity in the current period related to the allowance for credit losses was not material.

Income Taxes

During the nine months ended July 2, 2016, the Company decreased its gross unrecognized tax benefits by \$58 million to \$854 million, including an \$18 million decrease to income tax expense.

In the next twelve months, it is reasonably possible that our unrecognized tax benefits could change due to resolutions of open tax matters. These resolutions would reduce our unrecognized tax benefits by approximately \$152 million, of which \$46 million would reduce our income tax expense and effective tax rate if recognized.



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### 11. Fair Value Measurements

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

Level 1 - Quoted prices for identical instruments in active markets

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

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

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

|                              | Fair Value Measurement at July 2, 2016 |          |         |          |
|------------------------------|--|----------|---------|----------|
|                              | Level 1                                | Level 2  | Level 3 | Total    |
| <b>Assets</b>                |  |          |         |          |
| Investments                  | \$17                                   | \$—      | \$—     | \$17     |
| <b>Derivatives</b>           |  |          |         |          |
| Interest rate                | —                                      | 192      | —       | 192      |
| Foreign exchange             | —                                      | 839      | —       | 839      |
| Other                        | —                                      | 6        | —       | 6        |
| <b>Liabilities</b>           |  |          |         |          |
| <b>Derivatives</b>           |  |          |         |          |
| Foreign exchange             | —                                      | (539)    | —       | (539)    |
| Other                        | —                                      | (9)      | —       | (9)      |
| Total recorded at fair value | \$17                                   | \$489    | \$—     | \$506    |
| Fair value of borrowings     | \$—                                    | \$19,958 | \$1,539 | \$21,497 |

|                              | Fair Value Measurement at October 3, 2015 |          |         |          |
|------------------------------|---|----------|---------|----------|
|                              | Level 1                                   | Level 2  | Level 3 | Total    |
| <b>Assets</b>                |   |          |         |          |
| Investments                  | \$36                                      | \$—      | \$—     | \$36     |
| <b>Derivatives</b>           |   |          |         |          |
| Interest rate                | —   | 101      | —       | 101      |
| Foreign exchange             | —   | 910      | —       | 910      |
| <b>Liabilities</b>           |   |          |         |          |
| <b>Derivatives</b>           |   |          |         |          |
| Foreign exchange             | —   | (178)    | —       | (178)    |
| Other                        | —   | (38)     | —       | (38)     |
| Other                        | —   | —        | (96)    | (96)     |
| Total recorded at fair value | \$36                                      | \$795    | \$(96)  | \$735    |
| Fair value of borrowings     | \$—                                       | \$17,036 | \$752   | \$17,788 |

The fair values of Level 2 derivatives are primarily determined by internal discounted cash flow models that use observable inputs such as interest rates, yield curves and foreign currency exchange rates. Counterparty credit risk,

which is mitigated by master netting agreements and collateral posting arrangements with certain counterparties, did not have a material impact on derivative fair value estimates.

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

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The fair value of the Level 3 other liabilities represented the estimated fair value of the contingent consideration for Maker, which was settled in the second quarter of fiscal 2016.

Level 3 borrowings, which include International Theme Park borrowings and other foreign currency denominated borrowings, are generally valued based on historical market transactions, prevailing market interest rates and the Company's current borrowing cost and credit risk.

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

The Company also has assets that are required to be recorded at fair value on a non-recurring basis when the estimated future cash flows provide indicators that the asset may be impaired. During the quarter and nine months ended July 2, 2016, the Company recorded film production impairment charges of \$49 million and \$79 million, respectively. At July 2, 2016, the aggregate carrying value of the films for which we prepared the fair value analyses in fiscal 2016 was \$254 million. The impairment charges are reported in "Cost of services" and "Restructuring and impairment charges" in the Consolidated Statements of Income. The film impairment charges reflected the excess of the unamortized costs of the impaired films over their estimated fair value using discounted cash flows, which is a Level 3 valuation technique.

## 12. 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 July 2, 2016 |              |                                 |                                    |
|--------------------------------------|--------------------|--------------|---------------------------------|------------------------------------|
|                                      | Current<br>Assets  | Other Assets | Other<br>Accrued<br>Liabilities | Other Long-<br>Term<br>Liabilities |
| Derivatives designated as hedges     |                    |              |                                 |                                    |
| Foreign exchange                     | \$295              | \$ 262       | \$ (201 )                       | \$ (185 )                          |
| Interest rate                        | —                  | 192          | —                               | —                                  |
| Other                                | 3                  | 3            | (7 )                            | (2 )                               |
| Derivatives not designated as hedges |                    |              |                                 |                                    |
| Foreign exchange                     | 186                | 96           | (144 )                          | (9 )                               |
| Gross fair value of derivatives      | 484                | 553          | (352 )                          | (196 )                             |
| Counterparty netting                 | (218 )             | (281 )       | 336                             | 163                                |
| Cash collateral received             | (190 )             | (80 )        | —                               | —                                  |
| Net derivative positions             | \$76               | \$ 192       | \$ (16 )                        | \$ (33 )                           |

THE WALT DISNEY COMPANY  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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|                                      | As of October 3, 2015 |              |                                 |                                    |
|--------------------------------------|-----------------------|--------------|---------------------------------|------------------------------------|
|                                      | Current<br>Assets     | Other Assets | Other<br>Accrued<br>Liabilities | Other Long-<br>Term<br>Liabilities |
| Derivatives designated as hedges     |                       |              |                                 |                                    |
| Foreign exchange                     | \$406                 | \$ 271       | \$ (54 )                        | \$ (17 )                           |
| Interest rate                        | —                     | 101          | —                               | —                                  |
| Other                                | —                     | —            | (18 )                           | (3 )                               |
| Derivatives not designated as hedges |                       |              |                                 |                                    |
| Foreign exchange                     | 146                   | 87           | (102 )                          | (5 )                               |
| Other                                | —                     | —            | —                               | (17 )                              |
| Gross fair value of derivatives      | 552                   | 459          | (174 )                          | (42 )                              |
| Counterparty netting                 | (136 )                | (56 )        | 169                             | 23                                 |
| Cash collateral received             | (238 )                | (191 )       | —                               | —                                  |
| Net derivative positions             | \$178                 | \$ 212       | \$ (5 )                         | \$ (19 )                           |

#### Interest Rate Risk Management

The Company is exposed to the impact of interest rate changes primarily through its borrowing activities. The Company's objective is to mitigate the impact of interest rate changes on earnings and cash flows and on the market value of its borrowings. In accordance with its policy, the Company targets its fixed-rate debt as a percentage of its net debt between a minimum and maximum percentage. The Company typically uses pay-floating and pay-fixed interest rate swaps to facilitate its interest rate management activities.

The Company designates pay-floating interest rate swaps as fair value hedges of fixed-rate borrowings effectively converting fixed-rate borrowings to variable rate borrowings indexed to LIBOR. As of July 2, 2016 and October 3, 2015, the total notional amount of the Company's pay-floating interest rate swaps was \$7.5 billion and \$6.4 billion, respectively. The following table summarizes adjustments related to fair value hedges included in "Interest expense, net" in the Condensed Consolidated Statements of Income.

|                                    | Quarter Ended |               | Nine Months Ended |               |
|------------------------------------|---------------|---------------|-------------------|---------------|
|                                    | July 2, 2016  | June 27, 2015 | July 2, 2016      | June 27, 2015 |
| Gain (loss) on interest rate swaps | \$ 30         | \$ (31 )      | \$79              | \$ 13         |
| Gain (loss) on hedged borrowings   | (30 )         | 31            | (79 )             | (13 )         |

In addition, during the quarter and nine months ended July 2, 2016, the Company realized net benefits of \$24 million and \$73 million, respectively, in "Interest expense, net" related to pay-floating interest rate swaps. During the quarter and nine months ended June 27, 2015, the Company realized net benefits of \$23 million and \$72 million, respectively, in "Interest expense, net" related to pay-floating interest rate swaps.

The Company may designate pay-fixed interest rate swaps as cash flow hedges of interest payments on floating-rate borrowings. Pay-fixed swaps effectively convert floating-rate borrowings to fixed-rate borrowings. The unrealized gains or losses from these cash flow hedges are deferred in AOCI and recognized in interest expense as the interest payments occur. The Company did not have pay-fixed interest rate swaps that were designated as cash flow hedges of interest payments at July 2, 2016 or at October 3, 2015 and gains and losses related to pay-fixed swaps recognized in earnings for the nine months ended July 2, 2016 and June 27, 2015 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

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THE WALT DISNEY COMPANY  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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foreign currency transactions. In accordance with policy, the Company hedges its forecasted foreign currency transactions for periods generally not to exceed four years within an established minimum and maximum range of annual exposure. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related forecasted transaction, asset, liability or firm commitment. The principal currencies hedged are the euro, Japanese yen, Canadian dollar and British pound. Cross-currency swaps are used to effectively convert foreign currency-denominated borrowings into U.S. dollar denominated borrowings.

The Company designates foreign exchange forward and option contracts as cash flow hedges of firmly committed and forecasted foreign currency transactions. As of July 2, 2016 and October 3, 2015, the notional amounts of the Company's net foreign exchange cash flow hedges were \$5.5 billion and \$6.5 billion, respectively. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of the foreign currency transactions. Gains and losses recognized related to ineffectiveness for the nine months ended July 2, 2016 and June 27, 2015 were not material. Net deferred gains recorded in AOCI for contracts that will mature in the next twelve months totaled \$91 million.

Foreign exchange risk management contracts with respect to foreign currency denominated assets and liabilities are not designated as hedges and do not qualify for hedge accounting. The notional amounts of these foreign exchange contracts at July 2, 2016 and October 3, 2015 were \$3.7 billion and \$3.3 billion, respectively. The following table summarizes the net foreign exchange gains or losses recognized on foreign currency denominated assets and liabilities and the net foreign exchange gains or losses on the foreign exchange contracts we entered into to mitigate our exposure with respect to foreign currency denominated assets and liabilities for the nine months ended July 2, 2016 and June 27, 2015 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 |               |
|---|--------------------|---------------|-----------------------|---------------|
|   | July 2, 2016       | June 27, 2015 | July 2, 2016          | June 27, 2015 |
| Net gains (losses) on foreign currency denominated assets and liabilities                 | \$(75)             | \$ 52         | \$(2)                 | \$ (4)        |
| Net gains (losses) on foreign exchange risk management contracts not designated as hedges | 52                 | (41)          | 1                     | 4             |
| Net gains (losses)  | \$(23)             | \$ 11         | \$(1)                 | \$ —          |
| Nine Months Ended:  |                    |               |                       |               |
| Net gains (losses) on foreign currency denominated assets and liabilities                 | \$(29)             | \$(496)       | \$(7)                 | \$ 27         |
| Net gains (losses) on foreign exchange risk management contracts not designated as hedges | (32)               | 474           | 5                     | (25)          |
| Net gains (losses)  | \$(61)             | \$(22)        | \$(2)                 | \$ 2          |

#### Commodity Price Risk Management

The Company is subject to the volatility of commodities prices and the Company designates certain commodity forward contracts as cash flow hedges of forecasted commodity purchases. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of commodity purchases. The notional amount of these commodities contracts at July 2, 2016 and October 3, 2015 and related gains or losses recognized in earnings for the nine months ended July 2, 2016 and June 27, 2015 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 July 2, 2016 and October 3, 2015 were not material. The related gains or losses recognized in earnings were not material for the nine months ended July 2, 2016 and June 27, 2015.

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#### 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 \$48 million and \$7 million on July 2, 2016 and October 3, 2015, respectively.

#### 13. Restructuring and Impairment Charges

The Company recorded \$44 million of restructuring and impairment charges in the current quarter primarily consisting of asset impairments associated with shutting down certain international film production operations in the Studio Entertainment segment. The Company recorded \$125 million of restructuring and impairment charges in the current nine-month period consisting of the current quarter charges and an investment impairment and contract termination and severance costs related to the Media Networks segment in the prior quarters.

#### 14. New Accounting Pronouncements

##### Stock Compensation - Employee Share-based Payments

In March 2016, the Financial Accounting Standards Board (FASB) issued guidance to amend certain aspects of accounting for employee share-based awards, including accounting for income taxes related to those transactions. This guidance will require recognizing excess tax benefits and deficiencies (that result from an increase or decrease in the fair value of an award from grant date to the vesting date or exercise date) on share-based compensation arrangements in the tax provision, instead of in equity as under the current guidance. In addition, these amounts will be classified as an operating activity in the statement of cash flows, instead of as a financing activity. The Company reported excess tax benefits of approximately \$0.3 billion in both fiscal 2015 and 2014. In addition, cash paid for shares withheld to satisfy employee taxes will be classified as a financing activity, instead of as an operating activity. Cash paid for employee taxes was approximately \$0.3 billion in both fiscal 2015 and 2014. The guidance is effective beginning in the first quarter of the Company's 2018 fiscal year (with early adoption permitted) and is required to be adopted as follows:

• Prospectively for the recognition of excess tax benefits and deficiencies in the tax provision

• Retrospectively or prospectively for the classification of excess tax benefits and deficiencies in the statement of cash flows

• Retrospectively for the classification of cash paid for shares withheld to satisfy employee taxes in the statement of cash flows

The fiscal 2015 and 2014 amounts of excess tax benefits and cash paid for employee taxes are not necessarily indicative of future amounts that may arise in years following implementation of the new accounting pronouncement.

##### Leases

In February 2016, the FASB issued a new lease accounting standard, which requires the present value of committed operating lease payments to be recorded as right-of-use lease assets and lease liabilities on the balance sheet. As of October 3, 2015, the Company had an estimated \$3.3 billion in undiscounted future minimum lease commitments. The Company is currently assessing the impact of the new guidance on its financial statements. The guidance is required to be adopted retrospectively, and is effective beginning in the first quarter of the Company's 2020 fiscal year (with early adoption permitted).

Income Taxes

In November 2015, the FASB issued guidance to simplify the presentation of deferred income taxes by reporting the net amount of deferred tax assets and liabilities on a jurisdiction by jurisdiction basis as non-current on the balance sheet. The Company adopted the provisions of this guidance on a prospective basis in the first quarter of fiscal 2016 by reclassifying \$0.8 billion in current assets to non-current liabilities.

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Revenue from Contracts with Customers

In May 2014, the FASB issued guidance that replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model. The core principle is to recognize revenue upon the transfer of goods or services to customers at an amount that reflects the consideration expected to be received. Since its issuance, the FASB has amended several aspects of the new guidance including provisions that address revenue recognition associated with the licensing of intellectual property. The new guidance, including the amendments, is effective beginning with the first quarter of the Company's 2019 fiscal year (with early adoption permitted beginning fiscal year 2018). The guidance may be adopted either by restating all years presented in the Company's financial statements or by recording the impact of adoption as an adjustment to retained earnings at the beginning of the year of adoption. The Company is assessing the potential impact this guidance will have on its financial statements.

15. Subsequent Events

Hulu

At the end of the third quarter, the Company had a 33% interest in Hulu, LLC (Hulu), a joint venture owned one-third each by the Company, Twenty-First Century Fox, Inc. and Comcast Corporation. In August 2016, Time Warner, Inc. (TW) acquired a 10% interest in the venture from Hulu for \$583 million diluting the Company's ownership interest to 30%. For not more than 36 months, TW may put its shares to Hulu or Hulu may call the shares from TW under certain limited circumstances arising from regulatory review. The Company and Twenty-First Century Fox, Inc. have agreed to make capital contributions of up to approximately \$300 million each if required to fund the repurchase of shares from TW.

BAMTech

In August 2016, the Company acquired a 15% interest in BAMTech, LLC (BAMTech), an entity which holds Major League Baseball's streaming technology and content delivery businesses, for \$450 million. The Company is committed to acquire an additional 18% for \$557 million in January 2017. The Company will account for its interest in BAMTech as an equity method investment.

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

Segment Results

Corporate and Unallocated Shared Expenses

Significant Developments

Financial Condition

Commitments and Contingencies

Other Matters

Market Risk

CONSOLIDATED RESULTS AND NON-SEGMENT ITEMS

Our summary consolidated results are presented below:

| (in millions, except per share data)                          | Quarter Ended   |                  | % Change<br>Better/<br>(Worse) | Nine Months<br>Ended |                  | % Change<br>Better/<br>(Worse) |   |
|---|-----------------|------------------|--------------------------------|----------------------|------------------|--------------------------------|---|
|   | July 2,<br>2016 | June 27,<br>2015 |                                | July 2,<br>2016      | June 27,<br>2015 |                                |   |
| Revenues:   |                 |                  |                                |                      |                  |                                |   |
| Services  | \$12,113        | \$11,308         | 7                              | % \$35,906           | \$32,587         | 10                             | % |
| Products  | 2,164           | 1,793            | 21                             | % 6,584              | 6,366            | 3                              | % |
| Total revenues  | 14,277          | 13,101           | 9                              | % 42,490             | 38,953           | 9                              | % |
| Costs and expenses:   |                 |                  |                                |                      |                  |                                |   |
| Cost of services (exclusive of depreciation and amortization) | (5,946 )        | (5,547 )         | (7)                            | % (18,568 )          | (17,224 )        | (8)                            | % |
| Cost of products (exclusive of depreciation and amortization) | (1,255 )        | (1,116 )         | (12)                           | % (4,120 )           | (3,785 )         | (9)                            | % |
| Selling, general, administrative and other                    | (2,305 )        | (2,101 )         | (10)                           | % (6,467 )           | (6,117 )         | (6)                            | % |
| Depreciation and amortization                                 | (626 )          | (575 )           | (9)                            | % (1,838 )           | (1,751 )         | (5)                            | % |
| Total costs and expenses                                      | (10,132 )       | (9,339 )         | (8)                            | % (30,993 )          | (28,877 )        | (7)                            | % |
| Restructuring and impairment charges                          | (44 )           | —                | nm                             | (125 )               | —                | nm                             |   |
| Interest expense, net   | (70 )           | (12 )            | >(100)                         | % (161 )             | (62 )            | >(100)                         | % |
| Equity in the income of investees                             | 152             | 212              | (28)                           | % 776                | 630              | 23                             | % |
| Income before income taxes                                    | 4,183           | 3,962            | 6                              | % 11,987             | 10,644           | 13                             | % |
| Income taxes  | (1,471 )        | (1,323 )         | (11)                           | % (4,089 )           | (3,533 )         | (16)                           | % |
| Net income  | 2,712           | 2,639            | 3                              | % 7,898              | 7,111            | 11                             | % |
| Less: Net income attributable to noncontrolling interests     | (115 )          | (156 )           | 26                             | % (278 )             | (338 )           | 18                             | % |
| Net income attributable to Disney                             | \$2,597         | \$2,483          | 5                              | % \$7,620            | \$6,773          | 13                             | % |
| Diluted earnings per share attributable to Disney             | \$1.59          | \$1.45           | 10                             | % \$4.63             | \$3.95           | 17                             | % |

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

## Quarter Results

Diluted earnings per share attributable to Disney (EPS) increased 10% from \$1.45 to \$1.59 due to improved segment operating results and a decrease in weighted average shares outstanding as a result of our share repurchase program, partially offset by a higher income tax rate and a decrease in investment gains. Segment operating results benefited from growth in both products and services, which was partially offset by the impact of foreign currency translation due to the movement of the U.S. dollar against major currencies including the impact of our hedging program (FX Impact).

## Revenues

Service revenues for the quarter increased 7%, or \$0.8 billion, to \$12.1 billion, which included an unfavorable FX Impact. Aside from the unfavorable FX Impact, growth was driven by higher theatrical distribution revenues. The increase in service revenues also benefited from higher fees from Multi-channel Video Distributors (MVPDs) (Affiliate Fees), guest spending growth at our domestic parks and resorts and revenues from Shanghai Disney Resort, which opened in the current quarter.

Product revenues for the quarter increased 21%, or \$0.4 billion, to \$2.2 billion due to volume growth and higher net effective pricing at our home entertainment distribution business.

## Costs and expenses

Cost of services for the quarter increased 7%, or \$0.4 billion, to \$5.9 billion, which included a favorable FX impact. Aside from the favorable FX Impact, the increase was due to higher film cost amortization, increased media networks sports programming costs and production cost write-downs and costs at Shanghai Disney Resort. These increases were partially offset by lower infrastructure costs at our domestic parks and resorts.

Cost of products for the quarter increased 12%, or \$0.1 billion, to \$1.3 billion due to higher home entertainment volumes and costs at Shanghai Disney Resort, partially offset by lower interactive game product development spending.

Selling, general, administrative and other costs increased 10%, or \$0.2 billion, to \$2.3 billion, which included a favorable FX impact. Aside from the favorable FX Impact, the increase was primarily due to higher theatrical marketing costs driven by more titles in release and marketing and pre-opening expenses at Shanghai Disney Resort, partially offset by lower marketing costs at our domestic parks and resorts.

Depreciation and amortization costs increased 9%, or \$51 million, to \$0.6 billion primarily driven by higher depreciation at our domestic parks and resorts and the impact of Shanghai Disney Resort.

## Restructuring and impairment charges

The Company recorded \$44 million of restructuring and impairment charges in the current quarter primarily consisting of asset impairments associated with shutting down certain international film production operations in the Studio Entertainment segment.

## Interest expense, net

Interest expense, net is as follows:

| (in millions)                  | Quarter Ended |               |        | % Change<br>Better/(Worse) |
|--------------------------------|---------------|---------------|--------|----------------------------|
|                                | July 2, 2016  | June 27, 2015 |        |                            |
| Interest expense               | \$(88)        | \$(62)        | (42)   | )%                         |
| Interest and investment income | 18            | 50            | (64)   | )%                         |
| Interest expense, net          | \$(70)        | \$(12)        | >(100) | )%                         |

The increase in interest expense was due to higher average debt balances, partially offset by higher capitalized interest driven by the development of Shanghai Disney Resort.

The decrease in interest and investment income for the quarter was due to gains on sales of investments in the prior-year quarter.



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

## Equity in the income of investees

Equity in the income of investees decreased \$60 million to \$152 million for the quarter due to higher equity losses from Hulu and lower equity income from A&E. Higher equity losses from Hulu were due to increased programming, marketing and labor costs, partially offset by higher subscription and advertising revenues. Lower equity income from A&E was due to a decrease in advertising revenue and the impact of converting the H2 channel to Viceland. The decreases at A&E were partially offset by lower programming costs.

## Effective Income Tax Rate

| Quarter Ended           |      |                |
|-------------------------|------|----------------|
| July 2, June 27, Change |      |                |
| 2016                    | 2015 | Better/(Worse) |

Effective income tax rate 35.2% 33.4 % (1.8 ) ppt

The increase in the effective income tax rate for the quarter was primarily due to an increase in foreign losses for which we are not recognizing a tax benefit.

## Noncontrolling Interests

| (in millions)                                       | Quarter Ended             |        |                |
|---|---------------------------|--------|----------------|
|   | July 2, June 27, % Change |        |                |
|   | 2016                      | 2015   | Better/(Worse) |
| Net income attributable to noncontrolling interests | \$ 115                    | \$ 156 | 26 %           |

The decrease in net income attributable to noncontrolling interests for the quarter was primarily due to higher pre-opening expenses at Shanghai Disney Resort and lower results at Disneyland Paris, partially offset by higher results at ESPN.

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

## Nine-Month Results

EPS for the nine-month period increased 17% from \$3.95 to \$4.63 due to improved segment operating results, a decrease in weighted average shares outstanding as a result of our share repurchase program and the Vice Gain at A&E (See Note 3 to the Condensed Consolidated Financial Statements). These increases were partially offset by the Infinity Charge (See Note 2 to the Condensed Consolidated Financial Statements), a higher income tax rate, current period restructuring and impairment charges and lower investment gains. Segment operating results benefited from growth in both products and services, which was partially offset by an unfavorable FX Impact.

## Revenues

Service revenues for the nine-month period increased 10%, or \$3.3 billion, to \$35.9 billion, which included an unfavorable FX Impact. Aside from the unfavorable FX Impact, growth was driven by higher theatrical distribution revenues. The increase in service revenues also benefited from merchandise and game licensing revenue growth, increases in guest spending and attendance at our domestic parks and resorts, higher Affiliate Fees and advertising revenue growth.

Product revenues for the nine-month period increased 3%, or \$0.2 billion, to \$6.6 billion, which included an unfavorable FX Impact. Aside from the unfavorable FX Impact, growth was primarily due to increases in guest spending and food, beverage and merchandise volumes at our domestic parks and resorts and higher home entertainment volumes, partially offset by lower console game volumes.

## Costs and expenses

Cost of services for the nine-month period increased 8%, or \$1.3 billion, to \$18.6 billion, which included a favorable FX Impact. Aside from the favorable FX Impact, the increase was primarily due to higher film cost amortization, increased media programming costs and production cost amortization and domestic parks and resorts labor and other cost inflation.

Cost of products for the nine-month period increased 9%, or \$0.3 billion, to \$4.1 billion, which included a favorable FX Impact. Aside from the favorable FX Impact, the increase was due to the Infinity Charge, home entertainment volume growth and higher volumes and cost inflation at our domestic parks and resorts.

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

Selling, general, administrative and other costs for the nine-month period increased 6%, or \$0.4 billion, to \$6.5 billion, which included a favorable FX Impact. Aside from the favorable FX Impact, the increase was due to higher theatrical marketing costs driven by more titles in release and marketing and pre-opening expenses at Shanghai Disney Resort, partially offset by lower marketing costs at our domestic parks and resorts.

Depreciation and amortization costs for the nine-month period increased 5%, or \$87 million, to \$1.8 billion due to higher depreciation associated with new attractions at our domestic parks and resorts and the impact of Shanghai Disney Resort.

## Restructuring and impairment charges

The Company recorded \$125 million of restructuring and impairment charges in the current nine-month period for impairments and contract termination and severance costs in the Media Networks and Studio Entertainment segments.

## Interest expense, net

Interest expense, net is as follows:

| (in millions)                  | Nine Months  |               |                | % Change |
|--------------------------------|--------------|---------------|----------------|----------|
|                                | Ended        |               |                |          |
|                                | July 2, 2016 | June 27, 2015 | Better/(Worse) |          |
| Interest expense               | \$(235)      | \$(197)       | (19)           | )%       |
| Interest and investment income | 74           | 135           | (45)           | )%       |
| Interest expense, net          | \$(161)      | \$(62)        | >(100)         | )%       |

The increase in interest expense for the nine-month period was due to higher average debt balances, partially offset by higher capitalized interest driven by the development of Shanghai Disney Resort.

The decrease in interest and investment income for the nine-month period was due to lower gains on the sales of investments.

## Equity in the income of investees

Equity in the income of investees increased 23%, or \$146 million, to \$776 million for the nine-month period due to the \$332 million Vice Gain (\$0.13 of EPS) (See Note 3 to the Condensed Consolidated Financial Statements). The benefit of the Vice Gain was partially offset by lower operating results at A&E and a higher loss at Hulu. The decrease at A&E was due to lower advertising revenue and the impact of converting the H2 channel to Viceland. The increased loss at Hulu was due to higher programming, marketing and labor costs, partially offset by growth in subscription and advertising revenues.

## Effective Income Tax Rate

|                           | Nine Months  |               |                | Change |
|---------------------------|--------------|---------------|----------------|--------|
|                           | Ended        |               |                |        |
|                           | July 2, 2016 | June 27, 2015 | Better/(Worse) |        |
| Effective income tax rate | 34.1%        | 33.2%         | (0.9)          | ) ppt  |

The increase in the effective income tax rate for the nine months was due to an increase in foreign losses for which we are not recognizing a tax benefit.

## Noncontrolling Interests

| (in millions)                                       | Nine Months  |               |                | % Change |
|---|--------------|---------------|----------------|----------|
|   | Ended        |               |                |          |
|   | July 2, 2016 | June 27, 2015 | Better/(Worse) |          |
| Net income attributable to noncontrolling interests | \$278        | \$338         | 18             | )%       |

The decrease in net income attributable to noncontrolling interests for the nine-month period was primarily due to higher pre-opening expenses at Shanghai Disney Resort and a decrease from Disneyland Paris, partially offset by higher results at ESPN. The decrease at Disneyland Paris was due to higher operating losses, partially offset by a

decrease in the noncontrolling interests' ownership.

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

## SEASONALITY

The Company's businesses are subject to the effects of seasonality. Consequently, the operating results for the nine months ended July 2, 2016 for each business segment, and for the Company as a whole, are not necessarily indicative of results to be expected for the full year.

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

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

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

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

## SEGMENT RESULTS

The Company evaluates the performance of its operating segments based on segment operating income, which is shown below along with segment revenues:

| (in millions)                            | Quarter Ended |               | % Change           |   | Nine Months Ended |               | % Change           |   |
|--|---------------|---------------|--------------------|---|-------------------|---------------|--------------------|---|
|  | July 2, 2016  | June 27, 2015 | Better/<br>(Worse) | % | July 2, 2016      | June 27, 2015 | Better/<br>(Worse) | % |
| Revenues:                                |               |               |                    |   |                   |               |                    |   |
| Media Networks                           | \$5,906       | \$5,768       | 2                  | % | \$18,031          | \$17,438      | 3                  | % |
| Parks and Resorts                        | 4,379         | 4,131         | 6                  | % | 12,588            | 11,801        | 7                  | % |
| Studio Entertainment                     | 2,847         | 2,040         | 40                 | % | 7,630             | 5,583         | 37                 | % |
| Consumer Products &<br>Interactive Media | 1,145         | 1,162         | (1)                | % | 4,241             | 4,131         | 3                  | % |
|  | \$14,277      | \$13,101      | 9                  | % | \$42,490          | \$38,953      | 9                  | % |
| Segment operating income:                |               |               |                    |   |                   |               |                    |   |
| Media Networks                           | \$2,372       | \$2,378       | —                  | % | \$6,083           | \$5,974       | 2                  | % |
| Parks and Resorts                        | 994           | 922           | 8                  | % | 2,599             | 2,293         | 13                 | % |
| Studio Entertainment                     | 766           | 472           | 62                 | % | 2,322             | 1,443         | 61                 | % |
| Consumer Products &<br>Interactive Media | 324           | 348           | (7)                | % | 1,541             | 1,437         | 7                  | % |
|  | \$4,456       | \$4,120       | 8                  | % | \$12,545          | \$11,147      | 13                 | % |

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

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

| (in millions)                             | Quarter Ended   |                  | % Change<br>Better/<br>(Worse) | Nine Months<br>Ended |                  | % Change<br>Better/<br>(Worse) |
|---|-----------------|------------------|--------------------------------|----------------------|------------------|--------------------------------|
|   | July 2,<br>2016 | June 27,<br>2015 |                                | July 2,<br>2016      | June 27,<br>2015 |                                |
| Segment operating income                  | \$4,456         | \$4,120          | 8 %                            | \$12,545             | \$11,147         | 13 %                           |
| Corporate and unallocated shared expenses | (159 )          | (146 )           | (9) %                          | (457 )               | (441 )           | (4) %                          |
| Restructuring and impairment charges      | (44 )           | —                | nm                             | (125 )               | —                | nm                             |
| Interest expense, net                     | (70 )           | (12 )            | >(100) %                       | (161 )               | (62 )            | >(100) %                       |
| Vice Gain <sup>(1)</sup>                  | —               | —                | nm                             | 332                  | —                | nm                             |
| Infinity Charge <sup>(2)</sup>            | —               | —                | nm                             | (147 )               | —                | nm                             |
| Income before income taxes                | \$4,183         | \$3,962          | 6 %                            | \$11,987             | \$10,644         | 13 %                           |

<sup>(1)</sup> See Note 3 to the Condensed Consolidated Financial Statements for a discussion of the Vice Gain.

<sup>(2)</sup> See Note 2 to the Condensed Consolidated Financial Statements for a discussion of the Infinity Charge.

Depreciation expense is as follows:

| (in millions)                         | Quarter Ended   |                  | % Change<br>Better/<br>(Worse) | Nine Months<br>Ended |                  | % Change<br>Better/<br>(Worse) |
|---------------------------------------|-----------------|------------------|--------------------------------|----------------------|------------------|--------------------------------|
|                                       | July 2,<br>2016 | June 27,<br>2015 |                                | July 2,<br>2016      | June 27,<br>2015 |                                |
| Media Networks                        |                 |                  |                                |                      |                  |                                |
| Cable Networks                        | \$37            | \$39             | 5 %                            | \$111                | \$114            | 3 %                            |
| Broadcasting                          | 23              | 24               | 4 %                            | 68                   | 71               | 4 %                            |
| Total Media Networks                  | 60              | 63               | 5 %                            | 179                  | 185              | 3 %                            |
| Parks and Resorts                     |                 |                  |                                |                      |                  |                                |
| Domestic                              | 313             | 279              | (12) %                         | 949                  | 865              | (10) %                         |
| International                         | 113             | 84               | (35) %                         | 283                  | 258              | (10) %                         |
| Total Parks and Resorts               | 426             | 363              | (17) %                         | 1,232                | 1,123            | (10) %                         |
| Studio Entertainment                  | 12              | 13               | 8 %                            | 36                   | 41               | 12 %                           |
| Consumer Products & Interactive Media | 16              | 18               | 11 %                           | 46                   | 51               | 10 %                           |
| Corporate                             | 61              | 63               | 3 %                            | 185                  | 185              | — %                            |
| Total depreciation expense            | \$575           | \$520            | (11) %                         | \$1,678              | \$1,585          | (6) %                          |

Amortization of intangible assets is as follows:

| (in millions)                           | Quarter<br>Ended |                  | % Change<br>Better/<br>(Worse) | Nine Months<br>Ended |                  | % Change<br>Better/<br>(Worse) |
|---|------------------|------------------|--------------------------------|----------------------|------------------|--------------------------------|
|   | July 2,<br>2016  | June 27,<br>2015 |                                | July 2,<br>2016      | June 27,<br>2015 |                                |
| Media Networks                          | \$4              | \$5              | 20 %                           | \$14                 | \$15             | 7 %                            |
| Parks and Resorts                       | 1                | 1                | — %                            | 3                    | 3                | — %                            |
| Studio Entertainment                    | 20               | 21               | 5 %                            | 59                   | 62               | 5 %                            |
| Consumer Products & Interactive Media   | 26               | 28               | 7 %                            | 84                   | 86               | 2 %                            |
| Total amortization of intangible assets | \$51             | \$55             | 7 %                            | \$160                | \$166            | 4 %                            |

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

## Media Networks

Operating results for the Media Networks segment are as follows:

| (in millions)                              | Quarter Ended   |                  | % Change           |   |
|--|-----------------|------------------|--------------------|---|
|  | July 2,<br>2016 | June 27,<br>2015 | Better/<br>(Worse) |   |
| Revenues                                   |                 |                  |                    |   |
| Affiliate Fees                             | \$3,112         | \$2,967          | 5                  | % |
| Advertising                                | 2,140           | 2,107            | 2                  | % |
| TV/SVOD distribution and other             | 654             | 694              | (6)                | % |
| Total revenues                             | 5,906           | 5,768            | 2                  | % |
| Operating expenses                         | (3,002 )        | (2,868 )         | (5)                | % |
| Selling, general, administrative and other | (622 )          | (666 )           | 7                  | % |
| Depreciation and amortization              | (64 )           | (68 )            | 6                  | % |
| Equity in the income of investees          | 154             | 212              | (27)               | % |
| Operating Income                           | \$2,372         | \$2,378          | —                  | % |

## Revenues

The increase in Affiliate Fees was due to growth of 7% from higher contractual rates, partially offset by decreases of 2% from fewer subscribers and 1% from an unfavorable FX Impact.

The increase in advertising revenues was due to an increase of \$57 million at Cable Networks, from \$1,065 million to \$1,122 million, partially offset by a decrease of \$24 million at Broadcasting, from \$1,042 million to \$1,018 million.

The increase at Cable Networks was due to a 6% increase in units sold, which benefited from an additional NBA championship game. Broadcasting advertising revenues reflected a 10% decrease from lower network ratings, partially offset by a 6% increase from higher network rates and a 1% increase from more units sold.

TV/SVOD distribution and other revenue decreased \$40 million from \$694 million to \$654 million primarily due to lower sales of cable programs in the current quarter and an unfavorable FX Impact, partially offset by higher sales of ABC programs in the current quarter.

## Costs and Expenses

Operating expenses include programming and production costs, which increased \$108 million from \$2,571 million to \$2,679 million. At Cable Networks, programming and production costs increased \$46 million driven by renewals for the Masters and international soccer rights and contractual rate increases for the NBA and MLB, partially offset by the impact of lower program sales. At Broadcasting, programming and production costs increased \$62 million due to the impact of higher program sales and an increase in cost write-downs for network programming.

Selling, general, administrative and other costs decreased \$44 million from \$666 million to \$622 million due to a favorable FX Impact and lower marketing costs.

## Equity in the Income of Investees

Income from equity investees decreased \$58 million from \$212 million to \$154 million due to higher equity losses from Hulu and lower equity income from A&E. Higher equity losses from Hulu were due to increased programming, marketing and labor costs, partially offset by higher subscription and advertising revenues. Lower equity income from A&E was due to a decrease in advertising revenue and the impact of the conversion of the H2 channel to Viceland, partially offset by lower programming costs.

## Segment Operating Income

Segment operating income decreased \$6 million, to \$2,372 million due to lower income from equity investees and program sales, partially offset by an increase at ESPN.

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

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

| (in millions)            | Quarter Ended   |                  | % Change           |   |
|--------------------------|-----------------|------------------|--------------------|---|
|                          | July 2,<br>2016 | June 27,<br>2015 | Better/<br>(Worse) |   |
| Revenues                 |                 |                  |                    |   |
| Cable Networks           | \$4,200         | \$4,140          | 1                  | % |
| Broadcasting             | 1,706           | 1,628            | 5                  | % |
|                          | \$5,906         | \$5,768          | 2                  | % |
| Segment operating income |                 |                  |                    |   |
| Cable Networks           | \$2,090         | \$2,078          | 1                  | % |
| Broadcasting             | 282             | 300              | (6)                | % |
|                          | \$2,372         | \$2,378          | —                  | % |

## Parks and Resorts

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

| (in millions)                              | Quarter Ended   |                  | % Change           |   |
|--|-----------------|------------------|--------------------|---|
|  | July 2,<br>2016 | June 27,<br>2015 | Better/<br>(Worse) |   |
| Revenues                                   |                 |                  |                    |   |
| Domestic                                   | \$3,697         | \$3,529          | 5                  | % |
| International                              | 682             | 602              | 13                 | % |
| Total revenues                             | 4,379           | 4,131            | 6                  | % |
| Operating expenses                         | (2,439)         | (2,376)          | (3)                | % |
| Selling, general, administrative and other | (519)           | (469)            | (11)               | % |
| Depreciation and amortization              | (427)           | (364)            | (17)               | % |
| Operating Income                           | \$994           | \$922            | 8                  | % |

## Revenues

Parks and Resorts revenues increased 6%, or \$248 million, to \$4.4 billion due to increases of \$168 million at our domestic operations and \$80 million at our international operations. Results include an unfavorable impact due to a shift in the timing of the Easter holiday relative to our fiscal periods. The Easter holiday fell in the third quarter of the prior year, whereas it fell in the second quarter of the current year.

Revenue growth at our domestic operations reflected a 5% increase from higher average guest spending, partially offset by a 1% decrease from lower volumes. Guest spending growth was due to higher average ticket prices for theme park admissions and sailings at our cruise line and increased food and beverage spending. Lower volumes were due to a decrease in attendance, partially offset by higher occupied room nights.

Revenue growth at our international operations reflected increases of 10% from higher other revenues and 6% from higher volumes, partially offset by a 2% decrease from an unfavorable FX Impact. The increase in other revenues was primarily due to revenue generated at Shanghai Disney Resort prior to its grand opening. Higher volumes were due to the opening of Shanghai Disney Resort and higher occupied room nights at Hong Kong Disneyland Resort, partially offset by a decrease in attendance at Disneyland Paris.

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

The following table presents supplemental park and hotel statistics:

|                                      | Domestic                         |                  | International <sup>(2)</sup>     |                  | Total                            |                  |
|--------------------------------------|----------------------------------|------------------|----------------------------------|------------------|----------------------------------|------------------|
|                                      | Quarter Ended<br>July 2,<br>2016 | June 27,<br>2015 | Quarter Ended<br>July 2,<br>2016 | June 27,<br>2015 | Quarter Ended<br>July 2,<br>2016 | June 27,<br>2015 |
| <b>Parks</b>                         |                                  |                  |                                  |                  |                                  |                  |
| Increase/(decrease)                  |                                  |                  |                                  |                  |                                  |                  |
| Attendance                           | (4)                              | % 4              | % 1                              | % (1)            | % (3)                            | % 3              |
| Per Capita Guest Spending            | 8                                | % 2              | % 4                              | % 4              | % 7                              | % 3              |
| <b>Hotels <sup>(1)</sup></b>         |                                  |                  |                                  |                  |                                  |                  |
| Occupancy                            | 90                               | % 87             | % 81                             | % 81             | % 88                             | % 86             |
| Available Room Nights (in thousands) | 2,597                            | 2,622            | 635                              | 615              | 3,232                            | 3,237            |
| Per Room Guest Spending              | \$306                            | \$310            | \$281                            | \$294            | \$302                            | \$308            |

<sup>(1)</sup> Per room guest spending consists of the average daily hotel room rate, as well as guest spending on food, beverage and merchandise at the hotels. Hotel statistics include rentals of Disney Vacation Club units.

Per capita guest spending growth rate is stated on a constant currency basis. Per room guest spending is stated at the <sup>(2)</sup>fiscal 2015 third quarter average foreign exchange rate. The euro to U.S. dollar weighted average foreign currency exchange rate was \$1.13 and \$1.10 for the quarters ended July 2, 2016 and June 27, 2015, respectively.

**Costs and Expenses**

Operating expenses include operating labor, which increased \$37 million from \$1,140 million to \$1,177 million, cost of sales, which increased \$6 million from \$377 million to \$383 million and infrastructure costs, which decreased \$16 million from \$447 million to \$431 million. The increase in operating labor was driven by the opening of Shanghai Disney Resort and inflation, partially offset by efficiency initiatives. Lower infrastructure costs were due to efficiency initiatives and lower fuel costs, partially offset by the impact of Shanghai Disney Resort. Other operating expenses, which include costs for items such as supplies, commissions and entertainment offerings, increased driven by Shanghai Disney Resort.

Selling, general, administrative and other costs increased \$50 million, from \$469 million to \$519 million, due to marketing and other costs at Shanghai Disney Resort, partially offset by lower domestic marketing spend due to efficiency initiatives.

The increase in depreciation and amortization was due to higher depreciation at our domestic parks and resorts and the impact of Shanghai Disney Resort.

**Segment Operating Income**

Segment operating income increased 8%, or \$72 million, to \$994 million due to growth at our domestic operations, partially offset by a decrease at our international operations.

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

## Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

| (in millions)                              | Quarter Ended   |                  | % Change           |   |
|--|-----------------|------------------|--------------------|---|
|  | July 2,<br>2016 | June 27,<br>2015 | Better/<br>(Worse) |   |
| Revenues                                   |                 |                  |                    |   |
| Theatrical distribution                    | \$1,510         | \$1,034          | 46                 | % |
| Home entertainment                         | 610             | 282              | >100               | % |
| TV/SVOD distribution and other             | 727             | 724              | —                  | % |
| Total revenues                             | 2,847           | 2,040            | 40                 | % |
| Operating expenses                         | (1,259)         | (926)            | (36)               | % |
| Selling, general, administrative and other | (790)           | (608)            | (30)               | % |
| Depreciation and amortization              | (32)            | (34)             | 6                  | % |
| Operating Income                           | \$766           | \$472            | 62                 | % |

## Revenues

The increase in theatrical distribution revenue was due to the strong performance of titles in release, which included five significant titles in the current quarter compared to four in the prior-year quarter. The current quarter titles in release included Captain America: Civil War, The Jungle Book, Finding Dory and Alice Through the Looking Glass compared to Avengers: Age of Ultron, Inside Out, Cinderella and Tomorrowland in the prior-year quarter.

Additionally, the current quarter included the continuing performance of Zootopia, which was released in the second quarter of the current year, compared to no Disney animated release in the prior-year quarter. The performance of our titles in release was partially offset by an unfavorable FX Impact.

The increase in home entertainment revenue was due to increases of 61% from higher unit sales and 58% from an increase in average net effective pricing. The increase in unit sales and net effective pricing was due to the strong performance of Star Wars: The Force Awakens and Zootopia in the current quarter compared to Big Hero 6, which was released domestically in the prior-year second quarter. Net effective pricing is the wholesale selling price adjusted for discounts, sales incentives and returns.

## Costs and Expenses

Operating expenses include an increase of \$282 million in film cost amortization, from \$586 million to \$868 million due to the impact of higher revenues. Operating expenses also include cost of goods sold and distribution costs, which increased \$51 million, from \$340 million to \$391 million, due to an increase in home entertainment units sold and higher theatrical distribution costs driven by more titles in release.

Selling, general, administrative and other costs increased \$182 million from \$608 million to \$790 million primarily due to higher theatrical and home entertainment marketing costs. The increase in theatrical marketing costs was due to more significant titles in release and spending for The BFG, which was released at the end of the current quarter. Higher home entertainment marketing costs were driven by the release of Star Wars: The Force Awakens in the current quarter.

## Segment Operating Income

Segment operating income increased 62%, or \$294 million, to \$766 million due to growth in home entertainment and theatrical distribution.

## Restructuring and Impairment Charges

The Company recorded restructuring and impairment charges of \$38 million related to Studio Entertainment in the current quarter consisting of asset impairments associated with shutting down certain international film production operations.



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

## Consumer Products &amp; Interactive Media

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

| (in millions)                              | Quarter Ended |               | % Change           |   |
|--|---------------|---------------|--------------------|---|
|  | July 2, 2016  | June 27, 2015 | Better/<br>(Worse) |   |
| Revenues                                   |               |               |                    |   |
| Licensing, publishing and games            | \$776         | \$791         | (2)                | % |
| Retail and other                           | 369           | 371           | (1)                | % |
| Total revenues                             | 1,145         | 1,162         | (1)                | % |
| Operating expenses                         | (501)         | (493)         | (2)                | % |
| Selling, general, administrative and other | (278)         | (275)         | (1)                | % |
| Depreciation and amortization              | (42)          | (46)          | 9                  | % |
| Operating Income                           | \$324         | \$348         | (7)                | % |

## Revenues

The decrease in licensing, publishing and games revenue was due to a decrease of 2% from our merchandise licensing business primarily due to higher revenue in the prior-year quarter from Frozen and Cars/Planes merchandise, an unfavorable FX Impact and higher revenue share with the Studio Entertainment segment. These decreases were partially offset by higher revenue from merchandise based on Finding Dory/Finding Nemo and Star Wars.

Retail and other revenue was essentially flat at \$369 million for the current quarter compared to \$371 million in the prior-year quarter as an increase from retail revenue of 4% was offset by a decrease from other revenue of 4%. Higher retail revenue was due to an increase in North America and higher wholesale distribution revenues, partially offset by lower comparable store sales in Europe. The increase in North America was primarily due to new stores and higher online sales. The decrease in other revenue was due to our Japan mobile business and an unfavorable FX Impact.

## Costs and Expenses

Operating expenses include a \$22 million increase in cost of goods sold and distribution costs, from \$259 million to \$281 million, a \$3 million increase in labor and occupancy costs, from \$129 million to \$132 million and a \$14 million decrease in product development, from \$87 million to \$73 million. The increase in cost of goods sold and distribution costs included the impact of increased sales and average unit costs at our retail business and higher wholesale distribution revenues, partially offset by the absence of pre-release costs for Infinity 3.0, which was released in the fourth quarter of the prior year. The decrease in product development was due to the discontinuation of our Infinity console game business.

Selling, general, administrative and other costs were essentially flat at \$278 million for the current quarter compared to \$275 million in the prior-year quarter, as higher marketing costs at our merchandise licensing business were largely offset by lower Infinity marketing costs.

## Segment Operating Income

Segment operating income decreased 7%, or \$24 million, to \$324 million, driven by lower results at our merchandise licensing, retail and Japan mobile businesses, partially offset by an increase at our games business.

## BUSINESS SEGMENT RESULTS - Nine Month Results

## Media Networks

Operating results for the Media Networks segment are as follows:

| (in millions) | Nine Months Ended |               | % Change           |  |
|---------------|-------------------|---------------|--------------------|--|
|               | July 2, 2016      | June 27, 2015 | Better/<br>(Worse) |  |

|  |          |         |      |   |  |
|--|----------|---------|------|---|--|
| Revenues                                   |          |         |      |   |  |
| Affiliate Fees                             | \$9,187  | \$8,853 | 4    | % |  |
| Advertising                                | 6,706    | 6,425   | 4    | % |  |
| TV/SVOD distribution and other             | 2,138    | 2,160   | (1)  | % |  |
| Total revenues                             | 18,031   | 17,438  | 3    | % |  |
| Operating expenses                         | (10,261) | (9,898) | (4)  | % |  |
| Selling, general, administrative and other | (1,941)  | (1,996) | 3    | % |  |
| Depreciation and amortization              | (193)    | (200)   | 4    | % |  |
| Equity in the income of investees          | 447      | 630     | (29) | % |  |
| Operating Income                           | \$6,083  | \$5,974 | 2    | % |  |

#### Revenues

The increase in Affiliate Fees reflected an increase of 7% from higher contractual rates, partially offset by decreases of 2% from subscribers and 1% from an unfavorable FX Impact.

The increase in advertising revenues was due to increases of \$214 million at Cable Networks, from \$3,309 million to \$3,523 million, and \$67 million at Broadcasting, from \$3,116 million to \$3,183 million. The increase at Cable Networks was due to a 10% increase from higher units sold and a 3% increase from higher rates, partially offset by a 7% decrease from lower ratings. Growth at Broadcasting was due to a 5% increase from higher network rates and a 2% increase from network units sold, partially offset by a 6% decrease from lower network ratings.

TV/SVOD distribution and other revenue decreased \$22 million from \$2,160 million to \$2,138 million driven by an unfavorable FX impact, partially offset by an increase in program sales. The increase in program sales was due to higher sales of ABC programs, partially offset by lower sales of cable programs.

#### Costs and Expenses

Operating expenses include programming and production costs, which increased \$338 million from \$9,014 million to \$9,352 million. At Broadcasting, programming and production costs increased \$190 million due to a higher average amortization rate for programs sold and for network programming, the impact of higher program sales, as well as an increase in cost write-downs for network programming in the current year. At Cable Networks, programming and production costs increased \$148 million primarily due to rate increases from provisions in existing contracts and contract renewals for sports programming, partially offset by the absence of rights costs for NASCAR and the impact of lower program sales.

Selling, general, administrative and other costs decreased \$55 million from \$1,996 million to \$1,941 million due to a favorable FX Impact and lower marketing costs at ESPN and the Disney Channels, partially offset by higher marketing spending at ABC and Freeform.

#### Equity in the Income of Investees

Income from equity investees decreased \$183 million from \$630 million to \$447 million due to lower operating results at A&E and a higher loss at Hulu. The decrease at A&E was due to lower advertising revenue and the impact of the conversion of the H2 channel to Viceland. The increased equity loss at Hulu was due to higher programming, marketing and labor costs, partially offset by growth in subscription and advertising revenues.

#### Segment Operating Income

Segment operating income increased 2%, or \$109 million, to \$6,083 million driven by increases at ESPN and the ABC Network, partially offset by lower income from equity investees as well as from program sales.

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

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

| (in millions)            | Nine Months Ended |               | % Change        |   |
|--------------------------|-------------------|---------------|-----------------|---|
|                          | July 2, 2016      | June 27, 2015 | Better/ (Worse) | % |
| Revenues                 |                   |               |                 |   |
| Cable Networks           | \$12,676          | \$12,336      | 3               | % |
| Broadcasting             | 5,355             | 5,102         | 5               | % |
|                          | \$18,031          | \$17,438      | 3               | % |
| Segment operating income |                   |               |                 |   |
| Cable Networks           | \$5,300           | \$5,132       | 3               | % |
| Broadcasting             | 783               | 842           | (7)             | % |
|                          | \$6,083           | \$5,974       | 2               | % |

## Restructuring and Impairment Charges

The Company recorded restructuring and impairment charges of \$87 million related to Media Networks in the current nine-month period due to an investment impairment and contract termination and severance costs.

## Parks and Resorts

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

| (in millions)                              | Nine Months Ended |               | % Change        |   |
|--|-------------------|---------------|-----------------|---|
|  | July 2, 2016      | June 27, 2015 | Better/ (Worse) | % |
| Revenues                                   |                   |               |                 |   |
| Domestic                                   | \$10,792          | \$9,998       | 8               | % |
| International                              | 1,796             | 1,803         | —               | % |
| Total revenues                             | 12,588            | 11,801        | 7               | % |
| Operating expenses                         | (7,341 )          | (7,022 )      | (5)             | % |
| Selling, general, administrative and other | (1,413 )          | (1,360 )      | (4)             | % |
| Depreciation and amortization              | (1,235 )          | (1,126 )      | (10)            | % |
| Operating Income                           | \$2,599           | \$2,293       | 13              | % |

## Revenues

Parks and Resorts revenues increased 7%, or \$787 million, to \$12.6 billion due to an increase of \$794 million at our domestic operations, partially offset by a decrease of \$7 million at our international operations.

Revenue growth at our domestic operations reflected increases of 6% from higher average guest spending and 1% from higher volumes. The increase in average guest spending was due to higher average ticket prices for admissions at our theme parks and for sailings at our cruise line, increased food, beverage and merchandise spending and higher average hotel room rates. Higher volumes were due to attendance growth at our theme parks and higher occupied room nights, partially offset by lower unit sales at Disney Vacation Club. The decrease at Disney Vacation Club was driven by sales in the prior-year period of units at The Villas at Disney's Grand Floridian Resort & Spa, which sold out in the prior year, partially offset by higher sales at Disney's Polynesian Villas & Bungalows in the current nine-month period.

Revenues at our international operations reflected decreases of 5% from an unfavorable FX Impact and 1% from lower volumes, partially offset by increases of 4% from higher other revenue and 1% from higher average guest spending. Lower volumes were due to decreases in attendance at Disneyland Paris and Hong Kong Disneyland Resort, partially offset by the opening of Shanghai Disney Resort. The increase in other revenues was driven by revenue

generated at Shanghai Disney Resort prior to its grand opening. Guest spending growth was driven by higher average ticket prices and increased food, beverage and merchandise spending, partially offset by a decrease in average hotel room rates.

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

The following table presents supplemental park and hotel statistics:

|                                      | Domestic    |          | International <sup>(2)</sup> |          | Total       |          |
|--------------------------------------|-------------|----------|------------------------------|----------|-------------|----------|
|                                      | Nine Months |          | Nine Months                  |          | Nine Months |          |
|                                      | Ended       |          | Ended                        |          | Ended       |          |
|                                      | July 2,     | June 27, | July 2,                      | June 27, | July 2,     | June 27, |
|                                      | 2016        | 2015     | 2016                         | 2015     | 2016        | 2015     |
| <b>Parks</b>                         |             |          |                              |          |             |          |
| Increase/(decrease)                  |             |          |                              |          |             |          |
| Attendance                           | 2           | % 4      | % (4)                        | % —      | % 1         | % 3      |
| Per Capita Guest Spending            | 7           | % 4      | % 4                          | % 6      | % 7         | % 5      |
| <b>Hotels <sup>(1)</sup></b>         |             |          |                              |          |             |          |
| Occupancy                            | 90          | % 88     | % 79                         | % 79     | % 88        | % 86     |
| Available Room Nights (in thousands) | 7,788       | 7,809    | 1,869                        | 1,845    | 9,657       | 9,654    |
| Per Room Guest Spending              | \$309       | \$297    | \$272                        | \$283    | \$303       | \$294    |

<sup>(1)</sup> Per room guest spending consists of the average daily hotel room rate, as well as guest spending on food, beverage and merchandise at the hotels. Hotel statistics include rentals of Disney Vacation Club units.

Per capita guest spending growth rate is stated on a constant currency basis. Per room guest spending is stated at the <sup>(2)</sup>fiscal 2015 nine-month average foreign exchange rate. The euro to U.S. dollar weighted average foreign currency exchange rate was \$1.11 and \$1.16 for the nine months ended July 2, 2016 and June 27, 2015, respectively.

**Costs and Expenses**

Operating expenses include operating labor, which increased \$127 million from \$3,367 million to \$3,494 million, infrastructure costs, which increased \$58 million from \$1,310 million to \$1,368 million and cost of sales, which increased \$47 million from \$1,094 million to \$1,141 million. The increase in operating labor was primarily due to the opening of Shanghai Disney Resort and inflation, partially offset by lower pension and postretirement medical costs. The increase in infrastructure costs was due to higher technology spending, the opening of Shanghai Disney Resort and costs incurred in connection with the dry-dock of the Disney Dream. The increase in cost of sales includes the impact of inflation and higher volumes. Other operating expenses, which include costs for items such as supplies, commissions and entertainment, increased primarily due to the opening of Shanghai Disney Resort and inflation. Selling, general, administrative and other costs increased \$53 million from \$1,360 million to \$1,413 million due to higher marketing and other costs at Shanghai Disney Resort, partially offset by lower domestic marketing spend due to efficiency initiatives.

The increase in depreciation and amortization was primarily due to depreciation associated with new attractions at our domestic parks and resorts and the impact of Shanghai Disney Resort.

**Segment Operating Income**

Segment operating income increased 13%, or \$306 million, to \$2,599 million due to growth at our domestic operations, partially offset by a decrease at our international operations.

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

## Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

| (in millions)                              | Nine Months<br>Ended |                  | % Change           |   |
|--|----------------------|------------------|--------------------|---|
|  | July 2,<br>2016      | June 27,<br>2015 | Better/<br>(Worse) |   |
| Revenues                                   |                      |                  |                    |   |
| Theatrical distribution                    | \$3,259              | \$1,804          | 81                 | % |
| Home entertainment                         | 1,728                | 1,417            | 22                 | % |
| TV/SVOD distribution and other             | 2,643                | 2,362            | 12                 | % |
| Total revenues                             | 7,630                | 5,583            | 37                 | % |
| Operating expenses                         | (3,200 )             | (2,350 )         | (36)               | % |
| Selling, general, administrative and other | (2,013 )             | (1,687 )         | (19)               | % |
| Depreciation and amortization              | (95 )                | (103 )           | 8                  | % |
| Operating Income                           | \$2,322              | \$1,443          | 61                 | % |

## Revenues

The increase in theatrical distribution revenue was primarily due to the performance of Star Wars: The Force Awakens. Other significant titles in the current period included Captain America: Civil War, Zootopia, The Jungle Book and Finding Dory, whereas the prior-year period included Avengers: Age of Ultron, Big Hero 6, Cinderella, Inside Out and Into the Woods.

The increase in home entertainment revenue was due to increases of 19% from higher unit sales and 7% from higher average net effective pricing, partially offset by a decrease of 4% from an unfavorable FX Impact. The higher unit sales and net effective pricing were primarily due to the performance of Star Wars: The Force Awakens, Inside Out, Star Wars Classic titles, Zootopia and Ant-Man in the current period compared to Guardians of the Galaxy, Big Hero 6, Frozen and Maleficent in the prior-year period. Net effective pricing is the wholesale selling price adjusted for discounts, sales incentives and returns.

The increase in TV/SVOD distribution and other revenue was due to increases of 8% from higher revenue share with the Consumer Products & Interactive Media segment driven by the success of merchandise based on Star Wars: The Force Awakens and 6% from TV/SVOD distribution. These increases were partially offset by a decrease of 3% from an unfavorable FX Impact. The increase in TV/SVOD distribution revenue was due to international growth.

## Costs and Expenses

Operating expenses include an increase of \$743 million in film cost amortization, from \$1,390 million to \$2,133 million primarily due to the impact of higher revenues. Operating expenses also include cost of goods sold and distribution costs, which increased \$107 million, from \$960 million to \$1,067 million due to higher theatrical distribution costs and an increase in home entertainment units sold, partially offset by a favorable FX Impact. Higher theatrical distribution costs were due to the release of Star Wars: The Force Awakens in the current period whereas the prior-year period had no comparable title.

Selling, general, administrative and other costs increased \$326 million from \$1,687 million to \$2,013 million due to theatrical marketing expense for Star Wars: The Force Awakens as well as two Pixar titles and two DreamWorks titles in the current period compared to one Pixar title and no DreamWorks titles in the prior-year period. These increases were partially offset by a favorable FX Impact.

## Segment Operating Income

Segment operating income increased 61%, or \$879 million, to \$2,322 million due to growth from theatrical and home entertainment results, a higher revenue share with the Consumer Products & Interactive Media segment and an increase in TV/SVOD distribution.

## Restructuring and Impairment Charges

The Company recorded restructuring and impairment charges of \$38 million related to Studio Entertainment in the current nine-month period consisting of asset impairments associated with shutting down certain international film production operations.

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

## Consumer Products &amp; Interactive Media

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

| (in millions)                              | Nine Months Ended |               | % Change        |   |
|--|-------------------|---------------|-----------------|---|
|  | July 2, 2016      | June 27, 2015 | Better/ (Worse) | % |
| Revenues                                   |                   |               |                 |   |
| Licensing, publishing and games            | \$2,905           | \$2,734       | 6               | % |
| Retail and other                           | 1,336             | 1,397         | (4)             | % |
| Total revenues                             | 4,241             | 4,131         | 3               | % |
| Operating expenses                         | (1,739)           | (1,739)       | —               | % |
| Selling, general, administrative and other | (831)             | (818)         | (2)             | % |
| Depreciation and amortization              | (130)             | (137)         | 5               | % |
| Operating Income                           | \$1,541           | \$1,437       | 7               | % |

## Revenues

The increase in licensing, publishing and games revenue was due to a 7% increase from our merchandise licensing business, partially offset by a 1% decrease from our games business. Higher merchandise licensing revenues were primarily due to the performance of merchandise based on Star Wars, partially offset by higher revenue share with the Studio Entertainment segment, a decrease in revenues from Frozen merchandise and an unfavorable FX Impact.

Lower games revenues were primarily due to a decrease in unit sales of Infinity and lower performance of our Frozen Free Fall mobile game, partially offset by revenues from Star Wars Battlefront, which was released in the current period. Games revenues were also impacted by an unfavorable FX Impact.

The decrease in retail and other revenue was primarily due to a decrease of 3% from our retail business driven by lower comparable store sales in Europe and North America and an unfavorable FX Impact, partially offset by the benefit of new stores in North America.

## Costs and Expenses

Operating expenses included a \$1 million decrease in cost of goods sold and distribution costs, from \$1,047 million to \$1,046 million, a \$3 million increase in labor and occupancy costs, from \$401 million to \$404 million, and a \$2 million increase in product development, from \$241 million to \$243 million. Cost of goods sold and distribution costs were essentially flat as lower Infinity volumes, the absence of Infinity 3.0 pre-release costs and lower Frozen Free Fall co-developer fees were offset by higher average per unit costs at our retail business and higher game inventory reserves. Infinity 3.0 pre-release costs were incurred in the prior-year period in connection with its release in the fourth quarter of the prior year. Labor and occupancy costs were essentially flat as higher retail occupancy costs and labor cost inflation were offset by a favorable FX Impact. Product development was essentially flat as higher spending on video content and mobile games was largely offset by a decrease as a result of the discontinuation of our Infinity console game business.

Selling, general, administrative and other costs increased \$13 million from \$818 million to \$831 million due to higher marketing costs at our merchandise licensing business, partially offset by lower Infinity marketing costs.

## Segment Operating Income

Segment operating income increased 7%, or \$104 million, to \$1,541 million due to higher results at our merchandise licensing and games businesses, partially offset by a decrease at our retail business.

## Restructuring and Impairment Charges

In the current nine-month period, the Company recorded the Infinity Charge, which totaled \$147 million and has been excluded from segment operating income (See Note 2 to the Condensed Consolidated Financial Statements).



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

## CORPORATE AND UNALLOCATED SHARED EXPENSES

| (in millions)                             | Quarter Ended |               | % Change           | Nine Months Ended |               | % Change           |
|---|---------------|---------------|--------------------|-------------------|---------------|--------------------|
|   | July 2, 2016  | June 27, 2015 | Better/<br>(Worse) | July 2, 2016      | June 27, 2015 | Better/<br>(Worse) |
| Corporate and unallocated shared expenses | \$ (159)      | \$ (146 )     | (9) %              | \$ (457)          | \$ (441 )     | (4) %              |

The increase in Corporate and unallocated shared expenses in the current quarter was driven by the timing of allocations to operating segments.

## SIGNIFICANT DEVELOPMENTS

## Impact of Foreign Currency Exchange Rates

The Company has a foreign exchange risk management program that is intended to reduce earnings fluctuations associated with foreign currency exchange rate changes. As part of this program, we enter into foreign currency derivative contracts designed to hedge projected foreign currency denominated operating income exposures for periods that generally do not exceed four years and to hedge foreign currency denominated net monetary assets to protect the U.S. dollar equivalent value of these assets from foreign currency fluctuations. 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 profits from the country. Based on our hedge portfolio and our projections of foreign currency exposure, we currently estimate an adverse impact to growth in segment operating results from fiscal 2015 to fiscal 2016 of approximately \$500 million, which is primarily reflected in the results of our Studio Entertainment and Consumer Products & Interactive Media segments and our cable business in the Media Networks segment.

## FINANCIAL CONDITION

The change in cash and cash equivalents is as follows:

| (in millions)   | Nine Months Ended |               | % Change           |   |
|---|-------------------|---------------|--------------------|---|
|   | July 2, 2016      | June 27, 2015 | Better/<br>(Worse) |   |
| Cash provided by operations                           | \$9,386           | \$7,581       | 24                 | % |
| Cash used in investing activities                     | (4,226 )          | (3,055 )      | (38)               | % |
| Cash used in financing activities                     | (4,091 )          | (3,241 )      | (26)               | % |
| Impact of exchange rates on cash and cash equivalents | (111 )            | (231 )        | 52                 | % |
| Change in cash and cash equivalents                   | \$958             | \$1,054       | (9)                | % |

## Operating Activities

Cash provided by operating activities increased 24% to \$9.4 billion for the current nine-month period compared to \$7.6 billion in the prior-year nine-month period. The increase in operating cash flow was due to higher operating cash receipts at our Studio Entertainment, Media Networks and Parks and Resorts segments driven by revenue growth. These increases were partially offset by higher television programming and production spending at Media Networks and an increase in contributions to the Company's pension and postretirement medical plans.

## Film and Television Costs

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

increase in programming liabilities. Accordingly, we analyze our programming assets net of the related liability.

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

The Company's film and television production and programming activity for the nine months ended July 2, 2016 and June 27, 2015 are as follows:

| (in millions)  | Nine Months<br>Ended |                  |
|--|----------------------|------------------|
|  | July 2,<br>2016      | June 27,<br>2015 |
| Beginning balances:  |                      |                  |
| Production and programming assets                              | \$7,353              | \$6,386          |
| Programming liabilities  | (989 )               | (875 )           |
|  | 6,364                | 5,511            |
| Spending:  |                      |                  |
| Television program licenses and rights                         | 5,225                | 4,844            |
| Film and television production                                 | 3,578                | 3,434            |
|  | 8,803                | 8,278            |
| Amortization:  |                      |                  |
| Television program licenses and rights                         | (5,055 )             | (4,912 )         |
| Film and television production                                 | (3,524 )             | (2,743 )         |
|  | (8,579 )             | (7,655 )         |
| Change in film and television production and programming costs | 224                  | 623              |
| Other non-cash activity  | 20                   | (76 )            |
| Ending balances:   |                      |                  |
| Production and programming assets                              | 7,322                | 6,781            |
| Programming liabilities  | (714 )               | (723 )           |
|  | \$6,608              | \$6,058          |

## Investing Activities

Investing activities consist principally of investments in parks, resorts and other property and acquisition and divestiture activity. The Company's investments in parks, resorts and other property for the nine months ended July 2, 2016 and June 27, 2015 are as follows:

| (in millions)                         | Nine Months<br>Ended |                  |
|---------------------------------------|----------------------|------------------|
|                                       | July 2,<br>2016      | June 27,<br>2015 |
| Media Networks                        |                      |                  |
| Cable Networks                        | \$55                 | \$51             |
| Broadcasting                          | 55                   | 37               |
| Total Media Networks                  | 110                  | 88               |
| Parks and Resorts                     |                      |                  |
| Domestic                              | 1,619                | 1,002            |
| International                         | 1,689                | 1,644            |
| Total Parks and Resorts               | 3,308                | 2,646            |
| Studio Entertainment                  | 67                   | 84               |
| Consumer Products & Interactive Media | 33                   | 46               |
| Corporate                             | 173                  | 197              |
|                                       | \$3,691              | \$3,061          |

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

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

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

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

The Company currently expects its fiscal 2016 capital expenditures will be approximately \$4.9 billion, which is \$0.6 billion higher than fiscal 2015 capital expenditures of \$4.3 billion, due to increased investment at our domestic parks and resorts.

Other Investing Activities

During the current nine-month period, acquisitions totaled \$400 million due to the acquisition of an 11% interest in Vice.

Financing Activities

Cash used in financing activities was \$4.1 billion in the current nine-month period, which reflected repurchases of common stock of \$5.9 billion and a semi-annual dividend payment of \$1.2 billion, partially offset by net cash inflows from borrowings of \$3.2 billion.

Cash used in financing activities of \$4.1 billion was \$0.9 billion more than the cash used in the prior-year nine-month period. The increase in cash used in financing activities was driven by:

Increases due to:

• An increase in common stock repurchases of \$3.1 billion (\$5.9 billion in the current period compared to \$2.8 billion in the prior-year period)

• Lower contributions from non-controlling interest holders of \$1.0 billion (zero in the current period compared to \$1.0 billion in the prior-year period)

Partially offset by decreases due to:

• Higher borrowings of \$2.7 billion (\$3.2 billion in the current period compared to \$0.5 billion in the prior-year period)

• A decrease in dividend payments of \$0.8 billion as a result of moving from an annual dividend to a semi-annual dividend. In the prior year, our full year fiscal year 2014 dividend was paid in the second quarter of fiscal 2015, whereas in the current year the dividend related to the second half of fiscal 2015 was paid in the second quarter of fiscal 2016

See Note 4 to the Condensed Consolidated Financial Statements for a summary of the Company's borrowing activities during the nine months ended July 2, 2016 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.

On July 7, 2016, the Company issued \$2.0 billion in debt under its U.S. medium-term note program. The proceeds will be used for general corporate purposes.

See Note 8 to the Condensed Consolidated Financial Statements for a summary of the Company's dividends in fiscal 2016 and 2015 and share repurchases during the nine months ended July 2, 2016.

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 July 2, 2016, Moody's Investors Service's long- and short-term debt ratings for the Company were A2 and P-1, respectively, with stable outlook; Standard & Poor's long- and short-term debt ratings for the Company were A and A-1, respectively, with stable outlook; and Fitch's long- and short-term debt ratings for the Company were A and F1, respectively, with stable outlook. The Company's bank

facilities contain only one financial covenant, relating to interest coverage, which the Company met on July 2, 2016 by a significant margin. The Company's bank facilities also specifically exclude certain entities, including the International Theme Parks, from any representations, covenants or events of default.

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

COMMITMENTS AND CONTINGENCIES

Legal Matters

As disclosed in Note 10 to the Condensed Consolidated Financial Statements, the Company has exposure for certain legal matters.

Guarantees

See Note 10 to the Condensed Consolidated Financial Statements for information regarding the Company's guarantees.

Tax Matters

As disclosed in Note 9 to the Consolidated Financial Statements in the 2015 Annual Report on Form 10-K, the Company has exposure for certain tax matters.

Contractual Commitments

See Note 14 to the Consolidated Financial Statements in the 2015 Annual Report on Form 10-K for information regarding the Company's contractual commitments.

OTHER MATTERS

Accounting Policies and Estimates

We believe that the application of the following accounting policies, which are important to our financial position and results of operations require significant judgments and estimates on the part of management. For a summary of our significant accounting policies, including the accounting policies discussed below, see Note 2 to the Consolidated Financial Statements in the 2015 Annual Report on Form 10-K.

Film and Television Revenues and Costs

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

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

With respect to television series or other television productions intended for broadcast, the most sensitive factor affecting estimates of Ultimate Revenues is the program's rating and the strength of the advertising market. Program ratings, which are an indication of market acceptance, directly affect the Company's ability to generate advertising revenues during the airing of the program. In addition, television series with greater market acceptance are more likely to generate incremental revenues through the eventual sale of the program rights in the syndication, international and home entertainment markets. Alternatively, poor ratings may result in a television series cancellation, which would require an immediate write-down of any unamortized production costs. A significant decline in the advertising market

would also negatively impact our estimates.

We expense the cost of television broadcast rights for acquired series, movies and other programs based on the number of times the program is expected to be aired or on a straight-line basis over the useful life, as appropriate. Amortization of those

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

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

Costs of film and television productions are subject to regular recoverability assessments, which compare the estimated fair values with the unamortized costs. The net realizable values of television broadcast program licenses and rights are reviewed using a daypart methodology. A daypart is defined as an aggregation of programs broadcast during a particular time of day or programs of a similar type. The Company's dayparts are: primetime, daytime, late night, news and sports (includes broadcast and cable networks). The net realizable values of other cable programming assets are reviewed on an aggregated basis for each cable network. Individual programs are written off when there are no plans to air or sublicense the program. Estimated values are based upon assumptions about future demand and market conditions. If actual demand or market conditions are less favorable than our projections, film, television and programming cost write-downs may be required.

#### Revenue Recognition

The Company has revenue recognition policies for its various operating segments that are appropriate to the circumstances of each business. See Note 2 to the Consolidated Financial Statements in the 2015 Annual Report on Form 10-K for a summary of these revenue recognition policies.

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

We recognize revenues from advance theme park ticket sales when the tickets are used. We recognize revenues from expiring multi-use tickets ratably over the estimated usage period. For non-expiring, multi-day tickets, we recognize revenue over a five-year time period based on estimated usage. The estimated usage periods are derived from historical usage patterns. If actual usage is different than our estimated usage, revenues may not be recognized in the periods the related services are rendered. In addition, a change in usage patterns would impact the timing of revenue recognition.

#### 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 significant 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 2015 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, 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 generally an operating segment or one level below the operating segment. The Company compares the fair value of each reporting unit to its carrying amount to determine if there is potential goodwill impairment. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than the carrying value of the goodwill.

To determine the fair value of our reporting units, we generally use a present value technique (discounted cash flow) corroborated by market multiples when available and as appropriate. We apply what we believe to be the most appropriate valuation methodology for each of our reporting units. The discounted cash flow analyses are sensitive to our estimates of future revenue growth and margins for these businesses. We include in the projected cash flows an estimate of the revenue we believe the reporting unit would receive if the intellectual property developed by the reporting unit that is being used by other reporting units was licensed to an unrelated third party at its fair market value. These amounts are not necessarily the same as those included in segment operating results. We believe our estimates of fair value are consistent with how a marketplace participant would value our reporting units.

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

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 difference. Fair values of other indefinite-lived intangible assets are determined based on discounted cash flows or appraised values, as appropriate.

The Company tests long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison of cash flows expected to be generated over the useful life of an asset group to the carrying value of the asset group. An asset group is established by identifying the lowest level of cash flows generated by a group of assets that are largely independent of the cash flows of other assets and could include assets used across multiple businesses or segments. If the carrying value of an asset group exceeds the estimated undiscounted future cash flows, an impairment would be measured as the difference between the fair value of the group's long-lived assets and the carrying value of the group's long-lived assets. The impairment is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts, but only to the extent the carrying value of each asset is above its fair value. For assets held for sale, to the extent the carrying value is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference. Determining whether a long-lived asset is impaired requires various estimates and assumptions, including whether a triggering event has occurred, the identification of the asset groups, estimates of future cash flows and the discount rate used to determine fair values. If we had established different asset groups or utilized different valuation methodologies or assumptions, the impairment test results could differ.

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

Allowance for Doubtful Accounts

We evaluate our allowance for doubtful accounts and estimate collectability of accounts receivable based on our analysis of historical bad debt experience in conjunction with our assessment of the financial condition of individual

companies with which we do business. In times of domestic or global economic turmoil, our estimates and judgments with respect to the collectability of our receivables are subject to greater uncertainty than in more stable periods. If our estimate of uncollectible accounts is too low, costs and expenses may increase in future periods, and if it is too high, costs and expenses may decrease in future periods.

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

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 claims. These estimates have been developed in consultation with outside counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. 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 these proceedings. See Note 10 to the Condensed Consolidated Financial Statements for more detailed information on litigation exposure.

Income Tax Audits

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

New Accounting Pronouncements

See Note 14 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 flows in order to allow management to focus on core business issues and challenges. Accordingly, the Company enters into various contracts that change in value as foreign exchange rates change to protect the U.S. dollar equivalent value of its existing foreign currency assets, liabilities, commitments and forecasted foreign currency revenues and expenses. The Company utilizes option strategies and forward contracts that provide for the purchase or sale of foreign currencies to hedge probable, but not firmly committed, transactions. The Company also uses forward and option contracts to hedge foreign currency assets and liabilities. The principal foreign currencies hedged are the euro, British pound, Japanese yen and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings to U.S. dollar denominated borrowings. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its forecasted foreign exchange exposures generally for periods not to exceed four years. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related exposures. The economic or political conditions in a country could reduce our ability to hedge exposure to currency fluctuations in the country or our ability to repatriate revenue from the country.

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

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

Based on their evaluation as of July 2, 2016, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

There have been no changes in our internal controls over financial reporting during the third quarter of fiscal 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

As disclosed in Note 10 to the Condensed Consolidated Financial Statements, the Company is engaged in certain legal matters, and the disclosure set forth in Note 10 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 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, expenses of providing medical and pension benefits, demand for our products and performance of some or all company businesses either directly or through their impact on those who distribute our products. Additional factors are discussed in the 2015 Annual Report on Form 10-K under the Item 1A, “Risk Factors.”

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

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 July 2, 2016:

| Period                         | Total Number of Shares Purchased (1) | Weighted Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2) |
|--------------------------------|--------------------------------------|---------------------------------------|--|--|
| April 3, 2016 – April 30, 2016 | 3,974,375                            | \$ 99.50                              | 3,949,200  | 310 million  |
| May 1, 2016 – May 31, 2016     | 4,835,308                            | 101.51                                | 4,807,000  | 305 million  |
| June 1, 2016 – July 2, 2016    | 6,501,728                            | 98.24                                 | 6,475,000  | 298 million  |
| Total                          | 15,311,411                           | 99.60                                 | 15,231,200   | 298 million  |

(1) 80,211 shares were purchased on the open market to provide shares to participants in the Walt Disney Investment Plan (WDIP). These purchases were not made pursuant to a publicly announced repurchase plan or program.

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

ITEM 6. Exhibits  
See Index of Exhibits.

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SIGNATURE

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

THE WALT DISNEY COMPANY  
(Registrant)

By: /s/ CHRISTINE M. MCCARTHY  
Christine M. McCarthy,  
Senior Executive Vice President and Chief Financial Officer  
August 9, 2016  
Burbank, California

INDEX OF EXHIBITS

| Number and Description of Exhibit<br>(Numbers Coincide with Item 601 of Regulation S-K)   | Document Incorporated<br>by Reference from a<br>Previous Filing or Filed<br>Herewith, as Indicated<br>below |
|---|---|
| 3.2 Amended and Restated Bylaws   | Exhibit 3.2 to the Current<br>Report on Form 8-K of<br>the Company dated June<br>29, 2016.                  |
| 10.1 Description of Non-Management Director Compensation  | Filed herewith  |
| 12.1 Ratio of Earnings to Fixed Charges   | Filed herewith  |
| 31(a) Rule 13a-14(a) Certification of Chief Executive Officer of the Company in<br>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<br>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<br>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<br>with Section 906 of the Sarbanes-Oxley Act of 2002*   | Furnished   |
| 101 The following materials from the Company's Quarterly Report on Form 10-Q for the<br>quarter ended July 2, 2016 formatted in Extensible Business Reporting Language<br>(XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed<br>Consolidated Statements of Comprehensive Income, (iii) the Condensed<br>Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash<br>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.