

10-K 1 fy2013\_q4x10k.htm FORM 10-K

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 28, 2013

Commission File Number 1-11605

**The WALT DISNEY Company**

Incorporated in Delaware  
500 South Buena Vista Street, Burbank, California 91521  
(818) 560-1000

I.R.S. Employer Identification No.  
95-4545390

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 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 if disclosure of delinquent filers pursuant to Rule 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ☐ ]

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer (do not check if smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

The aggregate market value of common stock held by non-affiliates (based on the closing price on the last business day of the registrant's most recently completed second fiscal quarter as reported on the New York Stock Exchange-Composite Transactions) was

\$102.1 billion. All executive officers and directors of the registrant and all persons filing a Schedule 13D with the Securities and Exchange Commission in respect to registrant's common stock have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

There were 1,757,279,616 shares of common stock outstanding as of November 14, 2013.

*Documents Incorporated by Reference*

Certain information required for Part III of this report is incorporated herein by reference to the proxy statement for the 2014 annual meeting of the Company's shareholders.

---

# THE WALT DISNEY COMPANY AND SUBSIDIARIES

## TABLE OF CONTENTS

	<u>Page</u>
<b>PART I</b>	
ITEM 1. <a href="#"><u>Business</u></a>	<a href="#"><u>1</u></a>
ITEM 1A. <a href="#"><u>Risk Factors</u></a>	<a href="#"><u>17</u></a>
ITEM 1B. <a href="#"><u>Unresolved Staff Comments</u></a>	<a href="#"><u>21</u></a>
ITEM 2. <a href="#"><u>Properties</u></a>	<a href="#"><u>21</u></a>
ITEM 3. <a href="#"><u>Legal Proceedings</u></a>	<a href="#"><u>22</u></a>
ITEM 4. <a href="#"><u>Mine Safety Disclosures</u></a>	<a href="#"><u>22</u></a>
<a href="#"><u>Executive Officers of the Company</u></a>	<a href="#"><u>22</u></a>
<b>PART II</b>	
ITEM 5. <a href="#"><u>Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u></a>	<a href="#"><u>23</u></a>
ITEM 6. <a href="#"><u>Selected Financial Data</u></a>	<a href="#"><u>23</u></a>
ITEM 7. <a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>	<a href="#"><u>24</u></a>
ITEM 7A. <a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a>	<a href="#"><u>47</u></a>
ITEM 8. <a href="#"><u>Financial Statements and Supplementary Data</u></a>	<a href="#"><u>48</u></a>
ITEM 9. <a href="#"><u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u></a>	<a href="#"><u>48</u></a>
ITEM 9A. <a href="#"><u>Controls and Procedures</u></a>	<a href="#"><u>48</u></a>
ITEM 9B. <a href="#"><u>Other Information</u></a>	<a href="#"><u>48</u></a>
<b>PART III</b>	
ITEM 10. <a href="#"><u>Directors, Executive Officers and Corporate Governance</u></a>	<a href="#"><u>49</u></a>
ITEM 11. <a href="#"><u>Executive Compensation</u></a>	<a href="#"><u>49</u></a>

ITEM 12.	<a href="#"><u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u></a>	<a href="#"><u>49</u></a>
ITEM 13.	<a href="#"><u>Certain Relationships and Related Transactions, and Director Independence</u></a>	<a href="#"><u>49</u></a>
ITEM 14.	<a href="#"><u>Principal Accounting Fees and Services</u></a>	<a href="#"><u>49</u></a>

#### **PART IV**

ITEM 15.	<a href="#"><u>Exhibits and Financial Statement Schedules</u></a>	<a href="#"><u>50</u></a>
----------	---	---------------------------

<a href="#"><u>SIGNATURES</u></a>	<a href="#"><u>53</u></a>
-----------------------------------	---------------------------

<a href="#"><u>Consolidated Financial Information — The Walt Disney Company</u></a>	<a href="#"><u>54</u></a>
---	---------------------------

---

(This page intentionally left blank)

---

[TABLE OF CONTENTS](#)**PART I****ITEM 1. Business**

The Walt Disney Company, together with its subsidiaries, is a diversified worldwide entertainment company with operations in five business segments: Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products and Interactive. On December 21, 2012, we completed the acquisition of Lucasfilm Ltd. LLC (Lucasfilm), which includes the *Star Wars* franchise. See Note 3 to the Consolidated Financial Statements. Lucasfilm results are included primarily in our Studio Entertainment and Consumer Products segments. For convenience, the terms “Company” and “we” are used to refer collectively to the parent company and the subsidiaries through which our various businesses are actually conducted.

Information on the Company’s revenues, operating income and identifiable assets appears in Note 1 to the Consolidated Financial Statements included in Item 8 hereof. The Company employed approximately 175,000 people as of September 28, 2013.

**MEDIA NETWORKS**

The Media Networks segment includes broadcast and cable television networks, television production operations, television distribution, domestic television stations and radio networks and stations.

The businesses in the Media Networks segment generate revenue from fees charged to cable, satellite and telecommunications service providers (Multi-channel Video Programming Distributors or MVPDs) and television stations affiliated with our domestic broadcast television network, from the sale to advertisers of time in programs for commercial announcements and from other sources such as the sale and distribution of television programming. Significant operating expenses include programming and production costs, technical support costs, distribution costs and operating labor.

**Cable Networks**

Our cable networks include ESPN, Disney Channels Worldwide, ABC Family and SOAPnet. We also operate the UTV/Bindass networks in India. The cable networks group produces its own programs or acquires rights from third-parties to air programs on our networks. The Company also has interests in joint ventures that operate cable and broadcast programming services and are accounted for under the equity method of accounting.

Cable networks derive a majority of their revenues from fees charged to MVPDs for the right to deliver our programming to their customers and, for certain networks (primarily ESPN and ABC Family), the sale to advertisers of time in network programs for commercial announcements. Generally, the Company’s cable networks operate under multi-year agreements with MVPDs that include contractually determined fees. The amounts that we can charge to MVPDs for our cable network services are largely dependent on the competitive market and the quality and quantity of programming that we can provide. The ability to sell time for commercial announcements and the rates received are primarily dependent on the size and nature of the audience that the network can deliver to the advertiser as well as overall advertiser demand. We also sell programming developed by our cable networks worldwide in pay and syndication television markets, in DVD and Blu-ray format and also online.

[TABLE OF CONTENTS](#)

The Company's significant cable networks and our ownership percentage and estimated subscribers as of September 28, 2013 are set forth in the following table:

	<b>Estimated Subscribers (in millions) <sup>(1)</sup></b>	<b>Ownership %</b>
<b>ESPN</b>		
ESPN	99	80.0
ESPN2	99	80.0
ESPNEWS	76	80.0
ESPN Classic	31	80.0
ESPNU	76	80.0
<b>Disney Channels Worldwide</b>		
Disney Channel - Domestic	99	100.0
Disney Channels – International	172	100.0
Disney Junior – Domestic	63	100.0
Disney Junior – International	97	100.0
Disney XD - Domestic	82	100.0
Disney XD – International	106	100.0
<b>ABC Family</b>	98	100.0
<b>SOAPnet</b>	67	100.0
<b>A&amp;E Television Networks (AETN)</b>		
A&E	100	50.0
Lifetime	100	50.0
HISTORY	99	50.0
LMN	85	50.0
BIO	69	50.0
H2	70	50.0
Lifetime Real Women	16	50.0

<sup>(1)</sup> Estimated domestic subscriber counts are according to Nielsen Media Research. International subscriber counts are based on internal management reports.

*ESPN*

ESPN is a multimedia, multinational sports entertainment company that operates seven 24-hour domestic television sports networks: ESPN, ESPN2, ESPNEWS, ESPN Classic, ESPN Deportes (a Spanish language network), ESPNU (a network devoted to college sports) and the regionally focused Longhorn Network (a network dedicated to The University of Texas athletics). ESPN also operates five high-definition television simulcast services: ESPN HD, ESPN2 HD, ESPNEWS HD, ESPNU HD and ESPN Deportes HD. ESPN programs the sports schedule on the ABC Television Network, which is branded ESPN on ABC. ESPN owns 16 international sports networks reaching households in 62 countries and territories in four languages. In addition, ESPN holds a 30% equity interest in CTV Specialty Television, Inc., which owns television networks in Canada, including The Sports Network, The Sports Network 2, Le Réseau des Sports, ESPN Classic Canada, the NHL Network and Discovery Canada. ESPN owned a 50% equity interest in ESPN STAR Sports (ESS), a joint venture, which distributes sports programming throughout most of Asia. ESPN sold its interest in ESS to the joint venture partner in November 2012. (See Note 4 to the Consolidated Financial Statements.) ESPN intends to launch a new network in August 2014, which will carry sports programming dedicated to South East Conference (SEC) college

athletics (The SEC Network).

ESPN holds rights for various professional and college sports programming including the National Football League (NFL), the National Basketball Association (NBA), Major League Baseball (MLB), the Bowl Championship Series, major college football and basketball conferences, National Association of Stock Car Auto Racing (NASCAR), the Wimbledon Championships, US Open Tennis and the British Open and Masters golf tournaments.



## TABLE OF CONTENTS

ESPN also operates:

- ESPN.com – which delivers comprehensive sports news, information and video each month through its national hub and six local sites – ESPNBoston.com, ESPNChicago.com, ESPNDallas.com, ESPNDeportesLosAngeles.com, ESPNLosAngeles.com and ESPNNewYork.com
- ESPN3 – which is a broadband service available to over 85 million subscribers that delivers more than 4,800 live events annually
- ESPN Mobile Properties – which delivers content, including live game coverage, alerts and highlights, to mobile devices
- WatchESPN – which delivers ESPN, ESPN2, ESPNU, ESPN Deportes and ESPN3 content online or through mobile devices. These linear channel feeds are available to consumers who have subscriptions to select MVPDs
- ESPN Regional Television – which is a syndicator of collegiate sports programming
- The ESPN Radio Network – which distributes regularly scheduled programming and is one of the largest sports radio networks in the U.S. ESPN Radio network programming is carried on more than 450 stations including four ESPN owned stations in New York, Dallas, Chicago and Los Angeles
- ESPN The Magazine – which is a bi-weekly sports magazine
- ESPN Enterprises – which develops branded licensing opportunities
- espnW – which provides an online destination for female sports fans and athletes

### *Disney Channels Worldwide*

Disney Channels Worldwide includes over 100 channels available in 34 languages and 166 countries/territories. Branded channels include Disney Channel, Disney Junior, Disney XD, Disney Cinemagic, Hungama and DLife. Disney Channels Worldwide also operates Radio Disney and has content available through subscription and video-on-demand services and online through our websites: DisneyChannel.com, DisneyXD.com, DisneyJunior.com and RadioDisney.com. Programming for these networks includes internally developed and acquired programming.

*Disney Channel* - Disney Channel is a 24-hour cable network airing original series and movie programming targeted to children ages 6 to 14 and families. Disney Channel develops and produces shows for exhibition on its network, including live-action comedy series, animated programming and preschool series as well as original movies. Live-action comedy series include *A.N.T. Farm*, *Austin & Ally*, *Good Luck Charlie*, *Dog with a Blog*, *Jessie*, *Shake It Up* and *Liv & Maddie*. Disney Channel also airs the animated programs, *Fish Hooks*, *Gravity Falls*, *Phineas and Ferb* and *Wander over Yonder*. Original animated series for preschoolers include *Disney's Mickey Mouse Clubhouse*, *Doc McStuffins*, *Jake and the Never Land Pirates* and *Sofia the First*. Disney Channel also airs programming and content from Disney's theatrical film and television programming library.

*Disney Junior* - Disney Junior is a 24-hour cable network that airs programming for children ages 2 to 7 and their parents and caregivers, featuring animated and live-action programming that blends Disney's storytelling and characters with learning. Programming focuses on early math and language skills, healthy eating and social skills. In fiscal 2012, we began the conversion of one of our domestic cable networks, SOAPnet, to Disney Junior and most MVPDs that carried SOAPnet have transitioned to carrying the Disney Junior network. We expect that the conversion will be completed early in fiscal 2014. Disney Junior also airs as a programming block on the Disney Channel in the U.S. and other owned and third-party channels outside of the United States. Original animated series include *Disney's Mickey Mouse Clubhouse*, *Doc McStuffins*, *Sofia the First*, *Jake and the Never Land Pirates* and *Henry Hugglemonster*.

*Disney XD* - Disney XD is a 24-hour cable channel airing a mix of live-action and animated original programming for kids ages 6 to 14. Programming includes live-action series *Crash & Bernstein*, *Kickin' It*, *Kid vs. Kat* and *Lab Rats* and animated series *Phineas and Ferb*, *Randy Cunningham 9th Grade Ninja*, *Hulk and the Agents of S.M.A.S.H.*, *Marvel's Avengers Assemble*, *Ultimate Spider Man* and *Zeke and Luther*.

We also have Disney XD channels in Latin America, Europe and Asia.

*WatchDisneyChannel.com*, *WatchDisneyJunior.com* and *WatchDisneyXD.com* launched in the U.S. in 2012 and provide a way for subscribers of MVPDs to watch the live channel feed through a computer or mobile device. Other Disney Channel content is also available without a MVPD subscription.

*Disney Cinemagic* - Disney Cinemagic is a premium subscription service available in certain countries in Europe that shows Disney movies, classic and newer Disney cartoons and shorts as well as animated television series.

## TABLE OF CONTENTS

*Hungama* - Hungama is a kids general entertainment cable network in India, which features a mix of anime, Hindi-language series and game shows.

*Radio Disney* - Radio Disney is a 24-hour radio network devoted to kids, tweens and families, which is available on 24 domestic terrestrial radio stations, RadioDisney.com, TuneIn Radio app, TuneIn.com/RadioDisney, SiriusXM, iTunes Radio Tuner, mobile phones, the Radio Disney iPhone, iPad and Android apps and the Radio Disney Facebook page. Radio Disney is also available throughout Latin America on two owned terrestrial stations and through licensing agreements with third-party radio stations.

*Seven TV* - During fiscal 2012, the Company acquired a 49% ownership interest in Seven TV network from UTH Russia Limited for \$300 million. The Seven TV network has been converted to an advertising-supported, free-to-air Disney Channel in Russia. (See Note 3 to the Consolidated Financial Statements.) The Company's share of the financial results of Seven TV is reported as "Equity in the income of investees" in the Company's Consolidated Statements of Income.

*Das Vierte* - In December 2012, the Company acquired Das Vierte, an advertising-supported channel in Germany. The Company plans to convert this channel to a free-to-air Disney Channel in early 2014.

### *ABC Family*

ABC Family is a U.S. television programming service that targets viewers in the 14 to 34 age demographic. ABC Family produces original live-action programming including the returning series *Switched at Birth*, *Melissa & Joey* and *Baby Daddy* as well as the new original series *The Fosters* and *Twisted*. ABC Family also acquires programming from third parties including the returning series *Pretty Little Liars* and the new series *Ravenswood*. Additionally, ABC Family airs content from our owned theatrical film library and features branded holiday programming events such as "13 Nights of Halloween" and "25 Days of Christmas".

ABCFamily.com provides online access to full-length episodes of ABC Family programming through personal computers. The ABC Family app provides full-length episodes of ABC Family programming to mobile devices. ABCFamily.com also provides online extensions to ABC Family programming such as *Pretty Dirty Secrets*, which is an extension of *Pretty Little Liars*.

### *SOAPnet*

SOAPnet offers same-day episodes of daytime dramas and classic episodes of daytime dramas and primetime series. Programming includes daytime dramas such as *Days of Our Lives*, *General Hospital* and *The Young and the Restless* and classic episodes from series such as *All My Children*, *One Life to Live*, *The O.C.*, *One Tree Hill*, *Beverly Hills 90210*, *Gilmore Girls*, *Veronica Mars* and *Brothers & Sisters*. In fiscal 2012, we began the conversion of SOAPnet to Disney Junior, and most MVPDs that carried SOAPnet have transitioned to carrying the Disney Junior network. We expect that the conversion will be completed early in fiscal 2014.

### *UTV Networks*

In India, we operate the Bindass, UTV World Movies, UTV Action, UTV Movies and UTV Stars cable television channels. During fiscal 2012, the Company increased its ownership in UTV from 50% to 99%. (See Note 3 to the Consolidated Financial Statements.)

In the second quarter of fiscal 2013, we formed a joint venture with Viacom and TV18 that will distribute the networks operated in India by the joint venture partners, including our UTV and Disney networks, to MVPDs. The Company's share of the joint venture's financial results is reported as "Equity in the income of investees" in the Company's Consolidated Statements of Income.

## [TABLE OF CONTENTS](#)

### *AETN*

The A&E Television Networks (AETN), a joint venture owned 50% by the Company and 50% by the Hearst Corporation, operates a variety of cable programming services including A&E, HISTORY, BIO, H2, Lifetime, LMN and Lifetime Real Women. A&E offers entertainment programming including reality series, original movies, dramatic series and justice shows. HISTORY offers original non-fiction series and event-driven specials. BIO offers original series about prominent people and their lives, including the “Biography” series. H2 focuses on the culture and history of various countries throughout the world from the perspective of locals. Lifetime Television is devoted to women’s lifestyle programming. LMN is a 24-hour movie channel. Lifetime Real Women is a 24-hour cable network with programming focusing on women. Internationally, AETN programming is available in over 150 countries.

During fiscal 2012, the Company’s ownership interest in AETN increased from 42.1% to 50% as a result of AETN’s redemption of NBCUniversal’s 15.8% equity interest in AETN. (See Note 3 to the Consolidated Financial Statements.) The Company’s share of AETN’s financial results is reported as “Equity in the income of investees” in the Company’s Consolidated Statements of Income.

### **Broadcasting**

Our broadcasting business includes a domestic broadcast network, television production and distribution operations and 8 owned domestic television stations. The Company also has an interest in Hulu LLC (Hulu), a joint venture that distributes film and television content on the internet.

#### *Domestic Broadcast Television Network*

The Company operates the ABC Television Network (ABC), which as of September 28, 2013, had affiliation agreements with 239 local television stations reaching 99% of all U.S. television households. ABC broadcasts programs in the following “dayparts”: primetime, daytime, late night, news and sports.

ABC produces its own programs and also acquires programming rights from third parties as well as entities that are owned by or affiliated with the Company. ABC derives the majority of its revenues from the sale to advertisers of time in network programs for commercial announcements. The ability to sell time for commercial announcements and the rates received are primarily dependent on the size and nature of the audience that the network can deliver to the advertiser as well as overall advertiser demand for time on network broadcasts. ABC also receives fees for its broadcast feed from affiliated television stations.

ABC.com is the official website of ABC and provides access to full-length episodes of ABC shows online. The Watch ABC app provides subscribers of participating MVPDs access to the participating local ABC TV linear feed along with full-length episodes of ABC programming on mobile devices. Non-subscribers have access to a more limited range of programming and do not get access to the linear feed. ABCNews.com provides in-depth worldwide news coverage online and video-on-demand news reports from ABC News broadcasts. In fiscal 2011, ABC News entered into an agreement to provide news content to Yahoo! News.

#### *Television Production*

The Company produces the majority of its original live-action television programming under the ABC Studios label. Program development is carried out in collaboration with independent writers, producers and creative teams, with a focus on half-hour comedies and one-hour dramas, primarily for primetime broadcasts. Primetime programming produced either for our networks or for third parties for the 2013/2014 television season includes the returning one-hour dramas: *Castle*, *Criminal Minds*, *Devious Maids*, *Grey’s Anatomy*, *Mistresses*, *Nashville*, *Once Upon a Time*, *Perception*, *Revenge* and *Scandal*; and the returning half-hour comedies, *Cougar Town* and *The Neighbors*. New primetime series include the one-hour dramas: *Betrayal*, *Marvel’s Agents of S.H.I.E.L.D.* and *Once Upon A Time in Wonderland*, and the half-hour comedy, *Trophy Wife*. Additionally the drama series, *Intelligence*, *Killer Women* and *Resurrection*, and the comedy, *Mixology* are in production for mid-season launch. The Company also produces the late night show, *Jimmy Kimmel Live*, a variety of primetime specials for network television and live-action syndicated programming.

Syndicated programming includes the daytime talk shows, *Katie* and *Live! with Kelly and Michael*, and the game show, *Who Wants to Be a Millionaire*. The Company also produces news programming including *World News with Diane Sawyer*, *20/20*, *Nightline*, *Good Morning America* and *This Week with George Stephanopoulos* and programming for daytime such as *General Hospital*, *The View* and *The Chew*.



## [TABLE OF CONTENTS](#)

### *Television Distribution*

We distribute the Company's productions worldwide in pay and syndication television markets, in DVD and Blu-ray format and also online via Company internet sites, Hulu and third-party services.

### *Domestic Television Stations*

The Company owns eight television stations, six of which are located in the top-ten markets in the U.S. The television stations derive the majority of their revenues from the sale to advertisers of time in station programming for commercial announcements. The stations also receive retransmission fees from MVPDs for the right to deliver our programming to their customers. All of our television stations are affiliated with ABC and collectively reach 23% of the nation's television households. Each owned station broadcasts three digital channels: the first consists of local, ABC and syndicated programming; the second is the Live Well Network in standard definition; and the third is the Live Well Network in high definition.

The Live Well Network provides programming focusing on lifestyle topics such as interior design, healthy cooking and outdoor activities. The Live Well Network is available to 69% of the nation's households through our owned stations and affiliates.

Details for the stations we own are as follows:

<b>TV Station</b>	<b>Market</b>	<b>Television Market Ranking<sup>(1)</sup></b>
WABC	New York, NY	1
KABC	Los Angeles, CA	2
WLS	Chicago, IL	3
WPVI	Philadelphia, PA	4
KGO	San Francisco, CA	6
KTRK	Houston, TX	10
WTVD	Raleigh-Durham, NC	24
KFSN	Fresno, CA	55

<sup>(1)</sup> Based on Nielsen Media Research, U.S. Television Household Estimates, January 1, 2013

### *Hulu*

Hulu is a joint venture owned by Fox Entertainment Group, NBCUniversal and the Company following Hulu's October 2012 redemption of a 10% interest held by Providence Equity Partners. Its principal business is to aggregate television and film entertainment for viewing on the internet. Hulu offers a free service, which is advertising supported and a subscription based service, Hulu Plus. The Hulu Plus service offers more content and less commercial time than the free service. In July 2013, Fox Entertainment Group, NBCUniversal and the Company agreed to provide Hulu with \$750 million in cash to fund Hulu's operations and investments for future growth, of which \$380 million has been provided as of September 28, 2013. The Company has contributed \$134 million of its \$257 million share of this cash commitment and the Company's ownership interest increased from 29% to 33%. (See Note 3 to the Consolidated Financial Statements.) The Company's share of Hulu's financial results is reported as "Equity in the income of investees" in the Company's Consolidated Statements of Income.

### *Fusion*

In fiscal 2012, the Company and Univision formed a joint venture to create Fusion, a news, pop culture and lifestyle television and digital network targeted at English speaking Hispanic Millennials, which launched in October 2013. The Company's share of Fusion's financial results is reported as "Equity in the income of investees" in the Company's Consolidated Statements of Income.

## [TABLE OF CONTENTS](#)

### **Competition and Seasonality**

The Company's Media Networks businesses compete for viewers primarily with other television and cable networks, independent television stations and other media, such as DVD and Blu-ray formats, video games and the internet. With respect to the sale of advertising time, our broadcasting operations, certain of our cable networks and our television and radio stations compete with other television networks and radio stations, independent television stations, MVPDs and other advertising media such as newspapers, magazines, billboards and the internet. Our television and radio stations primarily compete for audiences in individual market areas. A television or radio station in one market generally does not compete directly with stations in other markets.

The growth in the number of networks distributed by MVPDs has resulted in increased competitive pressures for advertising revenues for our broadcasting and cable networks. The Company's cable networks also face competition from other cable networks for carriage by MVPDs. The Company's contractual agreements with MVPDs are renewed or renegotiated from time to time in the ordinary course of business. Consolidation and other market conditions in the cable and satellite distribution industry and other factors may adversely affect the Company's ability to obtain and maintain contractual terms for the distribution of its various cable programming services that are as favorable as those currently in place.

The Company's Media Networks businesses also compete for the acquisition of sports and other programming. The market for programming is very competitive, particularly for sports programming. The Company currently has sports rights agreements with the NFL, college football (including college football bowl games) and basketball conferences, NBA, NASCAR, MLB, World Cup and various soccer leagues, and golf and tennis associations.

The Company's internet websites and digital products compete with other websites and entertainment products in their respective categories.

Advertising revenues at the Media Networks are subject to seasonal advertising patterns and changes in viewership levels. Revenues are typically somewhat higher during the fall and somewhat lower during the summer months. Affiliate revenues are typically collected ratably throughout the year. Certain affiliate revenues at ESPN are deferred until annual programming commitments are met. These commitments are typically satisfied during the second half of the Company's fiscal year, which generally results in higher revenue recognition during this period.

### **Federal Regulation**

Television and radio broadcasting are subject to extensive regulation by the Federal Communications Commission (FCC) under federal laws and regulations, including the Communications Act of 1934, as amended. Violation of FCC regulations can result in substantial monetary forfeitures, limited renewals of licenses and, in egregious cases, denial of license renewal or revocation of a license. FCC regulations that affect our Media Networks segment include the following:

- *Licensing of television and radio stations.* Each of the television and radio stations we own must be licensed by the FCC. These licenses are granted for periods of up to eight years, and we must obtain renewal of licenses as they expire in order to continue operating the stations. We (or the acquiring entity in the case of a divestiture) must also obtain FCC approval whenever we seek to have a license transferred in connection with the acquisition or divestiture of a station. The FCC may decline to renew or approve the transfer of a license in certain circumstances and may delay renewals while permitting a licensee to continue operating. The FCC has delayed renewals for a number of broadcast licensees, including a number of our licenses, in recent years while permitting the licensees to continue operating. Although we have received such renewals and approvals in the past or have been permitted to continue operations when renewal is delayed, there can be no assurance that this will be the case in the future.
- *Television and radio station ownership limits.* The FCC imposes limitations on the number of television stations and radio stations we can own in a specific market, on the combined number of television and radio stations we can own in a single market and on the aggregate percentage of the national audience that can be reached by television stations we own. Currently:
  - FCC regulations may restrict our ability to own more than one television station in a market, depending on the size and nature of the market. We do not own more than one television station in any of the markets in which we own a television station.
  - Federal statutes permit our television stations in the aggregate to reach a maximum of 39% of the national audience (for

this purpose, FCC regulations attribute to UHF television stations only 50% of the television households in their market). For purposes of the FCC's rules, our eight stations reach approximately 21% of the national audience.



## TABLE OF CONTENTS

- FCC regulations in some cases impose restrictions on our ability to acquire additional radio or television stations in the markets in which we own radio stations, but we do not believe any such limitations are material to our current operating plans.
- *Dual networks.* FCC rules currently prohibit any of the four major television networks — ABC, CBS, Fox and NBC — from being under common ownership or control.
- *Regulation of programming.* The FCC regulates broadcast programming by, among other things, banning “indecent” programming, regulating political advertising and imposing commercial time limits during children’s programming. Penalties for broadcasting indecent programming are a maximum of \$325,000 per station.

Federal legislation and FCC rules also limit the amount of commercial matter that may be shown on broadcast or cable channels during programming designed for children 12 years of age and younger. In addition, broadcast channels are generally required to provide a minimum of three hours per week of programming that has as a “significant purpose” meeting the educational and informational needs of children 16 years of age and younger. FCC rules also give television station owners the right to reject or refuse network programming in certain circumstances or to substitute programming that the licensee reasonably believes to be of greater local or national importance.

- *Cable and satellite carriage of broadcast television stations.* With respect to cable systems operating within a television station’s Designated Market Area, FCC rules require that every three years each television station elect either “must carry” status, pursuant to which cable operators generally must carry a local television station in the station’s market, or “retransmission consent” status, pursuant to which the cable operator must negotiate with the television station to obtain the consent of the television station prior to carrying its signal. Under the Satellite Home Viewer Improvement Act and its successors, including most recently the Satellite Television Extension and Localism Act (STELA), which also requires the “must carry” or “retransmission consent” election, satellite carriers are permitted to retransmit a local television station’s signal into its local market with the consent of the local television station. Portions of these satellite laws are set to expire on December 31, 2014, and legislative discussions are underway with respect to their renewal. Under “must carry,” if a satellite carrier elects to carry one local station in a market, the satellite carrier must carry the signals of all local television stations that also request carriage.
- *Cable and satellite carriage of programming.* The Communications Act and FCC rules regulate some aspects of negotiations regarding cable and satellite retransmission consent, and some cable and satellite companies have sought regulation of additional aspects of the carriage of programming on cable and satellite systems. New legislation, court action or regulation in this area could, depending on its specific nature, have an impact on the Company’s operations.

The foregoing is a brief summary of certain provisions of the Communications Act and other legislation and of specific FCC rules and policies. Reference should be made to the Communications Act, other legislation, FCC rules and public notices and rulings of the FCC for further information concerning the nature and extent of the FCC’s regulatory authority.

FCC laws and regulations are subject to change, and the Company generally cannot predict whether new legislation, court action or regulations, or a change in the extent of application or enforcement of current laws and regulations, would have an adverse impact on our operations.

## **PARKS AND RESORTS**

The Company owns and operates the Walt Disney World Resort in Florida, the Disneyland Resort in California, Aulani, a Disney Resort & Spa in Hawaii, the Disney Vacation Club, the Disney Cruise Line and Adventures by Disney. The Company manages and has effective ownership interests of 51% in Disneyland Paris, 48% in Hong Kong Disneyland Resort and 43% in Shanghai Disney Resort, each of which is consolidated in our financial statements. The Company also licenses the operations of the Tokyo Disney Resort in Japan. The Company’s Walt Disney Imagineering unit designs and develops new theme park concepts and attractions as well as resort properties.

The businesses in the Parks and Resorts segment generate revenues predominately from the sale of admissions to theme parks; sales of food, beverage and merchandise; charges for room nights at hotels; sales of cruise vacation packages; and sales and rentals of vacation club properties. Significant costs include labor; depreciation; costs of merchandise, food and beverage sold; marketing and

sales expense; repairs and maintenance; utilities; information technology; and cost of vacation club units.

## [TABLE OF CONTENTS](#)

### **Walt Disney World Resort**

The Walt Disney World Resort is located 22 miles southwest of Orlando, Florida, on approximately 25,000 acres of owned land. The resort includes theme parks (the Magic Kingdom, Epcot, Disney's Hollywood Studios and Disney's Animal Kingdom); hotels; vacation club properties; a retail, dining and entertainment complex; a sports complex; conference centers; campgrounds; golf courses; water parks; and other recreational facilities designed to attract visitors for an extended stay.

The Walt Disney World Resort is marketed through a variety of international, national and local advertising and promotional activities. A number of attractions and restaurants in each of the theme parks are sponsored by other corporations through long-term agreements.

**Magic Kingdom** — The Magic Kingdom, which opened in 1971, consists of six themed lands: Adventureland, Fantasyland, Frontierland, Liberty Square, Main Street USA and Tomorrowland. Each land provides a unique guest experience featuring themed rides and attractions, live Disney character interactions, restaurants, refreshment areas and merchandise shops. Additionally, there are daily parades and a nighttime fireworks extravaganza, *Wishes*. The Company is currently in a multi-year expansion of Fantasyland that includes new themed areas and attractions that will nearly double the size of the land once the project is completed in 2014.

**Epcot** — Epcot, which opened in 1982, consists of two major themed areas: Future World and World Showcase. Future World dramatizes certain historical developments and addresses the challenges facing the world today through pavilions devoted to showcasing science and technology improvements, communication, energy, transportation, use of imagination, nature and food production, the ocean environment and space. World Showcase presents a community of nations focusing on the culture, traditions and accomplishments of people around the world. Countries represented with pavilions include Canada, China, France, Germany, Italy, Japan, Mexico, Morocco, Norway, the United Kingdom and the United States. Both areas feature themed rides and attractions, restaurants and merchandise shops. Epcot also features *Illuminations: Reflections of Earth*, a nighttime entertainment spectacular.

**Disney's Hollywood Studios** — Disney's Hollywood Studios, which opened in 1989, consists of four themed areas: Animation Courtyard, Backlot, Hollywood Boulevard and Sunset Boulevard. The four areas provide behind-the-scenes glimpses of Hollywood-style action through various shows and attractions and offer themed food service and merchandise facilities. The park also features *Fantasmic!*, a nighttime entertainment spectacular.

**Disney's Animal Kingdom** — Disney's Animal Kingdom, which opened in 1998, consists of a 145-foot Tree of Life centerpiece surrounded by six themed areas: Africa, Asia, Camp Minnie-Mickey, Dinoland U.S.A., Discovery Island and Rafiki's Planet Watch. Each themed area contains attractions, entertainment shows, restaurants and merchandise shops. The park features more than 300 species of mammals, birds, reptiles and amphibians and 3,000 varieties of trees and plants. In September 2011, the Company announced an agreement with James Cameron's Lightstorm Entertainment and Fox Filmed Entertainment for the exclusive global theme park rights to create themed lands based on the AVATAR franchise with the first land planned for Disney's Animal Kingdom. Scheduled to open in 2017, the AVATAR-inspired land will be a part of an expansion in Disney's Animal Kingdom, which will include new entertainment and nighttime experiences.

**Hotels and Other Resort Facilities** — As of September 28, 2013, the Company owned and operated 18 resort hotels at the Walt Disney World Resort, with a total of approximately 24,000 rooms and 3,010 vacation club units. Resort facilities include 468,000 square feet of conference meeting space and Disney's Fort Wilderness camping and recreational area, which offers approximately 800 campsites.

The Walt Disney World Resort also hosts a 120-acre retail, dining and entertainment complex known as Downtown Disney. Downtown Disney is home to Cirque du Soleil, DisneyQuest, the House of Blues and the 51,000-square-foot World of Disney retail store featuring Disney-branded merchandise. A number of the Downtown Disney facilities are operated by third parties that pay rent to the Company. In 2013, the Company announced a three-year expansion to transform Downtown Disney into Disney Springs, which will provide visitors with more shopping, dining and entertainment options.

ESPN Wide World of Sports, which opened in 1997, is a 230-acre sports complex that hosts professional caliber training and competitions, festival and tournament events and interactive sports activities. The complex, which welcomes over 200 amateur and professional events each year, accommodates multiple sporting events, including baseball, basketball, football, soccer, softball, tennis and track and field. Its stadium, which has a seating capacity of approximately 9,500, is the spring training site for MLB's Atlanta Braves.

In the Downtown Disney Resort area, seven independently-operated hotels are situated on property leased from the Company. These hotels include approximately 3,700 rooms. Additionally, the Walt Disney World Swan and the Walt Disney

## [TABLE OF CONTENTS](#)

World Dolphin hotels, which have approximately 2,300 total rooms, are independently operated on property leased from the Company near Epcot.

Other recreational amenities and activities available at the Walt Disney World Resort include three championship golf courses, miniature golf courses, full-service spas, tennis, sailing, water skiing, swimming, horseback riding and a number of other noncompetitive sports and leisure time activities. The resort also includes two water parks: Blizzard Beach and Typhoon Lagoon.

### **Disneyland Resort**

The Company owns 461 acres and has the rights under long-term lease for use of an additional 49 acres of land in Anaheim, California. The Disneyland Resort includes two theme parks (Disneyland and Disney California Adventure), three hotels and Downtown Disney, a retail, dining and entertainment complex designed to attract visitors for an extended stay.

The Disneyland Resort is marketed as a destination through international, national and local advertising and promotional activities. A number of the attractions and restaurants at the theme parks are sponsored by other corporations through long-term agreements.

**Disneyland** — Disneyland, which opened in 1955, consists of eight principal areas: Adventureland, Critter Country, Fantasyland, Frontierland, Main Street USA, Mickey's Toontown, New Orleans Square and Tomorrowland. These areas feature themed rides and attractions, shows, restaurants, merchandise shops and refreshment stands. Additionally, Disneyland offers daily parades and a nighttime entertainment spectacular, *Fantasmic!*.

**Disney California Adventure** — Disney California Adventure, which opened in 2001, is adjacent to Disneyland and includes eight principal areas: Buena Vista Street, Cars Land, Condor Flats, Grizzly Peak, Hollywood Land, Pacific Wharf, Paradise Pier and "a bug's land". These areas include rides, attractions, shows, restaurants, merchandise shops and refreshment stands. Additionally, Disney California Adventure offers a nighttime water spectacular, *World of Color*.

**Hotels and Other Resort Facilities** — Disneyland Resort includes three Company-owned and operated hotels with a total of approximately 2,400 rooms, 50 vacation club units and 180,000 square feet of conference meeting space.

Downtown Disney, a themed 15-acre outdoor complex of entertainment, dining and shopping venues, is located adjacent to both Disneyland and Disney California Adventure. A number of the Downtown Disney facilities are operated by third parties that pay rent to the Company.

### **Aulani, a Disney Resort & Spa**

In August 2011 the Company opened its first mixed-use family resort outside of its theme park developments on a 21-acre oceanfront property on Oahu, Hawaii. Aulani, a Disney Resort & Spa features 359 hotel rooms, an 18,000 square foot spa and 12,000 square feet of conference meeting space. The resort also has a 481 unit Disney Vacation Club facility.

### **Disneyland Paris**

The Company has a 51% effective ownership interest in Disneyland Paris, a 5,510-acre development located in Marne-la-Vallée, approximately 20 miles east of Paris, France, which has been developed pursuant to a master agreement with French governmental authorities. The Company manages and has a 40% equity interest in Euro Disney S.C.A., a publicly-traded French entity that is the holding company for Euro Disney Associés S.C.A., the primary operating company of Disneyland Paris. Euro Disney S.C.A. and its subsidiaries operate Disneyland Paris, which includes two theme parks (Disneyland Park and Walt Disney Studios Park); seven themed hotels; two convention centers; a shopping, dining and entertainment complex; and a 27-hole golf facility. Of the 5,510 acres comprising the site, approximately half have been developed to date, including the Val d'Europe development discussed below. An indirect, wholly-owned subsidiary of the Company is responsible for managing Disneyland Paris. Euro Disney S.C.A. is required to pay royalties and management fees to the Company based on the operating performance of the resort.

**Disneyland Park** — Disneyland Park, which opened in 1992, consists of five principal themed areas: Adventureland, Discoveryland, Fantasyland, Frontierland and Main Street. These areas include themed rides, attractions, shows, restaurants, merchandise shops and refreshment stands. Disneyland Park also features a daily parade and a nighttime entertainment spectacular, *Disney Dreams!*.

**Walt Disney Studios Park** — Walt Disney Studios Park opened in March 2002 adjacent to Disneyland Park. The park takes guests into the worlds of cinema, animation and television and includes four principal themed areas: Backlot, Front Lot, Production Courtyard and Toon Studios. These areas each include themed rides, attractions, shows, restaurants, merchandise

## [TABLE OF CONTENTS](#)

shops and refreshment stands. In fiscal 2013, Euro Disney S.C.A. announced a new attraction based on the Disney/Pixar movie *Ratatouille*, scheduled to open in Walt Disney Studios Park in 2014.

**Hotels and Other Facilities** — Disneyland Paris operates seven resort hotels, with a total of approximately 5,800 rooms and 250,000 square feet of conference meeting space. In addition, several on-site hotels that are owned and operated by third parties provide approximately 2,400 rooms.

Disneyland Paris also includes Disney Village, a retail, dining and entertainment complex of approximately 500,000 square feet, located between the theme parks and the hotels. A number of the Disney Village facilities are operated by third parties that pay rent to a subsidiary of Euro Disney S.C.A.

Val d'Europe is a planned community that is being developed near Disneyland Paris. The development is being completed in phases that will ultimately include: a regional train station, hotels and a town center, which will consist of a shopping center and office, commercial and residential space. Third parties operate these developments on land leased or purchased from Euro Disney S.C.A. and its subsidiaries.

In September 2012, the Company provided €1.3 billion of financing to Euro Disney S.C.A, which was used to repay its outstanding third-party bank debt. The repayment eliminated certain financial and operating covenants, notably those related to capital expenditure limitations and the payment of royalties and management fees due to the Company. (See Note 6 to the Consolidated Financial Statements.)

### **Hong Kong Disneyland Resort**

The Company owns a 48% interest in Hong Kong Disneyland Resort through Hongkong International Theme Parks Limited, an entity in which the Government of the Hong Kong Special Administrative Region (HKSAR) owns a 52% majority interest. The resort is located on 310 acres on Lantau Island and is in close proximity to the Hong Kong International Airport. Hong Kong Disneyland Resort includes one theme park and two themed hotels. A separate Hong Kong subsidiary of the Company is responsible for managing Hong Kong Disneyland Resort. The Company is entitled to receive royalties and management fees based on the operating performance of Hong Kong Disneyland Resort.

**Hong Kong Disneyland** – Hong Kong Disneyland opened in 2005 and consists of seven themed lands and areas: Adventureland, Fantasyland, Grizzly Gulch, Main Street USA, Tomorrowland, Toy Story Land and Mystic Point, which opened in May 2013. These areas feature themed rides and attractions, shows, restaurants, merchandise shops and refreshment stands. Additionally, there are daily parades and a nighttime fireworks extravaganza. In October 2013, Hong Kong Disneyland Resort announced it will open a new themed area at the park based on Marvel's Iron Man franchise in late 2016.

**Hotels** – Hong Kong Disneyland Resort includes two themed hotels with a total of 1,000 rooms.

### **Shanghai Disney Resort**

In fiscal 2011, the Company and Shanghai Shendi (Group) Co., Ltd (Shendi) received Chinese central government approval of an agreement to build and operate a Disney resort (Shanghai Disney Resort) in the Pudong district of Shanghai at a planned investment of approximately 29 billion yuan. The Shanghai Disney Resort will be located on roughly 1,000 acres and will include the Shanghai Disneyland theme park; two themed hotels with a total of 1,220 rooms; a retail, dining and entertainment complex; and an outdoor recreational area. Shanghai Disney Resort is currently targeted to open by the end of calendar 2015. The land at Shanghai Disney Resort has capacity for future expansion.

Construction on the project commenced in April 2011. The resort is owned by a joint venture in which Shendi owns 57% and the Company owns 43%, and the investment amounts will be funded in accordance with each partner's equity ownership percentage. An additional joint venture management company, in which Disney has a 70% interest and Shendi a 30% interest, is responsible for creating, constructing and operating the resort. The management company will be entitled to receive management fees based on operating performance of the resort. Shanghai Disney Resort will also pay the Company royalties based on resort revenues.

### **Tokyo Disney Resort**

Tokyo Disney Resort is located on approximately 494 acres of land, six miles east of downtown Tokyo, Japan. The resort includes two theme parks (Tokyo Disneyland and Tokyo DisneySea); three Disney-branded hotels; six independently operated hotels;

and a retail, dining and entertainment complex.



## [TABLE OF CONTENTS](#)

**Tokyo Disneyland** — Tokyo Disneyland, which opened in 1983, was the first Disney theme park to open outside the U.S. Tokyo Disneyland consists of seven principal themed areas: Adventureland, Critter Country, Fantasyland, Tomorrowland, Toontown, Westernland and World Bazaar.

**Tokyo DisneySea** — Tokyo DisneySea, adjacent to Tokyo Disneyland, opened in 2001. The park is divided into seven “ports of call,” including American Waterfront, Arabian Coast, Lost River Delta, Mediterranean Harbor, Mermaid Lagoon, Mysterious Island and Port Discovery.

**Hotels and Other Resort Facilities** — The resort includes three Disney-branded hotels with a total of more than 1,700 rooms. The resort also includes the Disney Resort Line monorail, which links the theme parks and resort hotels with Ikspiari, a retail, dining and entertainment complex, and Bon Voyage, a Disney-themed merchandise location.

The Company earns royalties on revenues generated by the Tokyo Disney Resort, which is owned and operated by Oriental Land Co., Ltd. (OLC), a Japanese corporation in which the Company has no equity interest. OLC markets the Tokyo Disney Resort through a variety of local, domestic and international advertising and promotional activities.

### **Disney Vacation Club**

The Disney Vacation Club (DVC) offers ownership interests in 12 resort facilities located at the Walt Disney World Resort; Disneyland Resort; Vero Beach, Florida; Hilton Head Island, South Carolina; and Oahu, Hawaii. Available units at each facility are offered for sale under a vacation ownership plan and are operated as hotel rooms when not occupied by vacation club members. The Company’s vacation club units consist of a mix of units ranging from one bedroom studios to three bedroom villas. Unit counts in this document are presented in terms of two bedroom equivalents. DVC had 3,541 vacation club units as of September 28, 2013. In October 2013, DVC opened an additional 106 units at The Villas at Disney's Grand Floridian Resort & Spa in Orlando. In September 2013, the Company announced plans to open a new vacation club property at Disney's Polynesian Resort at the Walt Disney World Resort in 2015.

### **Disney Cruise Line**

Disney Cruise Line (DCL) is a four-ship vacation cruise line, which operates out of ports in North America and Europe. The *Disney Magic* and the *Disney Wonder* are 85,000-ton 877 stateroom ships, which launched in 1998 and 1999, respectively. The *Disney Dream* and the *Disney Fantasy* are 130,000-ton 1,250 stateroom ships, which launched in January 2011 and March 2012, respectively. DCL caters to families, children, teenagers and adults, with distinctly-themed areas and activities for each group. Many cruise vacations include a visit to Disney’s Castaway Cay, a 1,000-acre private Bahamian island.

### **Adventures by Disney**

Adventures by Disney offers all-inclusive guided vacation tour packages predominantly at non-Disney sites around the world. The Company offered 26 different excursion packages during 2013.

### **Walt Disney Imagineering**

Walt Disney Imagineering provides master planning, real estate development, attraction, entertainment and show design, engineering support, production support, project management and other development services, including research and development for the Company’s Parks and Resorts operations.

### **Competition and Seasonality**

The Company’s theme parks and resorts as well as Disney Cruise Line and Disney Vacation Club compete with other forms of entertainment, lodging, tourism and recreational activities. The profitability of the leisure-time industry may be influenced by various factors that are not directly controllable, such as economic conditions including business cycle and exchange rate fluctuations, travel industry trends, amount of available leisure time, oil and transportation prices, and weather patterns and natural disasters.

All of the theme parks and the associated resort facilities are operated on a year-round basis. Typically, the theme parks and resorts business experiences fluctuations in theme park attendance and resort occupancy resulting from the seasonal nature of vacation travel and local entertainment excursions. Peak attendance and resort occupancy generally occur during the summer months when school vacations occur and during early-winter and spring-holiday periods.



## [TABLE OF CONTENTS](#)

### STUDIO ENTERTAINMENT

The Studio Entertainment segment produces and acquires live-action and animated motion pictures, direct-to-video content, musical recordings and live stage plays.

The businesses in the Studio Entertainment segment generate revenue from the distribution of films in the theatrical, home entertainment and television markets. Significant operating expenses include film cost amortization, which consists of production cost and participations and residuals expense amortization, distribution expenses and costs of sales.

The Company distributes produced and acquired films (including its film and television library) in the theatrical, home entertainment and television markets primarily under the Walt Disney Pictures, Pixar, Marvel, Touchstone and Lucasfilm banners. The Company produces and distributes Indian movies worldwide through its UTV banner.

In August 2009, the Company entered into an agreement with DreamWorks Studios (DreamWorks) to distribute live-action motion pictures produced by DreamWorks for seven years under the Touchstone Pictures banner for which the Company receives a distribution fee. Under this agreement, the Company has distributed eight films to date. As part of the agreement, the Company provided financing to DreamWorks, which as of September 28, 2013, totaled \$156 million. There is an additional \$90 million available to DreamWorks.

Prior to the Company's acquisition of Marvel in fiscal 2010, Marvel had agreements in place for third-party studios to distribute Marvel produced films including *Iron Man*, *Iron Man 2*, *Iron Man 3*, *The Avengers*, *Thor*, *Captain America: The First Avenger* and *The Incredible Hulk*. Under these arrangements, Marvel incurred the cost to produce the films and pays the third-party studio a distribution fee. In fiscal 2011, prior to their theatrical release, the Company purchased the distribution rights for *The Avengers* and *Iron Man 3* from a third-party studio and agreed to pay fees to that studio based on the performance of those films, subject to a minimum guarantee. In fiscal 2013, the Company purchased the remaining distribution rights for *Iron Man*, *Iron Man 2*, *Thor* and *Captain America: The First Avenger*, which have all been released. Going forward, the Company will distribute all Marvel produced films with the exception of *The Incredible Hulk*.

Also prior to the Company's acquisition of Marvel, Marvel had licensed the rights to third-party studios to produce and distribute feature films based on certain Marvel properties including *Spider-Man*, *The Fantastic Four* and *X-Men*. Under these licensing arrangements, the third-party studio incurs the cost to produce and distribute the films and pays the Company a licensing fee. Generally under these arrangements, Marvel retains the merchandise licensing rights and pays the third-party studio a royalty. During fiscal 2011, the Company purchased Sony Pictures' participation in *Spider-Man* merchandising, while at the same time, Sony Pictures purchased the Company's participation in *Spider-Man* films. This transaction will allow the Company to control and fully benefit from all *Spider-Man* merchandising activity, while Sony Pictures will continue to produce and distribute *Spider-Man* films.

The Company holds over a 99% interest in UTV, one of the leading film production studios and film distributors in India. UTV produces and co-produces live-action and animated films.

In fiscal 2011 the Company sold Miramax Film NY, LLC (Miramax) for \$663 million. Net proceeds, which reflected closing adjustments, the settlement of related claims and obligations and Miramax's cash balances at closing, totaled \$532 million. The sale included both Miramax and Dimension film assets.

Prior to the Company's acquisition, Lucasfilm produced six *Star Wars* films (Episodes 1 through 6). Lucasfilm retained the rights to consumer products related to all of the films and the rights related to television and electronic distribution formats for all of the films, with the exception of the rights for Episode 4, which are owned by a third-party studio. All of the films are distributed by a third-party studio in the theatrical and home video markets. The theatrical and home video distribution rights for these films revert back to Lucasfilm in May 2020 with the exception of Episode 4, for which these distribution rights are retained in perpetuity by the third-party studio.

Lucasfilm also includes Industrial Light & Magic and Skywalker Sound, which provide visual and audio effects and other post-production services to the Company and third-party producers.

## [TABLE OF CONTENTS](#)

### **Theatrical Market**

We produce and distribute both live-action films and full-length animated films. During fiscal 2014, we expect to distribute domestically ten of our own produced feature films and four DreamWorks films. As of September 28, 2013, the Company had released domestically approximately 984 full-length live-action features and 95 full-length animated features.

In the domestic theatrical market, we generally distribute and market our filmed products directly. In most major international markets, we distribute our filmed products directly while in other markets our films are distributed by independent distribution companies or joint ventures.

The Company incurs significant marketing and advertising costs before and throughout the theatrical release of a film in an effort to generate public awareness of the film, to increase the public's intent to view the film and to help generate consumer interest in the subsequent home entertainment and other ancillary markets. These costs are expensed as incurred. Therefore, we typically incur losses on a film in the theatrical markets, including in periods prior to the theatrical release of the film.

### **Home Entertainment Market**

In the domestic market, we distribute home entertainment releases directly under each of our motion picture banners. In the international market, we distribute home entertainment releases under each of our motion picture banners both directly and through independent distribution companies. In addition, we acquire and produce original content for direct-to-video release.

Domestic and international home entertainment distribution typically starts three to six months after the theatrical release in each market. Home entertainment releases may be distributed in both physical (DVD and Blu-ray) and electronic formats. Titles are generally sold to retailers, such as Wal-Mart and Best Buy and physical rental channels, such as Netflix; however, the rental channels may be delayed up to 28 days after the start of home entertainment distribution.

As of September 28, 2013, we had approximately 1,400 active produced and acquired titles, including 1,000 live-action titles and 400 animated titles, in the domestic home entertainment marketplace and approximately 2,700 active produced and acquired titles, including 2,200 live-action titles and 500 animated titles, in the international marketplace.

### **Television Market**

*Pay-Per-View (PPV)/Video-on-Demand (VOD):* Concurrently with, or up to one month after, home entertainment distribution begins, we license titles to PPV/VOD service providers (typically MVPDs) for electronic delivery to consumers for a specified rental period (e.g. 24 hours) at a price comparable to that of physical media rentals.

*Pay Television (Pay 1):* There are generally three pay television windows. The first window is generally eighteen months in duration and follows the PPV/VOD window. The Company has licensed exclusive domestic pay television rights to substantially all films released under the Walt Disney Pictures, Pixar and Touchstone Pictures banners to the Starz pay television service through calendar year 2015. DreamWorks titles distributed by the Company are licensed to Showtime under a separate agreement.

*Free Television (Free 1):* The Pay 1 window is followed by a television window that may last up to 84 months. Motion pictures are usually sold in the Free 1 window to major broadcast networks, including ABC, and basic cable services.

*Pay Television 2 (Pay 2) and Free Television 2 (Free 2):* In the U.S., Free 1 is generally followed by a twelve-month Pay 2 window under our license arrangements with Starz and Showtime, and then by a Free 2 window that generally lasts up to 84 months. Packages of the Company's feature films have been licensed for broadcast under multi-year agreements within the Free 2 window. The Free 2 window is a syndication window where films are licensed both to basic cable networks, subscription video on demand (SVOD) services and to third-party television station groups.

*Pay Television 3 (Pay 3) and Free Television 3 (Free 3):* In the U.S., Free 2 is generally followed by a seven-month Pay 3 window under our license arrangements with Starz and Showtime, and then by a Free 3 window. Packages of the Company's feature films have been licensed for broadcast under multi-year agreements within the Free 3 window. The Free 3 window is a syndication window where films are licensed to basic cable networks and SVOD services.

Following the conclusion of Starz's exclusive domestic pay television rights at the end of calendar year 2015, Netflix will have exclusive domestic pay television rights for the Pay 1 and Pay 2 windows through calendar year 2018.

*International Television:* The Company also licenses its theatrical properties outside of the U.S. The typical windowing sequence is consistent with the domestic cycle such that titles premiere on television in PPV/VOD then air in pay TV before

## [TABLE OF CONTENTS](#)

airing in free TV. Windowing strategies are developed in response to local market practices and conditions, and the exact sequence and length of each window can vary country by country.

### **Disney Music Group**

The Disney Music Group includes Walt Disney Records, Hollywood Records, Disney Music Publishing and Buena Vista Concerts.

Walt Disney Records and Hollywood Records develop, produce, market and distribute recorded music in the U.S. and license our music properties throughout the rest of the world. Walt Disney Records categories include infant, children's read-along, teen, all-family and soundtracks from film and television properties distributed by Walt Disney Pictures and Disney Channel. Hollywood Records develops musical talent and produces and markets their recordings across a spectrum of music genres.

The Disney Music Group commissions new music for the Company's motion pictures and television programs, records the songs and licenses the song and recording copyrights to others for printed music, records, audio-visual devices, public performances and digital distribution. Buena Vista Concerts produces live-entertainment events with artists signed to the Disney Music Group record labels.

Disney Music Publishing controls the copyrights of thousands of musical compositions derived from the Company's motion picture, television and theme park properties as well as musical compositions written by songwriters under exclusive contract. It is responsible for the management, protection and licensing of the Disney song catalog on a worldwide basis.

### **Disney Theatrical Productions**

Disney Theatrical Productions develops, produces and licenses live entertainment events. The Company has produced and licensed Broadway musicals around the world, including *Beauty and the Beast*, *The Lion King*, Elton John & Tim Rice's *Aida*, *TARZAN*<sup>®</sup>, *Mary Poppins* (a co-production with Cameron Mackintosh Ltd), *The Little Mermaid* and *Newsies*. Other stage musical ventures have included an off-Broadway production of *Peter and the Starcatcher* and a regional theatre production of *The Jungle Book*. A new musical, *Aladdin*, will open in Toronto in fall 2013. In addition, the Company licenses musicals for local, school and community theatre productions globally through Music Theatre International.

Disney Theatrical Productions also delivers live shows globally through its license to Feld Entertainment, the producer of *Disney On Ice* and *Disney Live!*. Feld's newest production, *Disney Junior on Tour: Pirate and Princess Adventure*, launched in July 2013 for a North America tour.

### **Competition and Seasonality**

The Studio Entertainment businesses compete with all forms of entertainment. A significant number of companies produce and/or distribute theatrical and television films, exploit products in the home entertainment market, provide pay television programming services and sponsor live theater. We also compete to obtain creative and performing talents, story properties, advertiser support and broadcast rights that are essential to the success of our Studio Entertainment businesses.

The success of Studio Entertainment operations is heavily dependent upon public taste and preferences. In addition, Studio Entertainment operating results 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**

The Consumer Products segment engages with licensees, publishers and retailers throughout the world to design, develop, publish, promote and sell a wide variety of products based on the Company's intellectual property through its Merchandise Licensing, Publishing and Retail businesses. In addition to leveraging the Company's film and television properties, Consumer Products also develops its own intellectual property, which can be used across the Company's businesses.

The businesses in the Consumer Products segment generate royalty revenue by licensing characters from our film, television and

other properties to third parties for use on consumer merchandise, wholesale revenue from publishing children's books and magazines and comic books, sales of merchandise at our retail stores, fees charged at our English language learning centers and sales of merchandise at internet shopping sites. Significant costs include costs of goods sold and distribution expenses, operating labor and retail occupancy costs.

## [TABLE OF CONTENTS](#)

### **Merchandise Licensing**

The Company's merchandise licensing operations cover a diverse range of product categories, the most significant of which are: toys, apparel, home décor and furnishings, stationery, health and beauty, food, footwear and consumer electronics. The Company licenses characters from its film, television and other properties for use on third-party products in these categories and earns royalties, which are usually based on a fixed percentage of the wholesale or retail selling price of the products. Some of the major properties licensed by the Company include: Mickey and Minnie; the Marvel properties including Spider-Man, The Avengers and Iron Man; Disney Princess; Cars; Disney Jr.; Star Wars; Winnie the Pooh; *Monsters University*; and Toy Story. The Company also participates in the design of individual products and creates exclusive themed and seasonal promotional campaigns for retailers based on the Company's characters, movies and TV shows.

### **Publishing**

Disney Publishing Worldwide (DPW) creates, distributes, licenses and publishes children's book, magazine and learning products in print and digital formats in multiple countries and languages based on the Company's branded franchises. DPW also operates Disney English, which develops and delivers an English language learning curriculum for Chinese children using Disney content in 44 centers across 11 cities in China.

Marvel Publishing creates and publishes comic books, and graphic novel collections of comic books, principally in North America in print and digital formats. Marvel Publishing also licenses the right to publish translated versions of these comic books, principally in Europe and Latin America. Titles include *The Avengers*, *X-Men*, *Spider-Man*, *Iron Man* and *Wolverine*.

### **Retail**

The Company markets Disney- and Marvel-themed products through retail stores operated under the Disney Store name and through internet sites in North America (DisneyStore.com and MarvelStore.com), Western Europe and Japan. Commencing in fiscal 2014, we will also market Lucasfilm themed merchandise. The stores, which are generally located in leading shopping malls and other retail complexes, carry a wide variety of Disney merchandise and promote other businesses of the Company. The Company currently owns and operates 214 stores in North America, 88 stores in Europe and 46 stores in Japan. The Company also offers merchandise that it designs and develops under wholesale arrangements.

### **Competition and Seasonality**

The Company's merchandise licensing, publishing and retail businesses compete with other licensors, publishers and retailers of character, brand and celebrity names. Based on independent surveys, we believe the Company is the largest worldwide licensor of character-based merchandise based on retail sales. Operating results for the licensing and retail businesses are influenced by seasonal consumer purchasing behavior, consumer preferences, levels of marketing and promotion and by the timing and performance of theatrical releases and cable programming broadcasts.

## **INTERACTIVE**

The Interactive segment creates and delivers branded entertainment and lifestyle content across interactive media platforms. The primary operating businesses of Interactive are Interactive Games, which produces multi-platform games for global distribution, and Interactive Media, which develops branded online services.

The businesses in the Interactive segment generate revenue from the sale of multi-platform console games, subscriptions to and micro transactions for online and mobile games, content and handset revenue from our Disney branded mobile phone business in Japan, and online advertising and sponsorships. We also generate fees from licensing our properties to third-party game publishers. Significant costs include cost of goods sold and distribution expenses and product development.

### **Interactive Games**

Interactive Games develops console, mobile, social and virtual world games, which are marketed and distributed on a worldwide basis. Console game releases in fiscal 2013 included *Disney Infinity* and *Epic Mickey 2*. *Disney Infinity* delivers Disney content and



features a game world, which combines physical toys and story-driven gameplay where a variety of Disney stories and characters can exist and interact. The Company's principal virtual world game is *Disney's Club Penguin*. Other online games include games for social networking websites such as *Marvel Avengers Alliance* and *Gardens of Time*, and games for smartphones such as *Where's My Water*. Certain properties are also licensed to third-party video game publishers. The Japan Mobile business licenses Disney-branded phones, content and games to mobile carriers in Japan.

### **Interactive Media**

Interactive Media develops, publishes and distributes interactive family content through a portfolio of platforms including Disney.com, Disney on YouTube and Babble.com and develops and publishes apps for moms and families. Interactive Media also provides website maintenance and design for other Company businesses.

### **Competition and Seasonality**

The Company's online sites and products compete with a wide variety of other online sites and products. The Company's video game business competes primarily with other publishers of video game software and other types of home entertainment. Operating results for the video game business fluctuate due to the timing and performance of video game releases, which are determined by several factors including theatrical releases and cable programming broadcasts, competition and the timing of holiday periods. Revenues from certain of the Company's online and mobile operations are subject to similar seasonal trends.

## **INTELLECTUAL PROPERTY PROTECTION**

The Company's businesses throughout the world are affected by its ability to exploit and protect against infringement of its intellectual property, including trademarks, trade names, copyrights, patents and trade secrets. Important intellectual property includes rights in the content of motion pictures, television programs, electronic games, sound recordings, character likenesses, theme park attractions, books and magazines. Risks related to the protection and exploitation of intellectual property rights are set forth in Item 1A – Risk Factors.

## **AVAILABLE INFORMATION**

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available without charge on our website, [www.disney.com/investors](http://www.disney.com/investors), as soon as reasonably practicable after they are filed electronically with the Securities and Exchange Commission (SEC). We are providing the address to our internet site solely for the information of investors. We do not intend the address to be an active link or to otherwise incorporate the contents of the website into this report.

## **ITEM 1A. Risk Factors**

For an enterprise as large and complex as the Company, a wide range of factors could materially affect future developments and performance. In addition to the factors affecting specific business operations identified in connection with the description of these operations and the financial results of these operations elsewhere in this report, the most significant factors affecting our operations include the following:

### **Changes in U.S., global, or regional economic conditions could have an adverse effect on the profitability of some or all of our businesses.**

A decline in economic activity in the U.S. and other regions of the world in which we do business can adversely affect demand for any of our businesses, thus reducing our revenue and earnings. The most recent decline in economic conditions reduced spending at our parks and resorts, purchase of and prices for advertising on our broadcast and cable networks and owned stations, performance of our home entertainment releases, and purchases of Company-branded consumer products, and similar impacts can be expected should such conditions recur. A decline in economic conditions could also reduce attendance at our parks and resorts or prices that MVPDs pay for our cable programming. Recent instability in European economies presents



## [TABLE OF CONTENTS](#)

risks of similar impacts in our European operations. Economic conditions can also impair the ability of those with whom we do business to satisfy their obligations to us. In addition, an increase in price levels generally, or in price levels in a particular sector such as the energy sector, could result in a shift in consumer demand away from the entertainment and consumer products we offer, which could also adversely affect our revenues and, at the same time, increase our costs. Changes in exchange rates for foreign currencies may reduce international demand for our products, increase our labor or supply costs in non-U.S. markets, or reduce the U.S. dollar value of revenue we receive from other markets, and 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.

### **Changes in public and consumer tastes and preferences for entertainment and consumer products could reduce demand for our entertainment offerings and products and adversely affect the profitability of any of our businesses.**

Our businesses create entertainment, travel or consumer products whose success depends substantially on consumer tastes and preferences that change in often unpredictable ways. The success of our businesses depends on our ability to consistently create and distribute filmed entertainment, broadcast and cable programming, online material, electronic games, theme park attractions, hotels and other resort facilities and travel experiences and consumer products that meet the changing preferences of the broad consumer market and respond to competition from an expanding array of choices facilitated by technological developments in the delivery of content. Many of our businesses increasingly depend on acceptance of our offerings and products by consumers outside the U.S., and their success therefore depends on our ability to successfully predict and adapt to changing consumer tastes and preferences outside as well as inside the U.S. Moreover, we must often invest substantial amounts in film production, broadcast and cable programming, electronic games, theme park attractions, cruise ships or hotels and other resort facilities before we learn the extent to which these products will earn consumer acceptance. If our entertainment offerings and products do not achieve sufficient consumer acceptance, our revenue from advertising sales (which are based in part on ratings for the programs in which advertisements air) or subscription fees for broadcast and cable programming and online services, from theatrical film receipts or home video or electronic game sales, from theme park admissions, hotel room charges and merchandise, food and beverage sales, from sales of licensed consumer products or from sales of our other consumer products and services may decline or fail to grow to the extent we anticipate when making investment decisions and thereby adversely affect the profitability of one or more of our businesses.

### **Changes in technology and in consumer consumption patterns may affect demand for our entertainment products, the revenue we can generate from these products or the cost of producing or distributing products.**

The media entertainment and internet businesses in which we participate depend significantly on our ability to acquire, develop, adopt and exploit new technologies to distinguish our products and services from those of our competitors. In addition, new technologies affect the demand for our products, the manner and markets in which our products are distributed to consumers, the sources of competing television and filmed entertainment, the time and manner in which consumers acquire and view some of our entertainment products and the options available to advertisers for reaching their desired markets. For example, the success of our offerings in the home entertainment market depends in part on consumer preferences with respect to home entertainment formats. These formats include web-based delivery of live and stored video entertainment, DVD players and digital video recorders, as well as the availability of alternative home entertainment offerings and technologies. Such technologies may provide users the ability to fast-forward, rewind, pause and skip programming and advertisements. In addition, technological developments offer consumers an expanding array of entertainment options and delivery vehicles, which fragments the market for our products. These developments have also led to an industry wide decline in ratings for broadcast television and to a reduction in demand for DVDs of theatrical content and may disrupt traditional distribution models by enabling content owners to provide content directly to distributors and consumers, which could lead to decreased demand for content distributed on our broadcast or cable networks. In order to respond to these developments, we may be required to alter our business models and there can be no assurance that we will successfully respond to these changes or that the business models we develop in response to these changes will be as profitable as our current business models. As a result, the income from our entertainment offerings may decline or increase at slower rates than our historical experience or our expectations when we make investments in products.

### **The success of our businesses is highly dependent on the existence and maintenance of intellectual property rights in the entertainment products and services we create.**

The value to us of our intellectual property rights is dependent on the scope and duration of our rights as defined by applicable laws in the U.S. and abroad and the manner in which those laws are construed. If those laws are drafted or interpreted in ways that limit the extent or duration of our rights, or if existing laws are changed, our ability to generate revenue from our intellectual property may decrease, or the cost of obtaining and maintaining rights may increase.



## [TABLE OF CONTENTS](#)

The unauthorized use of our intellectual property rights may increase the cost of protecting these rights or reduce our revenues. New technologies such as the convergence of computing, communication, and entertainment devices, the falling prices of devices incorporating such technologies, increased broadband internet speed and penetration and increased availability and speed of mobile data transmission have made the unauthorized digital copying and distribution of our films, television productions and other creative works easier and faster and enforcement of intellectual property rights more challenging. The unauthorized use of intellectual property in the entertainment industry generally continues to be a significant challenge for intellectual property rights holders. Inadequate laws or weak enforcement mechanisms to protect intellectual property in one country can adversely affect the results of the Company's operations worldwide, despite the Company's efforts to protect its intellectual property rights. These developments require us to devote substantial resources to protecting our intellectual property against unlicensed use and present the risk of increased losses of revenue as a result of unlicensed digital distribution of our content and sales of unauthorized DVDs, Blu-ray discs and other products.

With respect to intellectual property developed by the Company and rights acquired by the Company from others, the Company is subject to the risk of challenges to our copyright, trademark and patent rights by third parties. Successful challenges to our rights in intellectual property may result in increased costs for obtaining rights or the loss of the opportunity to earn revenue from the intellectual property that is the subject of challenged rights. The Company is not aware of any challenges to its intellectual property rights that it currently foresees having a material effect on its operations.

### **Protection of electronically stored data is costly and if our data is compromised in spite of this protection, we may incur additional costs, lost opportunities and damage to our reputation.**

We maintain information necessary to conduct our business, including confidential and proprietary information as well as personal information regarding our customers and employees, in digital form. Data maintained in digital form is subject to the risk of intrusion, tampering and theft. We develop and maintain systems to prevent this from occurring, but the development and maintenance of these systems is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Moreover, despite our efforts, the possibility of intrusion, tampering and theft cannot be eliminated entirely, and risks associated with each of these remain. In addition, we provide confidential, proprietary and personal information to third parties when it is necessary to pursue business objectives. While we obtain assurances that these third parties will protect this information and, where appropriate, monitor the protections employed by these third parties, there is a risk the confidentiality of data held by third parties may be compromised. If our data systems are compromised, our ability to conduct our business may be impaired, we may lose profitable opportunities or the value of those opportunities may be diminished and, as described above, we may lose revenue as a result of unlicensed use of our intellectual property. If personal information of our customers or employees is misappropriated, our reputation with our customers and employees may be injured resulting in loss of business or morale, and we may incur costs to remediate possible injury to our customers and employees or to pay fines or take other action with respect to judicial or regulatory actions arising out of the incident.

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

Demand for our products and services, particularly our theme parks and resorts, is highly dependent on the general environment for travel and tourism. The environment for travel and tourism, as well as demand for other entertainment products, can be significantly adversely affected in the U.S., globally or in specific regions as a result of a variety of factors beyond our control, including: adverse weather conditions arising from short-term weather patterns or long-term change, catastrophic events or natural disasters (such as excessive heat or rain, hurricanes, typhoons, floods, tsunamis and earthquakes); health concerns; international, political or military developments; and terrorist attacks. For example, the earthquake and tsunami in Japan in March 2011 resulted in a period of suspension of our operations and those of certain of our licensees in Japan, including Tokyo Disney Resort and resulted in a loss of revenue from those operations. These events and others, such as fluctuations in travel and energy costs and computer virus attacks, intrusions or other widespread computing or telecommunications failures, may also damage our ability to provide our products and services or to obtain insurance coverage with respect to these events. In addition, we derive royalties from the sales of our licensed goods and services by third parties and the management of businesses operated under brands licensed from the Company, and we are therefore dependent on the successes of those third parties for that portion of our revenue. A wide variety of factors could influence the success of those third parties and if negative factors significantly impacted a sufficient number of our licensees, that could adversely affect the profitability of one or more of our businesses. We obtain insurance against the risk of losses relating to some of these events, generally including physical damage to our property and resulting business interruption, certain injuries occurring on our property and liability for alleged breach of legal responsibilities. When insurance is obtained it is subject to deductibles, exclusions, terms, conditions and limits of liability. The types and levels of coverage we obtain vary from time to time depending on our view of the

likelihood of specific types and levels of loss in relation to the cost of obtaining coverage for such types and levels of loss.

## [TABLE OF CONTENTS](#)

### **Changes in our business strategy or restructuring of our businesses may increase our costs or otherwise affect the profitability of our businesses.**

As changes in our business environment occur we may need to adjust our business strategies to meet these changes or we may otherwise find it necessary to restructure our operations or particular businesses or assets. In addition, external events including acceptance of our theatrical offerings and changes in macroeconomic conditions may impair the value of our assets. When these changes or events occur, we may incur costs to change our business strategy and may need to write down the value of assets. We also make investments in existing or new businesses, including investments in international expansion of our business and in new business lines. In recent years, such investments have included expansion and repurposing of certain of our theme park attractions and participation in a joint venture that is constructing a theme park in Shanghai, China. Some of these investments may have short-term returns that are negative or low and the ultimate business prospects of the businesses may be uncertain. In any of these events, our costs may increase, we may have significant charges associated with the write-down of assets or returns on new investments may be lower than prior to the change in strategy or restructuring.

### **Turmoil in the financial markets could increase our cost of borrowing and impede access to or increase the cost of financing our operations and investments.**

Past disruptions in the U.S. and global credit and equity markets made it difficult for many businesses to obtain financing on acceptable terms. These conditions tended to increase the cost of borrowing and if they recur, our cost of borrowing could increase and it may be more difficult to obtain financing for our operations or investments. In addition, our borrowing costs can be affected by short- and long-term debt ratings assigned by independent rating agencies that are based, in significant part, on the Company's performance as measured by credit metrics such as interest coverage and leverage ratios. A decrease in these ratings would likely increase our cost of borrowing and/or make it more difficult for us to obtain financing. Past disruptions in the global financial markets also impacted some of the financial institutions with which we do business. A similar decline in the financial stability of financial institutions could affect our ability to secure credit-worthy counterparties for our interest rate and foreign currency hedging programs and could affect our ability to settle existing contracts.

### **Increased competitive pressures may reduce our revenues or increase our costs.**

We face substantial competition in each of our businesses from alternative providers of the products and services we offer and from other forms of entertainment, lodging, tourism and recreational activities. We also must compete to obtain human resources, programming and other resources we require in operating our business. For example:

- Our broadcast and cable networks, stations and online offerings compete for viewers with other broadcast, cable and satellite services as well as with home video products and internet usage.
- Our broadcast and cable networks and stations compete for the sale of advertising time with other broadcast, cable and satellite services, and the internet, as well as with newspapers, magazines and billboards.
- Our cable networks compete for carriage of their programming with other programming providers.
- Our broadcast and cable networks compete for the acquisition of creative talent and sports and other programming with other broadcast and cable networks.
- Our theme parks and resorts compete for guests with all other forms of entertainment, lodging, tourism and recreation activities.
- Our studio operations compete for customers with all other forms of entertainment.
- Our studio operations, broadcast and cable networks and publishing businesses compete to obtain creative and performing talent, story properties, advertiser support, broadcast rights and market share.
- Our consumer products segment competes in the character merchandising and other licensing, publishing, and retail activities with other licensors, publishers and retailers of character, brand and celebrity names.
- Our interactive game operations compete with other publishers of console, online and mobile games and other types of home entertainment.

Competition in each of these areas may divert consumers from our creative or other products, or to other products or other forms of entertainment, which could reduce our revenue or increase our marketing costs. Such competition may also reduce, or limit growth in, prices for our products and services, including advertising rates and subscription fees at our media networks, parks and resorts admissions and room rates, and prices for consumer products from which we derive license revenues. Competition for the acquisition of resources can increase the cost of producing our products and services.

**Sustained increases in costs of pension and postretirement medical and other employee health and welfare benefits may reduce our profitability.**

With approximately 175,000 employees, our profitability is substantially affected by costs of pension benefits and current and postretirement medical benefits. We may experience significant increases in these costs as a result of macro-economic



## [TABLE OF CONTENTS](#)

factors, which are beyond our control, including increases in the cost of health care. In addition, changes in investment returns and discount rates used to calculate pension expense and related assets and liabilities can be volatile and may have an unfavorable impact on our costs in some years. These macroeconomic factors as well as a decline in the fair value of pension and postretirement medical plan assets may put upward pressure on the cost of providing pension and postretirement medical benefits and may increase future funding contributions. Although we have actively sought to control increases in these costs, there can be no assurance that we will succeed in limiting cost increases, and continued upward pressure could reduce the profitability of our businesses.

### **Our results may be adversely affected if long-term programming or carriage contracts are not renewed on sufficiently favorable terms.**

We enter into long-term contracts for both the acquisition and the distribution of media programming and products, including contracts for the acquisition of programming rights for sporting events and other programs, and contracts for the distribution of our programming to MVPDs. As these contracts expire, we must renew or renegotiate the contracts, and if we are unable to renew them on acceptable terms, we may lose programming rights or distribution rights. Even if these contracts are renewed, the cost of obtaining programming rights may increase (or increase at faster rates than our historical experience) or the terms on which we distribute programming (including the breadth of distribution by a carrier) may reduce revenue from distribution of programs (or increase revenue at slower rates than our historical experience). With respect to the acquisition of programming rights, particularly sports programming rights, the impact of these long-term contracts on our results over the term of the contracts depends on a number of factors, including the strength of advertising markets, effectiveness of marketing efforts and the size of viewer audiences. There can be no assurance that revenues from programming based on these rights will exceed the cost of the rights plus the other costs of producing and distributing the programming.

### **Changes in regulations applicable to our businesses may impair the profitability of our businesses.**

Our broadcast networks and television stations are highly regulated, and each of our other businesses is subject to a variety of U.S. and overseas regulations. These regulations include:

- U.S. FCC regulation of our television and radio networks, our national programming networks, and our owned television stations. See Item 1 — Business — Media Networks, Federal Regulation.
- Environmental protection regulations.
- Federal, state and foreign privacy and data protection laws and regulations.
- Regulation of the safety of consumer products and theme park operations.
- Imposition by foreign countries of trade restrictions, ownership restrictions, currency exchange controls or motion picture or television content requirements or quotas.
- Domestic and international tax laws or currency controls.

Changes in any of these regulations or regulatory activities in any of these areas may require us to spend additional amounts to comply with the regulations, or may restrict our ability to offer products and services that are profitable.

### **Our operations outside the United States may be adversely affected by the operation of laws in those jurisdictions.**

Our operations in non-U.S. jurisdictions are in many cases subject to the laws of the jurisdictions in which they operate rather than U.S. law. Laws in some jurisdictions differ in significant respects from those in the U.S., and these differences can affect our ability to react to changes in our business and our rights or ability to enforce rights may be different than would be expected under U.S. law. Moreover, enforcement of laws in some overseas jurisdictions can be inconsistent and unpredictable, which can affect both our ability to enforce our rights and to undertake activities that we believe are beneficial to our business. In addition, the business and political climate in some jurisdictions may encourage corruption, which could reduce our ability to compete successfully in those jurisdictions while remaining in compliance with local laws or United States anti-corruption laws applicable to our businesses. As a result, our ability to generate revenue and our expenses in non-U.S. jurisdictions may differ from what would be expected if U.S. law governed these operations.

### **Labor disputes may disrupt our operations and adversely affect the profitability of any of our businesses.**

A significant number of employees in various of our businesses are covered by collective bargaining agreements, including employees of our theme parks and resorts as well as writers, directors, actors, production personnel and others employed in our media networks and studio operations. In addition, the employees of licensees who manufacture and retailers who sell our consumer

products, and employees of providers of programming content (such as sports leagues) may be covered by labor agreements with their employers. In general, a labor dispute involving our employees or the employees of our licensees or retailers who sell our consumer products or providers of programming content may disrupt our operations and reduce our revenues, and resolution of disputes may increase our costs.

## **TABLE OF CONTENTS**

### **Provisions in our corporate documents and Delaware state law could delay or prevent a change of control.**

Our Restated Certificate of Incorporation contains a provision regulating the ability of shareholders to bring matters for action before annual and special meetings and authorizes our Board of Directors to issue and set the terms of preferred stock. The regulations on shareholder action could make it more difficult for any person seeking to acquire control of the Company to obtain shareholder approval of actions that would support this effort. The issuance of preferred stock could effectively dilute the interests of any person seeking control or otherwise make it more difficult to obtain control. In addition, provisions in our Restated Certificate of Incorporation require supermajority shareholder approval of some acquisition transactions and we are subject to the anti-takeover provisions of the Delaware General Corporation Law, either of which could have the effect of delaying or preventing a change of control in some circumstances.

### **The seasonality of certain of our businesses could exacerbate negative impacts on our operations.**

Each of our businesses is normally subject to seasonal variations, as follows:

- Revenues in our Media Networks segment are subject to seasonal advertising patterns and changes in viewership levels. 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. Certain affiliate revenues at ESPN are deferred until annual programming commitments are met. These commitments are typically satisfied during the second half of the Company's fiscal year, which generally results in higher revenue recognition during that period.
- Revenues in our Parks and Resorts segment 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.
- Revenues in our Studio Entertainment segment 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.
- Revenues in our Consumer Products segment are influenced by seasonal consumer purchasing behavior, which generally results in higher revenues during the Company's first fiscal quarter, and by the timing and performance of theatrical releases and cable programming broadcasts.
- Revenues in our Interactive segment fluctuate due to the timing and performance of video game releases, which are determined by several factors, including theatrical releases and cable programming broadcasts, competition and the timing of holiday periods. Revenues from certain of our internet and mobile operations are subject to similar seasonal trends.

Accordingly, if a short-term negative impact on our business occurs during a time of high seasonal demand (such as hurricane damage to our parks during the summer travel season), the effect could have a disproportionate effect on the results of that business for the year.

### **The Company's acquisition of Lucasfilm is expected to cause short-term dilution in earnings per share and there can be no assurance that anticipated improvements in earnings per share will be realized.**

On December 21, 2012, the Company acquired Lucasfilm Ltd. LLC in a merger transaction in which the Company distributed 37.1 million shares and paid \$2.2 billion in cash. We expect that the merger will initially result in lower earnings per share than we would have earned in the absence of the merger. We expect that over time the merger will yield benefits to the combined company such that the merger will ultimately be accretive to earnings per share. However, there can be no assurance that the increase in earnings per share expected in the long term will be achieved. In order to achieve increases in earnings per share as a result of the merger, the combined company will, among other things, need to effectively continue the successful operations of Lucasfilm after the merger, develop successful new content (including future feature films) based on Lucasfilm's intellectual property and successfully integrate Lucasfilm's products into the combined company's various distribution channels.

## **ITEM 1B. Unresolved Staff Comments**

The Company has received no written comments regarding its periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of its 2013 fiscal year and that remain unresolved.

## ITEM 2. Properties

The Walt Disney World Resort, Disneyland Resort and other properties of the Company and its subsidiaries are described in Item 1 under the caption *Parks and Resorts*. Film library properties are described in Item 1 under the caption *Studio Entertainment*. Television stations owned by the Company are described in Item 1 under the caption *Media Networks*.

The Company and its subsidiaries own and lease properties throughout the world. In addition to the properties noted above, the table below provides a brief description of other significant properties and the related business segment.

Location	Property / Approximate Size	Use	Business Segment <sup>(1)</sup>
Burbank, CA	Land (52 acres) & Buildings (2,130,000 ft <sup>2</sup> )	Owned Office/Production/Warehouse	Corp/Studio/Media/CP/P&R
Burbank, CA & surrounding cities <sup>(2)</sup>	Buildings (1,260,000 ft <sup>2</sup> )	Leased Office/Warehouse (includes 8,000 ft <sup>2</sup> sublet to third-party tenants)	Corp/Studio/Media/CP/ Interactive
Glendale, CA & surrounding cities <sup>(2)</sup>	Land (150 acres) & Buildings (2,790,000 ft <sup>2</sup> )	Owned Office/Warehouse (includes 357,000 ft <sup>2</sup> sublet to third-party tenants)	Corp/Studio/Media/CP/ P&R/Interactive
Glendale, CA	Buildings (210,000 ft <sup>2</sup> )	Leased Office/Warehouse	Corp/Media/P&R
Los Angeles, CA	Land (22 acres) & Buildings (600,000 ft <sup>2</sup> )	Owned Office/Production/Technical	Media
Los Angeles, CA	Buildings (225,000 ft <sup>2</sup> )	Leased/Office/Production/Technical/ Theater (includes 14,000 ft <sup>2</sup> sublet to third-party tenants)	Media/Studio
New York, NY	Land (6.5 acres) & Buildings (1,435,000 ft <sup>2</sup> )	Owned Office/Production/Technical	Media/Corp
New York, NY	Buildings (300,000 ft <sup>2</sup> )	Leased Office/Production/Theater/Warehouse (includes 23,000 ft <sup>2</sup> sublet to third- party tenants)	Corp/Studio/Media /Interactive
Bristol, CT	Land (117 acres) & Buildings (960,000 ft <sup>2</sup> )	Owned Office/Production/Technical	Media
Bristol, CT	Buildings (443,000 ft <sup>2</sup> )	Leased Office/Warehouse/Technical	Media
Emeryville, CA	Land (20 acres) & Buildings (430,000 ft <sup>2</sup> )	Owned Office/Production/Technical	Studio
Emeryville, CA	Buildings (80,000 ft <sup>2</sup> )	Leased Office/Storage	Studio
San Francisco, CA	Buildings (550,000 ft <sup>2</sup> )	Leased Office/Production/Technical/Theater	Studio/Media/CP/ P&R/Interactive
USA & Canada	Land and Buildings (Multiple sites and sizes)	Owned and Leased Office/ Production/Transmitter/Retail/Theaters/	Corp/Studio/Media/CP/ P&R/Interactive

		Warehouse	
Hammersmith, England	Building (280,000 ft <sup>2</sup> )	Leased Office	Corp/Studio/Media/CP/ P&R/Interactive
Europe, Asia, Australia & Latin America	Buildings (Multiple sites and sizes)	Leased Office/Retail/Warehouse	Corp/Studio/Media/CP/ P&R/Interactive

<sup>(1)</sup> Corp – Corporate, CP – Consumer Products, P&R – Parks and Resorts

<sup>(2)</sup> Surrounding cities include North Hollywood, CA and Sun Valley, CA

## [TABLE OF CONTENTS](#)

### ITEM 3. Legal Proceedings

As disclosed in Note 14 to the Consolidated Financial Statements, the Company is engaged in certain legal matters, and the disclosure set forth in Note 14 relating to certain legal matters is incorporated herein by reference.

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 expect the Company to suffer any material liability by reason of these actions.

### ITEM 4. Mine Safety Disclosures

Not applicable.

### Executive Officers of the Company

The executive officers of the Company are elected each year at the organizational meeting of the Board of Directors, which follows the annual meeting of the shareholders, and at other Board of Directors meetings, as appropriate. Each of the executive officers has been employed by the Company in the position or positions indicated in the list and pertinent notes below. Each of the executive officers has been employed by the Company for more than five years.

At September 28, 2013, the executive officers of the Company were as follows:

Name	Age	Title	Executive Officer Since
Robert A. Iger	62	Chairman and Chief Executive Officer <sup>(1)</sup>	2000
James A. Rasulo	57	Senior Executive Vice President and Chief Financial Officer <sup>(2)</sup>	2010
Alan N. Braverman	65	Senior Executive Vice President, General Counsel and Secretary	2003
Kevin A. Mayer	51	Executive Vice President, Corporate Strategy and Business Development	2005
Christine M. McCarthy	58	Executive Vice President, Corporate Real Estate, Alliances and Treasurer	2005
Mary Jayne Parker	52	Executive Vice President and Chief Human Resources Officer <sup>(3)</sup>	2009

<sup>(1)</sup> Mr. Iger was appointed Chairman of the Board and Chief Executive Officer effective March 13, 2012. He was President and Chief Executive Officer from October 2, 2005 through that date.

<sup>(2)</sup> Mr. Rasulo was appointed Senior Executive Vice President and Chief Financial Officer effective January 1, 2010. He was Chairman, Walt Disney Parks and Resorts Worldwide from 2005 to 2009, and was President, Walt Disney Parks and Resorts from 2002 to 2005.

<sup>(3)</sup> Ms. Parker was named Executive Vice President – Human Resources and Chief Human Resources Officer of the Company, effective September 1, 2009, and designated an executive officer of the Company October 2, 2009. Ms. Parker was previously Senior Vice President of Human Resources for Walt Disney Parks and Resorts from October 2005 to July 2007 and Vice President Human Resources Administration for Walt Disney Parks and Resorts from March 2003 to October 2005.



[TABLE OF CONTENTS](#)**PART II****ITEM 5. Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Company's common stock is listed on the New York Stock Exchange under the ticker symbol "DIS". The following table shows, for the periods indicated, the high and low sales prices per share of common stock as reported in the Bloomberg Financial markets services.

	Sales Price	
	High	Low
<b>2013</b>		
4th Quarter	\$ 67.65	\$ 60.41
3rd Quarter	67.89	56.15
2nd Quarter	57.82	48.80
1st Quarter	53.15	46.53
<b>2012</b>		
4th Quarter	\$ 53.40	\$ 46.85
3rd Quarter	48.95	40.88
2nd Quarter	44.50	37.94
1st Quarter	37.80	28.19

The Company declared a \$0.75 per share dividend (\$1.3 billion) on November 28, 2012 related to fiscal 2012, which was paid on December 28, 2012. The Board of Directors has not declared a dividend related to fiscal 2013 as of the date of this report.

As of September 28, 2013, the approximate number of common shareholders of record was 956,025.

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 September 28, 2013:

Period	Total Number of Shares Purchased <sup>(1)</sup>	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 <sup>(2)</sup>
June 30, 2013 – July 31, 2013	6,678,487	\$64.71	6,611,400	176 million
August 1, 2013 – August 31, 2013	8,609,651	63.20	8,546,900	168 million
September 1, 2013 – September 28, 2013	6,727,762	63.73	6,661,600	161 million
Total	22,015,900	63.82	21,819,900	161 million

<sup>(1)</sup> 196,000 shares were purchased on the open market to provide shares to participants in the Walt Disney Investment Plan (WDIP) and Employee Stock Purchase Plan (ESPP). These purchases were not made pursuant to a publicly announced repurchase plan or program.

<sup>(2)</sup> Under a share repurchase program implemented effective June 10, 1998, the Company is authorized to repurchase shares of



its common stock. On March 22, 2011, the Company's Board of Directors increased the repurchase authorization to a total of 400 million shares as of that date. The repurchase program does not have an expiration date.

## ITEM 6. Selected Financial Data

(in millions, except per share data)

	2013 <sup>(1)</sup>	2012 <sup>(2)</sup>	2011 <sup>(3)</sup>	2010 <sup>(4)</sup>	2009 <sup>(5)</sup>
Statements of income					
Revenues	\$ 45,041	\$ 42,278	\$ 40,893	\$ 38,063	\$ 36,149
Net income	6,636	6,173	5,258	4,313	3,609
Net income attributable to Disney	6,136	5,682	4,807	3,963	3,307
Per common share					
Earnings attributable to Disney					
Diluted	\$ 3.38	\$ 3.13	\$ 2.52	\$ 2.03	\$ 1.76
Basic	3.42	3.17	2.56	2.07	1.78
Dividends	0.75	0.60	0.40	0.35	0.35
Balance sheets					
Total assets	\$ 81,241	\$ 74,898	\$ 72,124	\$ 69,206	\$ 63,117
Long-term obligations	17,337	17,876	17,717	16,234	16,939
Disney shareholders' equity	45,429	39,759	37,385	37,519	33,734
Statements of cash flows					
Cash provided (used) by:					
Operating activities	\$ 9,452	\$ 7,966	\$ 6,994	\$ 6,578	\$ 5,319
Investing activities	(4,676)	(4,759)	(3,286)	(4,523)	(1,755)
Financing activities	(4,214)	(2,985)	(3,233)	(2,663)	(3,111)

- <sup>(1)</sup> During fiscal 2013, the Company completed a cash and stock acquisition for the outstanding capital stock of Lucasfilm for \$4.1 billion (see Note 3 to the Consolidated Financial Statements for further discussion). In addition, results for the year include a charge related to the Celador litigation (\$0.11 per diluted share) (see Note 14 to the Consolidated Financial Statements), restructuring and impairment charges (\$0.07 per diluted share), a charge related to an equity redemption by Hulu (Hulu Equity Redemption) (\$0.02 per diluted share) (see Note 3 to the Consolidated Financial Statements), favorable tax adjustments related to an increase in the amount of prior-year foreign earnings considered to be indefinitely reinvested outside of the United States and favorable tax adjustments related to pre-tax earnings in prior years (\$0.12 per diluted share) and gains in connection with the sale of our equity interest in ESS and certain businesses (\$0.08 per diluted share). These items collectively resulted in a net adverse impact of \$0.01 per diluted share.
- <sup>(2)</sup> The fiscal 2012 results include a non-cash gain in connection with the acquisition of a controlling interest in UTV (\$0.06 per diluted share) (see Note 3 to the Consolidated Financial Statements for further discussion), a recovery of a previously written-off receivable from Lehman Brothers (\$0.03 per diluted share), restructuring and impairment charges (\$0.03 per diluted share) and costs related to the Disneyland Paris debt refinancing (rounded to \$0.00 per diluted share) (see Note 8 to the Consolidated Financial Statements). These items collectively resulted in a net positive benefit of \$0.06 per diluted share.
- <sup>(3)</sup> The fiscal 2011 results include restructuring and impairment charges that rounded to \$0.00 per diluted share and a net after tax loss on the sales of businesses including Miramax (\$0.02 per diluted share) (see Note 4 to the Consolidated Financial Statements), which collectively resulted in a net adverse impact of \$0.02 per diluted share.
- <sup>(4)</sup> During fiscal 2010, the Company completed a cash and stock acquisition for the outstanding capital stock of Marvel for \$4.2 billion. In addition, results include restructuring and impairment charges (\$0.09 per diluted share), gains on the sales of investments in two television services in Europe (\$0.02 per diluted share), a gain on the sale of the *Power Rangers* property (\$0.01 per diluted

share), and an accounting gain related to the acquisition of The Disney Store Japan (\$0.01 per diluted share). These items collectively resulted in a net adverse impact of \$0.04 per diluted share.

- (5) The fiscal 2009 results include restructuring and impairment charges (\$0.17 per diluted share), a non-cash gain in connection with the AETN transaction (\$0.08 per diluted share) and a gain on the sale of our investment in two pay television services in Latin America (\$0.04 per diluted share). These items collectively resulted in a net adverse impact of \$0.06 per diluted share.

[TABLE OF CONTENTS](#)**ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**CONSOLIDATED RESULTS**  
(in millions, except per share data)

				% Change Better/(Worse)	
	<b>2013</b>	2012	2011	<b>2013 vs. 2012</b>	2012 vs. 2011
Revenues	\$ <b>45,041</b>	\$ 42,278	\$ 40,893	<b>7 %</b>	3 %
Costs and expenses	<b>(35,591)</b>	(33,415)	(33,112)	<b>(7)%</b>	(1)%
Restructuring and impairment charges	<b>(214)</b>	(100)	(55)	<b>&gt;(100)%</b>	(82)%
Other income /(expense), net	<b>(69)</b>	239	75	<b>nm</b>	>100 %
Net interest expense	<b>(235)</b>	(369)	(343)	<b>36 %</b>	(8)%
Equity in the income of investees	<b>688</b>	627	585	<b>10 %</b>	7 %
Income before income taxes	<b>9,620</b>	9,260	8,043	<b>4 %</b>	15 %
Income taxes	<b>(2,984)</b>	(3,087)	(2,785)	<b>3 %</b>	(11)%
Net income	<b>6,636</b>	6,173	5,258	<b>8 %</b>	17 %
Less: Net income attributable to noncontrolling interests	<b>(500)</b>	(491)	(451)	<b>(2)%</b>	(9)%
Net income attributable to The Walt Disney Company (Disney)	<b>\$ 6,136</b>	\$ 5,682	\$ 4,807	<b>8 %</b>	18 %
Earnings per share attributable to Disney:					
Diluted	<b>\$ 3.38</b>	\$ 3.13	\$ 2.52	<b>8 %</b>	24 %
Basic	<b>\$ 3.42</b>	\$ 3.17	\$ 2.56	<b>8 %</b>	24 %
Weighted average number of common and common equivalent shares outstanding:					
Diluted	<b>1,813</b>	1,818	1,909		
Basic	<b>1,792</b>	1,794	1,878		

**Organization of Information**

Management's Discussion and Analysis provides a narrative on 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
- Business Segment Results — 2013 vs. 2012
- Non-Segment Items — 2013 vs. 2012
- Pension and Postretirement Medical Benefit Costs
- Business Segment Results — 2012 vs. 2011
- Non-Segment Items — 2012 vs. 2011
- Liquidity and Capital Resources
- Contractual Obligations, Commitments, and Off Balance Sheet Arrangements
- Accounting Policies and Estimates
- Forward-Looking Statements

**CONSOLIDATED RESULTS****2013 vs. 2012**

Revenues for fiscal 2013 increased 7%, or \$2.8 billion, to \$45.0 billion; net income attributable to Disney increased 8%, or \$454 million, to \$6.1 billion; and diluted earnings per share attributable to Disney (EPS) for the year increased 8% or \$0.25 to \$3.38.

[TABLE OF CONTENTS](#)

Net income attributable to Disney for fiscal 2013 was impacted by the following:

- A \$321 million charge related to the Celador litigation
- Restructuring and impairment charges totaling \$214 million
- A \$55 million charge for our share of expense related to the Hulu Equity Redemption
- Favorable tax adjustments related to an increase in the amount of prior-year foreign earnings considered to be indefinitely reinvested outside of the United States and favorable tax adjustments related to pre-tax earnings in prior years totaling \$207 million
- A \$219 million gain on the sale of our 50% interest in ESPN STAR Sports (ESS) and gains of \$33 million on the sale of certain businesses

Net income attributable to Disney for fiscal 2012 was impacted by the following:

- A \$184 million non-cash gain recorded in connection with the acquisition of a controlling interest in UTV (UTV Gain)
- \$79 million for the recovery of a receivable from Lehman Brothers that was written off in fiscal 2008 as a result of the Lehman Brothers bankruptcy (Lehman recovery)
- Restructuring and impairment charges totaling \$100 million
- A \$24 million net charge related to the refinancing of Disneyland Paris borrowings (DLP debt charge)

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

(in millions, except per share data)	Pre-Tax Income/(Loss)	Tax Benefit/(Expense)	After-Tax Income/(Loss)	EPS Favorable/(Adverse) <sup>(3)</sup>
Year Ended September 28, 2013:				
Celador litigation charge	\$ (321)	\$ 119	\$ (202)	\$ (0.11)
Restructuring and impairment charges <sup>(1)</sup>	(214)	78	(136)	(0.07)
Hulu Equity Redemption charge <sup>(2)</sup>	(55)	20	(35)	(0.02)
Gain on sale of businesses and equity interest in ESS <sup>(1)</sup>	252	(48)	204	0.08
Favorable tax adjustments	—	207	207	0.12
Total	<u>\$ (338)</u>	<u>\$ 376</u>	<u>\$ 38</u>	<u>\$ (0.01)</u>
Year Ended September 29, 2012:				
UTV Gain	\$ 184	\$ (68)	\$ 116	\$ 0.06
Lehman recovery	79	(29)	50	0.03
Restructuring and impairment charges	(100)	37	(63)	(0.03)
DLP debt charge <sup>(1)</sup>	(24)	4	(20)	—
Total	<u>\$ 139</u>	<u>\$ (56)</u>	<u>\$ 83</u>	<u>\$ 0.06</u>

<sup>(1)</sup> EPS has been adjusted for any noncontrolling interest share.

<sup>(2)</sup> See Note 3 of the Consolidated Financial Statements for discussion of the Hulu Equity Redemption charge.

<sup>(3)</sup> Total may not equal the sum of the column due to rounding.

Aside from the \$0.07 adverse year-over-year impact of the items discussed above, the EPS increase in fiscal 2013 reflected improved performance across all of our segments, except for Studio Entertainment, along with lower net interest expense driven by lower effective interest rates. Parks and Resorts operating income growth was driven by higher average guest spending and attendance at our domestic parks, partially offset by higher operating costs. Growth at Media Networks was driven by increased MVPD fees (Affiliate Fees) due to contractual rate increases, higher advertising revenues at ESPN and ABC and higher equity earnings from AETN, partially offset by higher programming costs at ESPN and ABC primetime. Consumer Products operating income growth was

due to improved merchandise licensing results and the inclusion of Lucasfilm. The improvement at Interactive was driven by the release of *Disney Infinity*. Lower operating income at Studio Entertainment was driven by lower unit sales in home entertainment, partially offset by increased subscription video on demand (SVOD) sales in the current year and lower film impairments.

[TABLE OF CONTENTS](#)
**2012 vs. 2011**

Revenues for fiscal 2012 increased 3%, or \$1.4 billion, to \$42.3 billion; net income attributable to Disney increased 18%, or \$875 million, to \$5.7 billion; and EPS for the year increased 24% to \$3.13.

Net income attributable to Disney for fiscal 2011 included restructuring and impairment charges and gains on the sale of businesses as follows:

(in millions, except per share data)	Pre-Tax Income/(Loss)	Tax Benefit/(Expense)	After-Tax Income/(Loss)	EPS Favorable/(Adverse)
Restructuring and impairment charges	\$ (55)	\$ 47	\$ (8)	\$ —
Gains on sales of businesses	75	(107)	(32)	(0.02)
	<u>\$ 20</u>	<u>\$ (60)</u>	<u>\$ (40)</u>	<u>\$ (0.02)</u>

Restructuring and impairment charges included an impairment of assets that had tax basis significantly in excess of book value resulting in a \$47 million tax benefit on the restructuring and impairment charges. The gains on sales of businesses included the sale of Miramax, which had a book value that included \$217 million of allocated goodwill, which is not tax deductible. Accordingly, the taxable gain on the sales of businesses exceeded the \$75 million book gain resulting in tax expense of \$107 million.

Aside from the \$0.08 year-over-year benefit of the items discussed above, the EPS increase in fiscal 2012 reflected improved operating results across all of our operating segments. Improved results at Media Networks were driven by higher cable Affiliate Fees and advertising revenue and an increase in ABC program sales. These increases were partially offset by increased sports programming costs and lower broadcast advertising revenue. Growth at Parks and Resorts was driven by higher guest spending and attendance at our domestic parks and resorts, partially offset by higher operating costs. The increase at Studio Entertainment reflected improved results at our theatrical business driven by Marvel's *The Avengers*, partially offset by higher film cost write-downs. Consumer Products growth was driven by higher merchandise licensing revenue due to the strength of Marvel properties. The increase at Interactive was driven by improved social game performance due to lower acquisition accounting impacts and improved results at our console game business.

**Restructuring and Impairment Charges**

The Company recorded \$214 million, \$100 million and \$55 million of restructuring and impairment charges in fiscal years 2013, 2012 and 2011, respectively. Charges in fiscal 2013 were due to severance, contract and lease termination costs and intangible and other asset impairments. The charges include amounts incurred in connection with the acquisition of Lucasfilm. Charges in fiscal 2012 were primarily due to severance, lease termination costs and the write-off of an intellectual property asset. Charges in fiscal 2011 were due to severance costs and asset impairments. Charges in each fiscal year were largely due to organizational and cost structure initiatives across various of our businesses.

**Other Income/(Expense), net**

Other income/(expense) is as follows (in millions):

	2013	2012	2011
Celador litigation charge	\$ (321)	\$ —	\$ —
Gain on sale of equity interest in ESS	219	—	—
Gains on sale of Miramax and other businesses	33	—	75
Gain related to the acquisition of UTV	—	184	—
Lehman recovery	—	79	—
DLP debt charge	—	(24)	—
Other income/(expense), net	<u>\$ (69)</u>	<u>\$ 239</u>	<u>\$ 75</u>





[TABLE OF CONTENTS](#)**BUSINESS SEGMENT RESULTS — 2013 vs. 2012**

Below is a discussion of the major revenue and expense categories for our business segments. Costs and expenses for each segment consist of operating expenses, selling, general, administrative and other expenses and depreciation and amortization. Selling, general, administrative and other costs include third-party and internal marketing expenses.

Our Media Networks segment generates revenue from Affiliate Fees charged to MVPDs and Network affiliated stations, advertising revenues from the sale to advertisers of time in programs for commercial announcements and other revenues, which include the sale and distribution of television programming. Significant operating expenses include programming and production costs, technical support costs, distribution costs and operating labor.

Our Parks and Resorts segment generates revenue from the sale of admissions to theme parks, the sale of food, beverage and merchandise, charges for room nights at hotels, sales of cruise vacation packages and sales and rentals of vacation club properties. Significant operating expenses include operating labor, costs of sales, repairs and maintenance, utilities, information technology and property taxes.

Our Studio Entertainment segment generates revenue from the distribution of films in the theatrical, home entertainment, television markets, music distribution and ticket sales and licensing revenues from live entertainment events. Significant operating expenses include film cost amortization, which consists of production cost and participations and residuals expense amortization, distribution expenses and costs of sales.

Our Consumer Products segment generates revenue from licensing characters from our film, television and other properties to third parties for use on consumer merchandise, publishing children's books and magazines and comic books, and operating retail stores, English language learning centers and internet shopping sites. Significant operating expenses include costs of goods sold and distribution expenses, operating labor and retail occupancy costs.

Our Interactive segment generates revenue from the development and sale of multi-platform console games, subscriptions to and micro transactions for online and mobile games, content and handset revenue from our Disney-branded mobile phone business in Japan, and online advertising and sponsorships. Certain properties are also licensed to third-party game publishers. Significant operating expenses include cost of goods sold and distribution expense and product development.

(in millions)	2013	2012	2011	% Change Better/(Worse)	
				2013 vs. 2012	2012 vs. 2011
Revenues:					
Media Networks	\$ 20,356	\$ 19,436	\$ 18,714	5 %	4 %
Parks and Resorts	14,087	12,920	11,797	9 %	10 %
Studio Entertainment	5,979	5,825	6,351	3 %	(8)%
Consumer Products	3,555	3,252	3,049	9 %	7 %
Interactive	1,064	845	982	26 %	(14)%
	<u>\$ 45,041</u>	<u>\$ 42,278</u>	<u>\$ 40,893</u>	<u>7 %</u>	<u>3 %</u>
Segment operating income (loss):					
Media Networks	\$ 6,818	\$ 6,619	\$ 6,146	3 %	8 %
Parks and Resorts	2,220	1,902	1,553	17 %	22 %
Studio Entertainment	661	722	618	(8)%	17 %
Consumer Products	1,112	937	816	19 %	15 %
Interactive	(87)	(216)	(308)	60 %	30 %

<u>\$</u>	<u>10,724</u>	<u>\$</u>	<u>9,964</u>	<u>\$</u>	<u>8,825</u>	<u>8 %</u>	<u>13 %</u>
-----------	---------------	-----------	--------------	-----------	--------------	------------	-------------

---

27

---

## TABLE OF CONTENTS

The Company evaluates the performance of its operating segments based on segment operating income, and management uses aggregate segment operating income as a measure of the overall performance of the operating businesses. The Company believes that information about aggregate segment operating income assists investors by allowing them to evaluate changes in the operating results of the Company's portfolio of businesses separate from factors other than business operations that affect net income. The following table reconciles segment operating income to income before income taxes.

(in millions)	2013	2012	2011	% Change Better/(Worse)	
				2013 vs. 2012	2012 vs. 2011
Segment operating income	\$ 10,724	\$ 9,964	\$ 8,825	8 %	13 %
Corporate and unallocated shared expenses	(531)	(474)	(459)	(12)%	(3)%
Restructuring and impairment charges	(214)	(100)	(55)	>(100)%	(82)%
Other income /(expense), net	(69)	239	75	nm	>100 %
Net interest expense	(235)	(369)	(343)	36 %	(8)%
Hulu Equity Redemption charge	(55)	—	—	nm	nm
Income before income taxes	<u>\$ 9,620</u>	<u>\$ 9,260</u>	<u>\$ 8,043</u>	<u>4 %</u>	<u>15 %</u>

## Media Networks

Operating results for the Media Networks segment are as follows:

(in millions)	Year Ended		% Change Better / (Worse)
	September 28, 2013	September 29, 2012	
Revenues			
Affiliate Fees	\$ 10,018	\$ 9,360	7 %
Advertising	7,923	7,699	3 %
Other	2,415	2,377	2 %
Total revenues	<u>20,356</u>	<u>19,436</u>	5 %
Operating expenses	(11,261)	(10,535)	(7)%
Selling, general, administrative and other	(2,768)	(2,651)	(4)%
Depreciation and amortization	(251)	(258)	3 %
Equity in the income of investees	742	627	18 %
Operating Income	<u>\$ 6,818</u>	<u>\$ 6,619</u>	3 %

### Revenues

Affiliate Fee growth of 7% was due to an increase of 7% from higher contractual rates.

Higher advertising revenues were due to an increase of \$178 million at Cable Networks from \$3,785 million to \$3,963 million, and an increase of \$46 million at Broadcasting from \$3,914 million to \$3,960 million. The increase at Cable Networks reflected increases of 7% due to higher units delivered and 4% due to higher rates, partially offset by a decrease of 6% due to lower ratings.

Higher advertising revenues at Broadcasting reflected increases of 5% due to higher units delivered, 4% due to higher network advertising rates and 1% due to growth in online advertising, partially offset by a decrease of 8% due to lower primetime ratings.

The increase in other revenues was due to higher program sales at Broadcasting, the inclusion of revenues from Lucasfilm and higher international program syndication fees at ESPN, partially offset by lower royalties from MVPD distribution of our programs. Higher program sales reflected increased subscription revenues from programs distributed through Hulu.com. Syndication sales were comparable to the prior year as increases driven by *Scandal*, *Revenge*, *Katie* and *Once Upon a Time* were offset by decreases from *Desperate Housewives*, *Castle* and *Grey's Anatomy*.

## TABLE OF CONTENTS

### *Costs and Expenses*

Operating expenses include programming and production costs, which increased \$712 million from \$8,991 million to \$9,703 million. At Cable Networks, an increase in programming and production costs of \$468 million was primarily due to contractual rate increases for college sports, NFL, MLB and NBA rights, production costs for new X Games events, the addition of new college football rights and more episodes of original programming at the domestic Disney Channels. At Broadcasting, programming and production costs increased \$244 million driven by a shift of primetime hours from lower cost reality and primetime news to higher cost original scripted programming.

The increase in selling, general, administrative and other costs reflected higher marketing costs related to the fall launch of the ABC primetime season and an increase in labor related costs.

### *Equity in the Income of Investees*

Income from equity investees increased to \$742 million in the current year from \$627 million in the prior year due to an increase at AETN primarily due to higher advertising and affiliate revenues, partially offset by higher sales and marketing and programming costs. The increase in equity income from AETN includes the benefit from an increase in the Company's ownership interest from 42% to 50%.

### *Segment Operating Income*

Segment operating income increased 3%, or \$199 million, to \$6.8 billion. The increase was primarily due to increases at ESPN and the domestic Disney Channels and increased equity income from AETN, partially offset by a decrease at Broadcasting.

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

(in millions)	Year Ended		% Change Better / (Worse)
	September 28, 2013	September 29, 2012	
Revenues			
Cable Networks	\$ 14,453	\$ 13,621	6 %
Broadcasting	5,903	5,815	2 %
	<u>\$ 20,356</u>	<u>\$ 19,436</u>	5 %
Segment operating income			
Cable Networks	\$ 6,047	\$ 5,704	6 %
Broadcasting	771	915	(16)%
	<u>\$ 6,818</u>	<u>\$ 6,619</u>	3 %

### *Restructuring and Impairment Charges*

The Company recorded charges of \$85 million, \$14 million and \$3 million related to Media Networks for fiscal years 2013, 2012 and 2011, respectively. The charges in fiscal 2013 were primarily for severance, contract settlement costs and intangible asset impairment. The charges in fiscal 2012 were primarily related to severance, and the charges in fiscal 2011 related to asset impairments. These charges were primarily related to organizational and cost structure initiatives. These charges were reported in "Restructuring and impairment charges" in the Consolidated Statements of Income.

[TABLE OF CONTENTS](#)**Parks and Resorts**

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

(in millions)	Year Ended		% Change Better / (Worse)
	September 28, 2013	September 29, 2012	
Revenues			
Domestic	\$ 11,394	\$ 10,339	10 %
International	2,693	2,581	4 %
Total revenues	14,087	12,920	9 %
Operating expenses	(8,537)	(7,928)	(8)%
Selling, general, administrative and other	(1,960)	(1,849)	(6)%
Depreciation and amortization	(1,370)	(1,241)	(10)%
Operating Income	\$ 2,220	\$ 1,902	17 %

*Revenues*

Parks and Resorts revenues increased 9%, or \$1.2 billion, to \$14.1 billion due to an increase of \$1.1 billion at our domestic operations and an increase of \$112 million at our international operations.

Revenue growth of 10% at our domestic operations reflected a 5% increase from higher average guest spending and a 4% increase from volume. Increased guest spending was due to higher average ticket prices, food, beverage and merchandise spending, and average daily hotel room rates. Higher volume was due to park attendance growth, increased passenger cruise ship days and higher occupied room nights at Walt Disney World Resort and, to a lesser extent, at the Disneyland Resort. Higher passenger cruise ship days reflected the launch of the *Disney Fantasy* in March 2012, while the increase in occupied room nights at Walt Disney World Resort reflected the opening of Disney's Art of Animation Resort in May 2012.

Revenue growth of 4% at our international operations reflected a 4% increase from higher average guest spending at Disneyland Paris and Hong Kong Disneyland Resort, a 1% increase from higher Tokyo Disney Resort royalty revenue and a 1% increase due to the impact of foreign currency translation primarily due to the weakening of the U.S. dollar against the euro. These increases were partially offset by a 2% decrease from lower volume. Guest spending growth was due to higher average ticket prices, the opening of the World of Disney store in July 2012 at Disneyland Paris and higher average daily hotel room rates. Lower volume was due to a decline in attendance and occupied room nights at Disneyland Paris, partially offset by attendance growth at Hong Kong Disneyland Resort.

The following table presents supplemental attendance, per capita theme park guest spending and hotel statistics:

	Domestic		International <sup>(2)</sup>		Total	
	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2012
<b>Parks</b>						
Increase/ (decrease)						
Attendance	4%	3%	(2)%	6%	2%	4%
Per Capita Guest Spending	8%	7%	4 %	1%	7%	5%
<b>Hotels <sup>(1)</sup></b>						
Occupancy	79%	81%	81 %	85%	80%	82%
Available Room						

Nights							
(in thousands)	<b>10,558</b>	9,850	<b>2,466</b>	2,468	<b>13,024</b>	12,318	
Per Room Guest							
Spending	\$ <b>267</b>	\$ 257	\$ <b>309</b>	\$ 299	\$ <b>276</b>	\$ 266	

- (1) 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.
- (2) Per capita guest spending and per room guest spending exclude the impact of foreign currency translation. The euro to U.S. dollar weighted average foreign currency exchange rate was \$1.31 and \$1.30 for fiscal years 2013 and 2012, respectively.

## TABLE OF CONTENTS

### *Costs and Expenses*

Operating expenses include operating labor, which increased by \$269 million from \$3,825 million to \$4,094 million, and cost of sales, which increased by \$54 million from \$1,294 million to \$1,348 million. Higher operating labor was due to new guest offerings and labor cost inflation. The increase in cost of sales was primarily due to higher volumes partially offset by a lower costs per unit mix of vacation club units, reflecting sales at the Grand Floridian, which is a higher margin property. Other operating expenses, which include maintenance, utilities, information technology and property taxes, increased due to new guest offerings, inflation, higher volumes and the absence of business interruption insurance proceeds. The business interruption insurance proceeds were collected in 2012 and relate to the impact of the 2011 earthquake and tsunami in Japan on Tokyo Disney Resort. Significant new guest offerings that drove increased operating labor and other operating expenses consisted of a full year of operating the *Disney Fantasy*, pre-opening costs at Shanghai Disney Resort, the expansion of Disney California Adventure and a full year of Disney's Art of Animation Resort at Walt Disney World Resort.

The increase in selling, general, administrative and other costs was primarily due to information technology spending related to *MyMagic+*.

The increase in depreciation and amortization was primarily due to new guest offerings at Walt Disney World Resort and Disney California Adventure, costs associated with the refurbishment of the *Disney Magic* and a full year of depreciation for the *Disney Fantasy*.

### *Segment Operating Income*

Segment operating income increased 17%, or \$318 million, to \$2,220 million due to increases at our domestic parks and resorts, Disney Vacation Club and Hong Kong Disneyland Resort, partially offset by a decrease at Disneyland Paris and higher pre-opening costs at Shanghai Disney Resort.

## **Studio Entertainment**

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Year Ended		% Change Better / (Worse)
	September 28, 2013	September 29, 2012	
Revenues			
Theatrical distribution	\$ 1,870	\$ 1,470	27 %
Home entertainment	1,750	2,221	(21)%
Television and SVOD distribution and other	2,359	2,134	11 %
Total revenues	5,979	5,825	3 %
Operating expenses	(3,012)	(2,908)	(4)%
Selling, general, administrative and other	(2,145)	(2,053)	(4)%
Depreciation and amortization	(161)	(142)	(13)%
Operating Income	\$ 661	\$ 722	(8)%

### *Revenues*

Higher theatrical distribution revenues were driven by two Disney feature animation releases in the current year, *Wreck-It Ralph* and *Planes*, compared to none in the prior year. Other significant titles in release were *Iron Man 3*, *Monsters University*, *Oz The Great and Powerful*, *The Lone Ranger* and *Lincoln* in the current year compared to Marvel's *The Avengers*, *Brave*, *John Carter* and *The Muppets* in the prior year.



Lower home entertainment revenue reflected a 19% decrease from a decline in unit sales. The decrease in unit sales was driven by the performance of *Brave*, *Wreck-It Ralph* and *Iron Man 3* in the current year compared to Marvel's *The Avengers*, *Cars 2*, *The Lion King* Diamond Release and *Pirates of the Caribbean: On Stranger Tides* in the prior year along with lower catalog sales.

The increase in television and SVOD (TV/SVOD) distribution and other revenue was driven by domestic SVOD sales of library titles in the current year and the inclusion of Lucasfilm's special effects business.

#### *Cost and Expenses*

Operating expenses included an increase of \$121 million in film cost amortization, from \$1,685 million to \$1,806 million, driven by more significant titles in theatrical release in the current year, including the two feature animation releases, and higher TV/SVOD revenues. Other significant titles in release included *Iron Man 3*, *Oz The Great and Powerful*, *The Lone Ranger*, *Monsters University* and *Lincoln* in the current year compared to Marvel's *The Avengers*, *Brave*, *John Carter* and *The Muppets*. These increases were partially offset by the impact of lower home entertainment unit sales and lower film impairments. Lower film impairments were due to the write-down of *The Lone Ranger* in the current year compared to the write-down of *John Carter* and higher development costs write-offs in the prior year. Operating expenses also include distribution costs and cost of goods sold, which decreased \$17 million from \$1,223 million to \$1,206 million driven by a decline in home entertainment unit sales, partially offset by the inclusion of Lucasfilm's special effects business in the current year.

The increase in selling, general, administrative and other costs was primarily due to higher theatrical marketing expenses driven by two Disney feature animation releases in the current year compared to none in the prior year, partially offset by a decrease in home entertainment marketing.

The increase in depreciation and amortization was due to amortization of intangible assets resulting from the acquisition of Lucasfilm.

#### *Segment Operating Income*

Segment operating income decreased 8% to \$661 million primarily due to lower results at our home entertainment business, partially offset by an increase in television and SVOD distribution results and lower film cost write-downs in the current year.

#### *Restructuring and Impairment Charges*

The Company recorded charges of \$18 million, \$18 million and \$33 million related to Studio Entertainment for fiscal years 2013, 2012 and 2011, respectively. The charges in fiscal 2013 were primarily for severance costs. The charges in fiscal 2012 were primarily due to an impairment of an intangible asset. The charges in fiscal 2011 were primarily for severance and related costs. The severance costs in fiscal 2013 and 2011 were related to organizational and cost structure initiatives. These charges were reported in "Restructuring and impairment charges" in the Consolidated Statements of Income.

### **Consumer Products**

Operating results for the Consumer Products segment are as follows:

(in millions)	Year Ended <sup>(1)</sup>		% Change Better / (Worse)
	September 28, 2013	September 29, 2012	
Revenues			
Licensing and publishing	\$ 2,254	\$ 2,056	10 %
Retail and other	1,301	1,196	9 %
Total revenues	3,555	3,252	9 %
Operating expenses	(1,566)	(1,514)	(3)%
Selling, general, administrative and other	(731)	(686)	(7)%
Depreciation and amortization	(146)	(115)	(27)%
Operating Income	\$ 1,112	\$ 937	19 %

<sup>(1)</sup> Certain reclassifications have been made to the operating and selling, general and administrative expense amounts presented for fiscal 2012 and fiscal 2011 to conform to the fiscal 2013 presentation. The reclassifications reflect, in part, changes to our organizational structure following leadership changes in the Consumer Products segment in fiscal 2012.

## TABLE OF CONTENTS

### *Revenues*

Licensing and publishing revenues increased 10% due to increases of 8% from licensing and 2% from publishing. The increase at licensing was due to the inclusion of revenues from Lucasfilm and the performance of Disney Junior, *Monsters University*, Mickey and Minnie, Iron Man and *Planes* merchandise, partially offset by lower earned revenue from Cars and Winnie the Pooh merchandise. Merchandise Licensing growth also benefited from higher recognition of minimum guarantees and a licensee audit settlement. The increase at publishing was due to international sales of books based on Disney Channel properties and higher revenues at our English language learning centers in China.

Retail and other revenue increased 9% due to an increase at our retail business, driven by higher comparable store sales growth in North America, Japan and Europe, a new wholesale distribution business in North America, increased online sales in North America and Europe, and the benefit of store format changes in North America and Japan. These increases were partially offset by an unfavorable impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Japanese yen.

### *Costs and Expenses*

Operating expenses included an increase of \$48 million in cost of goods sold, from \$593 million to \$641 million, due to higher sales at our retail business. Operating expenses also include labor, occupancy and distribution costs and increased 2% primarily due to higher labor and occupancy costs, partially offset by a decrease of 1% from the favorable impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Japanese yen.

The increase in selling, general, administrative and other costs was primarily due to the inclusion of Lucasfilm and higher technology development costs.

The increase in depreciation and amortization was due to amortization of intangible assets resulting from the acquisition of Lucasfilm.

### *Segment Operating Income*

Segment operating income increased 19% to \$1,112 million due to increases at our licensing, retail and publishing businesses.

### *Restructuring and Impairment Charges*

The Company recorded charges totaling \$49 million and \$34 million related to Consumer Products for fiscal years 2013 and 2012, respectively. The charges in fiscal 2013 and fiscal 2012 were primarily due to severance costs from organizational and cost structure initiatives. These charges were reported in "Restructuring and impairment charges" in the Consolidated Statements of Income.

## **Interactive**

Operating results for the Interactive segment are as follows:

(in millions)	Year Ended		% Change Better / (Worse)
	September 28, 2013	September 29, 2012	
Revenues			
Game sales and subscriptions	\$ 798	\$ 613	30 %
Advertising and other	266	232	15 %
Total revenues	1,064	845	26 %
Operating expenses	(658)	(583)	(13)%
Selling, general, administrative and other	(449)	(429)	(5)%
Depreciation and amortization	(44)	(49)	10 %
Operating Loss	\$ (87)	\$ (216)	60 %

*Revenues*

The increase in game sales and subscriptions revenue was driven by an increase of 25% from higher self-published console game revenues due to the fourth quarter release of *Disney Infinity* and 7% due to the inclusion of Lucasfilm's interactive games business.

## TABLE OF CONTENTS

Higher advertising and other revenue was driven by the full-year impact of an agreement that started in February 2012 at our Japan mobile business, which drove an increase in licensing revenue for handset sales and content, partially offset by an unfavorable impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Japanese yen.

### *Costs and Expenses*

Operating expenses included an \$80 million increase in cost of sales from \$252 million to \$332 million and a \$5 million decrease in product development costs from \$331 million to \$326 million. Higher cost of sales was due to the release of *Disney Infinity* and the inclusion of Lucasfilm.

The increase in selling, general, administrative and other costs was due to higher marketing costs at our console games business in connection with the release of *Disney Infinity*, partially offset by the favorable impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Japanese yen.

### *Segment Operating Loss*

Segment operating loss decreased from \$216 million to \$87 million due to improved results at our console games and Japan mobile businesses.

### *Restructuring and Impairment Charges*

The Company recorded charges totaling \$11 million, \$21 million and \$22 million related to Interactive for fiscal years 2013, 2012 and 2011, respectively, which were primarily for severance costs from organizational and cost structure initiatives. These charges were reported in "Restructuring and impairment charges" in the Consolidated Statements of Income.

## **NON-SEGMENT ITEMS – 2013 vs. 2012**

### **Corporate and Unallocated Shared Expenses**

Corporate and unallocated shared expenses increased 12%, from \$474 million to \$531 million. The increase reflects higher labor costs and charitable contributions.

### **Net Interest Expense**

Net interest expense is as follows:

(in millions)	2013	2012	% Change Better/(Worse)
Interest expense	\$ (349)	\$ (472)	26%
Interest and investment income	114	103	11%
Net interest expense	\$ (235)	\$ (369)	36%

The decrease in interest expense was due to lower effective interest rates.

The increase in interest and investment income was due to gains on sales of investments, partially offset by higher write-downs of investments.

### **Effective Income Tax Rate**

	2013	2012	Change Better/(Worse)
Effective income tax rate	31.0%	33.3%	2.3 ppt

The effective tax rate decreased 2.3 percentage points for the year primarily due to an increase in the amount of prior-year

foreign earnings considered to be indefinitely reinvested outside of the United States, which are subject to foreign tax rates lower than the federal statutory income tax rate and from favorable tax adjustments related to pre-tax earnings in prior years.

**TABLE OF CONTENTS****Noncontrolling Interests**

Net income attributable to noncontrolling interests for the year increased \$9 million to \$500 million due to higher net income at ESPN. This increase was partially offset by lower income recognition at Hong Kong Disneyland Resort due to the timing of recognition of royalty and management fee expense and the impact of pre-opening costs at Shanghai Disney Resort.

The net income attributable to noncontrolling interests is determined on income after royalties, financing costs and income taxes.

**PENSION AND POSTRETIREMENT MEDICAL BENEFIT COSTS**

Pension and postretirement medical benefit plan costs affect results in all of our segments, with approximately one-half of these costs being borne by the Parks and Resorts segment. The Company recognized pension and postretirement medical benefit plan expenses of \$698 million, \$626 million and \$576 million for fiscal years 2013, 2012 and 2011, respectively. The increase in fiscal 2013 was driven by a decrease in the assumed discount rate used to measure the present value of plan obligations. The assumed discount rate reflects market rates for high-quality corporate bonds currently available and was determined by considering the average of yield curves constructed from a large population of high quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves.

In fiscal 2014, we expect pension and postretirement medical costs to decrease from \$698 million to \$320 million, including \$146 million of recognition of net actuarial losses. The decrease in pension and postretirement medical costs is driven by a higher assumed discount rate. Pension and postretirement medical costs for fiscal 2013 included \$458 million of recognition of net actuarial losses. The increase in the discount rate also resulted in a decrease in the underfunded status of our plans from \$4.8 billion to \$1.9 billion and a decrease in unrecognized pension and postretirement medical expense to \$2.0 billion (\$1.2 billion after tax) as of September 28, 2013. If our future investment returns do not exceed our long-term expected returns and/or discount rates do not increase, a significant portion of the unrecognized pension and postretirement medical costs will be recognized as a net actuarial loss in our income statement over approximately the next 9 years. See Note 10 to the Consolidated Financial Statements for further details of the impacts of our pension and postretirement medical plans on our financial statements. During fiscal 2013, the Company contributed \$505 million to its pension and postretirement medical plans including discretionary contributions above the minimum requirements for pension plans. The Company currently expects pension and postretirement medical plan contributions in fiscal 2014 to total approximately \$275 million to \$325 million. Final minimum funding requirements for fiscal 2014 will be determined based on our January 1, 2014 funding actuarial valuation, which will be available in late fiscal 2014. See “Item 1A – Risk Factors” for the impact of factors affecting pension and postretirement medical costs.

**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. Based on our current hedge portfolio and other potential currency impacts in fiscal 2014, we currently project an adverse impact to growth in segment operating income in fiscal 2014 of approximately \$200 million, driven by a decline in the Japanese yen since the beginning of fiscal 2013.

[TABLE OF CONTENTS](#)**BUSINESS SEGMENT RESULTS – 2012 vs. 2011****Media Networks**

Operating results for the Media Networks segment are as follows:

(in millions)	Year Ended		% Change Better / (Worse)
	September 29, 2012	October 1, 2011	
Revenues			
Affiliate Fees	\$ 9,360	\$ 8,837	6 %
Advertising	7,699	7,598	1 %
Other	2,377	2,279	4 %
Total revenues	19,436	18,714	4 %
Operating expenses	(10,535)	(10,282)	(2)%
Selling, general, administrative and other	(2,651)	(2,633)	(1)%
Depreciation and amortization	(258)	(237)	(9)%
Equity in the income of investees	627	584	7 %
Operating Income	\$ 6,619	\$ 6,146	8 %

*Revenues*

Affiliate Fee growth of 6% was driven by increases of 5% from higher contractual rates and 1% from subscriber growth at Cable Networks.

Higher advertising revenues were due to an increase of \$263 million at Cable Networks from \$3,522 million to \$3,785 million, partially offset by a decrease of \$162 million at Broadcasting from \$4,076 million to \$3,914 million. The increase at Cable Networks reflected an increase of 6% due to higher rates. The decrease at Broadcasting reflected decreases of 7% due to lower ABC ratings, and 2% due to lower local television advertising driven by lower political advertising, partially offset by an increase of 5% due to higher ABC advertising rates.

The increase in other revenues was primarily due to higher program sales at Broadcasting driven by *Castle*, *Once Upon a Time* and *Revenge*, partially offset by lower home entertainment revenues, primarily due to *Lost*, and lower Disney Channel program sales.

*Costs and Expenses*

Operating expenses include programming and production costs, which increased \$231 million from \$8,760 million to \$8,991 million. At Cable Networks, an increase in programming and production costs of \$359 million was primarily due to higher sports rights costs due to contractual rate increases for college sports, NFL, MLB and NBA programming and expanded rights for the Wimbledon Championships. At Broadcasting, programming and production costs decreased \$128 million reflecting the absence of *The Oprah Winfrey Show* at our local television stations and lower program write-offs at ABC.

*Equity in the Income of Investees*

Income from equity investees increased to \$627 million in the current year from \$584 million in the prior year driven by an increase at AETN primarily due to higher advertising and affiliate revenues, partially offset by higher programming costs. This increase was partially offset by equity losses at Hulu, which were driven by higher programming and marketing costs, partially offset by higher advertising and subscription revenues.

*Segment Operating Income*

Segment operating income increased 8%, or \$473 million, to \$6.6 billion. The increase was primarily due to increases at ESPN and the worldwide Disney Channels and higher equity income from AETN.





[TABLE OF CONTENTS](#)

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

(in millions)	Year Ended		% Change Better / (Worse)
	September 29, 2012	October 1, 2011	
Revenues			
Cable Networks	\$ 13,621	\$ 12,877	6 %
Broadcasting	5,815	5,837	— %
	<u>\$ 19,436</u>	<u>\$ 18,714</u>	4 %
Segment operating income			
Cable Networks	\$ 5,704	\$ 5,233	9 %
Broadcasting	915	913	— %
	<u>\$ 6,619</u>	<u>\$ 6,146</u>	8 %

**Parks and Resorts**

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

(in millions)	Year Ended		% Change Better / (Worse)
	September 29, 2012	October 1, 2011	
Revenues			
Domestic	\$ 10,339	\$ 9,302	11 %
International	2,581	2,495	3 %
Total revenues	<u>12,920</u>	<u>11,797</u>	10 %
Operating expenses	(7,928)	(7,383)	(7)%
Selling, general, administrative and other	(1,849)	(1,696)	(9)%
Depreciation and amortization	(1,241)	(1,165)	(7)%
Operating Income	<u>\$ 1,902</u>	<u>\$ 1,553</u>	22 %

*Revenues*

Parks and Resorts revenues increased 10%, or \$1.1 billion, to \$12.9 billion due to an increase of \$1.0 billion at our domestic operations and an increase of \$86 million at our international operations.

Revenue growth of 11% at our domestic operations reflected a 5% increase from higher average guest spending and a 5% increase from volume. Increased guest spending was primarily due to higher average ticket prices, food and beverage spending, and daily hotel room rates. The volume increase was driven by higher passenger cruise days from the *Disney Fantasy* and the *Disney Dream*, which launched in March 2012 and January 2011, respectively, increased attendance at our domestic parks reflecting strong growth at Disneyland Resort, which benefited from the opening of Cars Land at Disney California Adventure and an increase in occupied room nights at Aulani, our hotel and vacation club resort in Hawaii, which opened in August 2011.

Revenue growth of 3% at our international operations reflected a 3% increase from higher average guest spending, a 3% increase from higher attendance and a 3% increase from higher royalty revenue from Tokyo Disney Resort. These increases were partially offset by a 4% decrease from the impact of foreign currency translation due to the strengthening of the U.S. dollar against the euro and a decrease of 1% from lower hotel occupancy at Disneyland Paris. Higher guest spending was primarily due to higher average daily hotel room rates and ticket prices. Higher royalty revenue from Tokyo Disney Resort reflected the impact from the

earthquake and tsunami in Japan in 2011.

[TABLE OF CONTENTS](#)

The following table presents supplemental attendance, per capita theme park guest spending and hotel statistics:

	Domestic		International <sup>(2)</sup>		Total	
	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2011
<u><b>Parks</b></u>						
Increase/ (decrease)						
Attendance	3%	1%	6%	6%	4%	2%
Per Capita Guest Spending	7%	8%	1%	2%	5%	6%
<u><b>Hotels <sup>(1)</sup></b></u>						
Occupancy	81%	82%	85%	88%	82%	83%
Available Room Nights (in thousands)	9,850	9,625	2,468	2,466	12,318	12,091
Per Room Guest Spending	\$ 257	\$ 241	\$ 317	\$ 294	\$ 270	\$ 253

<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.

<sup>(2)</sup> Per capita guest spending and per room guest spending exclude the impact of foreign currency translation. The euro to U.S. dollar weighted average foreign currency exchange rate was \$1.30 and \$1.39 for fiscal years 2012 and 2011, respectively.

**Costs and Expenses**

Operating expenses include operating labor, which increased by \$285 million from \$3,540 million to \$3,825 million and cost of sales, which increased \$96 million from \$1,198 million to \$1,294 million. Higher operating labor was driven by new guest offerings, labor cost inflation and higher employee benefit costs. The increase in cost of sales was driven by higher volumes. Other operating expenses, which include maintenance, utilities, investments in information technology and property taxes, increased due to new guest offerings. Significant new guest offerings that drove increased other operating expenses and operating labor were the *Disney Fantasy*, the *Disney Dream* and the expansion of Disney California Adventure. These increases were partially offset by a favorable impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the euro and the collection of business interruption insurance proceeds related to the earthquake and tsunami in Japan.

The increase in selling, general, administrative and other costs was driven by marketing for resort expansion and new guest offerings and labor and other cost inflation.

**Segment Operating Income**

Segment operating income increased 22%, or \$349 million, to \$1.9 billion driven by increases at our domestic parks and resorts, Tokyo Disney Resort, Disney Cruise Line and Hong Kong Disneyland Resort, partially offset by a decrease at Disneyland Paris.

**Studio Entertainment**

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Year Ended		% Change Better / (Worse)
	September 29, 2012	October 1, 2011	

## Revenues

Theatrical distribution	\$	1,470	\$	1,733	(15)%
Home entertainment		2,221		2,435	(9)%
Television and SVOD distribution and other		2,134		2,183	(2)%
Total revenues		<u>5,825</u>		<u>6,351</u>	(8)%
Operating expenses		(2,908)		(3,253)	11 %
Selling, general, administrative and other		(2,053)		(2,348)	13 %
Depreciation and amortization		<u>(142)</u>		<u>(132)</u>	(8)%
Operating Income	\$	<u><u>722</u></u>	\$	<u><u>618</u></u>	17 %

## TABLE OF CONTENTS

### *Revenues*

Lower theatrical distribution revenues were driven by fewer releases, partially offset by the strong performance of Marvel's *The Avengers*.

Lower home entertainment revenue reflected a 12% decrease from a decline in unit sales reflecting lower catalog sales and the performance of the current-year titles. Significant titles in the current year included Marvel's *The Avengers* and *Cars 2* while the prior year included *Toy Story 3* and *Tangled*. The decrease was partially offset by a 2% increase due to higher net effective pricing domestically, which benefited from a higher Blu-ray sales mix. Net effective pricing is the wholesale selling price adjusted for discounts, sales incentives and returns.

The decrease in TV/SVOD distribution and other revenue was driven by lower revenue share from the Consumer Products segment resulting from the prior-year performance of *Cars* merchandise. Television distribution revenue was comparable to the prior year as higher syndication sales in international markets was offset by lower sales in the domestic pay television market.

### *Cost and Expenses*

Operating expenses included a decrease of \$200 million in film cost amortization, from \$1,885 million to \$1,685 million, driven by lower home entertainment sales volume and a lower average production cost amortization rate for television distribution sales, partially offset by higher film cost write-downs. Operating expenses also include distribution costs and cost of goods sold, which decreased \$145 million from \$1,368 million to \$1,223 million driven by a decline in home entertainment sales volume and fewer theatrical titles in release.

The decrease in selling, general, administrative and other costs was primarily due to lower marketing expenses at our theatrical and home entertainment businesses driven by fewer major releases in the current year.

### *Segment Operating Income*

Segment operating income increased 17% to \$722 million primarily due to improved results at our domestic theatrical and television distribution businesses, partially offset by higher film cost write-downs in the current year.

## **Consumer Products**

Operating results for the Consumer Products segment are as follows:

(in millions)	Year Ended <sup>(1)</sup>		% Change Better / (Worse)
	September 29, 2012	October 1, 2011	
Revenues			
Licensing and publishing	\$ 2,056	\$ 1,933	6 %
Retail and other	1,196	1,116	7 %
Total revenues	3,252	3,049	7 %
Operating expenses	(1,514)	(1,452)	(4)%
Selling, general, administrative and other	(686)	(676)	(1)%
Depreciation and amortization	(115)	(105)	(10)%
Operating Income	\$ 937	\$ 816	15 %

<sup>(1)</sup> Certain reclassifications have been made to the operating and selling, general and administrative expense amounts presented for fiscal 2012 and fiscal 2011 to conform to the fiscal 2013 presentation. The reclassifications reflect, in part, changes to our organizational structure following leadership changes in the Consumer Products segment in fiscal 2012.

### *Revenues*

The 6% increase in licensing and publishing revenue reflected a decreased revenue share with Studio Entertainment due to lower revenues from Cars merchandise, higher performance of Spider-Man, Minnie and Mickey and Avengers merchandise and higher recognition of minimum guarantees.

The 7% increase in retail and other revenue reflected growth at our retail business driven by new stores in North America and Europe, increased online sales due to promotional events, and higher comparable store sales in North America. These increases were partially offset by lower comparable store sales in Europe.

#### *Costs and Expenses*

Operating expenses included an increase of \$26 million in cost of goods sold from \$567 million to \$593 million driven by increased sales volume at our retail business. Operating expenses also include labor, occupancy and distribution costs and increased by 1% due to higher distribution costs driven by higher third-party royalties and by 1% due to higher occupancy and labor costs. The increase in occupancy and labor costs was driven by the expansion of the English language learning centers in China and new retail stores in North America and Europe.

The increase in selling, general, administrative and other costs was driven by higher marketing and promotions expense.

#### *Segment Operating Income*

Segment operating income increased 15% to \$937 million due to increases at our licensing and retail businesses.

### **Interactive**

Operating results for the Interactive segment are as follows:

(in millions)	Year Ended		% Change Better / (Worse)
	September 29, 2012	October 1, 2011	
Revenues			
Game sales and subscriptions	\$ 613	\$ 768	(20)%
Advertising and other	232	214	8 %
Total revenues	845	982	(14)%
Operating expenses	(583)	(675)	14 %
Selling, general, administrative and other	(429)	(561)	24 %
Depreciation and amortization	(49)	(54)	9 %
Operating Loss	\$ (216)	\$ (308)	30 %

#### *Revenues*

The decrease in game sales and subscriptions revenue was driven by decreases of 29% from lower console game unit sales and 8% from lower net effective pricing of console games reflecting the strong performance of *Lego Pirates of the Caribbean*, *Cars 2* and *Epic Mickey* in the prior-year period. These decreases were partially offset by an 11% increase from higher social games revenue reflecting improved performance from current period titles and lower acquisition accounting impacts.

Higher advertising and other revenue was driven by an increase at our mobile phone business in Japan.

#### *Costs and Expenses*

Operating expenses included a \$21 million decrease in product development costs from \$352 million to \$331 million driven by decreased console game development. Operating expenses also include cost of sales, which decreased by \$71 million from \$323 million to \$252 million driven by lower console game sales volume, partially offset by an increase at social games associated with revenue growth.

The decrease in selling, general, administrative and other costs was primarily due to lower marketing costs at our console games business driven by fewer releases in the current period, lower acquisition accounting expenses at our social games business, and higher cost allocations to other Company businesses related to website design and maintenance and online revenues.

*Segment Operating Loss*

Segment operating loss decreased 30% to \$216 million driven by improved results at our social games and online businesses, partially offset by a decrease at our console games business.



[TABLE OF CONTENTS](#)**NON-SEGMENT ITEMS – 2012 vs. 2011****Corporate and Unallocated Shared Expenses**

Corporate and unallocated shared expenses increased 3%, from \$459 million to \$474 million due to higher labor costs and charitable contributions.

**Net Interest Expense**

Net interest expense is as follows:

(in millions)	2012	2011	% Change Better/(Worse)
Interest expense	\$ (472)	\$ (435)	(9)%
Interest and investment income	103	92	12 %
Net interest expense	<u>\$ (369)</u>	<u>\$ (343)</u>	(8)%

The increase in interest expense reflected higher average debt balances, partially offset by lower effective interest rates.

**Effective Income Tax Rate**

	2012	2011	Change Better/(Worse)
Effective income tax rate	33.3%	34.6%	1.3 ppt

The effective tax rate decreased 1.3 percentage points due to the impact in the prior year of the gain on the sale of Miramax, an increase in earnings from foreign operations subject to tax at rates lower than the federal statutory income tax rate, partially offset by the absence of a tax rate benefit recognized in the prior year from an impairment charge. The book value of Miramax included non-deductible goodwill such that the taxable gain on the sale of Miramax resulted in tax expense that exceeded the book gain resulting in a 1.0 percentage point adverse impact on the 2011 effective tax rate. The increase in foreign earnings subject to tax at rates lower than the U.S. federal statutory income tax rate caused a 0.3 percentage point benefit to the 2012 effective tax rate. The impairment charge in 2011 related to assets that had a tax basis in excess of book value resulting in a tax benefit that exceeded the pre-tax impairment charge resulting in a 0.3 percentage point benefit to the 2011 tax rate.

**Noncontrolling Interests**

Net income attributable to noncontrolling interests for the year increased \$40 million to \$491 million due to improved operating results at ESPN and Hong Kong Disneyland Resort, partially offset by lower operating results at Disneyland Paris including the impact of the DLP debt charge.

**LIQUIDITY AND CAPITAL RESOURCES**

The change in cash and cash equivalents is as follows:

(in millions)	2013	2012	2011
Cash provided by operations	\$ 9,452	\$ 7,966	\$ 6,994
Cash used in investing activities	(4,676)	(4,759)	(3,286)
Cash used in financing activities	(4,214)	(2,985)	(3,233)
Impact of exchange rates on cash and cash equivalents	(18)	(20)	(12)
Increase in cash and cash equivalents	<u>\$ 544</u>	<u>\$ 202</u>	<u>\$ 463</u>

## Operating Activities

Cash provided by operating activities for fiscal 2013 increased 19% or \$1.5 billion to \$9.5 billion as compared to fiscal 2012. The increase reflected higher operating cash receipts from increased revenues at Parks and Resorts, Media Networks and Consumer Products, timing of collections at Studio Entertainment, and lower pension contributions and interest payments. The decrease in interest payments was due to a significant payment of accrued interest in connection with the prior year refinancing of Disneyland Paris' borrowings. These cash flow increases were partially offset by higher operating cash payments at Studio Entertainment, Media Networks and Parks and Resorts and the payment related to the Celador litigation. The increase in cash payments at Studio Entertainment was driven by higher film production spending and the timing of participation payments, while the increase in cash payments at Media Networks was due to higher television programming and production spending. The increase in cash payments at Parks and Resorts was due to higher spending on new guest offerings and labor cost inflation, partially offset by the absence of a repurchase of vacation club mortgage receivables, which occurred in the prior year.

Cash provided by operating activities for fiscal 2012 increased 14% or \$1.0 billion to \$8.0 billion as compared to fiscal 2011. The increase was primarily due to higher net operating cash receipts driven by higher revenues at our Parks and Resorts, Media Networks and Consumer Products businesses and lower operating cash payments at Studio Entertainment driven by lower cost of goods sold and distribution costs. These cash flow increases were partially offset by higher operating cash payments at Parks and Resorts, lower operating cash receipts at Studio Entertainment driven by lower revenues, and higher interest and income tax payments. The increase in cash payments at Parks and Resorts was driven by labor cost inflation and costs for resort expansion and new guest offerings. The increase in interest payments was primarily due to the payment of previously accrued interest on Disneyland Paris borrowings.

Depreciation expense is as follows:

(in millions)	2013	2012	2011
Media Networks			
Cable Networks	\$ 139	\$ 141	\$ 134
Broadcasting	99	100	95
Total Media Networks	238	241	229
Parks and Resorts			
Domestic	1,041	927	842
International	327	314	323
Total Parks and Resorts	1,368	1,241	1,165
Studio Entertainment	54	48	53
Consumer Products	57	55	48
Interactive	20	17	16
Corporate	220	182	148
Total depreciation expense	\$ 1,957	\$ 1,784	\$ 1,659

Amortization of intangible assets is as follows:

(in millions)	2013	2012	2011
Media Networks	\$ 13	\$ 17	\$ 8
Parks and Resorts	2	—	—
Studio Entertainment	107	94	79
Consumer Products	89	60	57
Interactive	24	32	38
Corporate	—	—	—
Total amortization of intangible assets	\$ 235	\$ 203	\$ 182

The Company's Studio Entertainment and Media Networks segments incur costs to acquire and produce television and feature film 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, cable networks and television stations. Programming assets are generally recorded when

**TABLE OF CONTENTS**

the programming becomes available to us with a corresponding increase in programming liabilities. Accordingly, we analyze our programming assets net of the related liability.

The Company's film and television production and programming activity for fiscal years 2013, 2012 and 2011 are as follows:

(in millions)	<b>2013</b>	<b>2012</b>	<b>2011</b>
Beginning balances:			
Production and programming assets	\$ <b>5,217</b>	\$ 5,031	\$ 5,451
Programming liabilities	<b>(812)</b>	(866)	(990)
	<b>4,405</b>	4,165	4,461
Spending:			
Film and television production	<b>3,835</b>	3,385	3,184
Broadcast programming	<b>5,093</b>	4,763	4,588
	<b>8,928</b>	8,148	7,772
Amortization:			
Film and television production	<b>(3,646)</b>	(3,330)	(3,521)
Broadcast programming	<b>(5,233)</b>	(4,766)	(4,583)
	<b>(8,879)</b>	(8,096)	(8,104)
Change in film and television production and programming costs	<b>49</b>	52	(332)
Other non-cash activity	<b>35</b>	188	36
Ending balances:			
Production and programming assets	<b>5,417</b>	5,217	5,031
Programming liabilities	<b>(928)</b>	(812)	(866)
	<b>\$ 4,489</b>	\$ 4,405	\$ 4,165

**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 fiscal years 2013, 2012 and 2011 are as follows:

(in millions)	<b>2013</b>	<b>2012</b>	<b>2011</b>
Media Networks			
Cable Networks	\$ <b>176</b>	\$ 170	\$ 179
Broadcasting	<b>87</b>	85	128
Parks and Resorts			
Domestic	<b>1,140</b>	2,242	2,294
International	<b>970</b>	641	429
Studio Entertainment	<b>78</b>	79	118
Consumer Products	<b>45</b>	69	115
Interactive	<b>13</b>	27	21
Corporate	<b>287</b>	471	275
	<b>\$ 2,796</b>	\$ 3,784	\$ 3,559

Capital expenditures for the Parks and Resorts segment are principally for theme park and resort expansion, new rides and

attractions, cruise ships, recurring capital and capital improvements and systems infrastructure. The decrease in capital expenditures at Parks and Resorts in fiscal 2013 compared to fiscal 2012 was primarily due to higher spending in the prior year, which included the final progress payment for the *Disney Fantasy* cruise ship, the expansion of Disney California Adventure, the construction of Disney's Art of Animation Resort and the development of *MyMagic+*, compared to the current year, which included higher spending related to the construction of the Shanghai Disney Resort. The increase in capital expenditures at Parks and Resorts in fiscal 2012 compared to fiscal 2011 was driven by resort expansion and new guest offerings at Walt Disney World Resort and construction costs at Shanghai Disney Resort, partially offset by reduced expenditures at Disneyland Resort.

## TABLE OF CONTENTS

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 and information technology infrastructure. The decrease in fiscal 2013 reflected higher spending in the prior year for corporate facilities and information technology infrastructure. The increase in fiscal 2012 compared to fiscal 2011 was driven by investments in corporate facilities and information technology infrastructure.

### *Other Investing Activities*

During fiscal 2013, acquisitions totaled \$2.4 billion driven by the acquisition of Lucasfilm. Proceeds from dispositions totaled \$0.4 billion primarily due to the sale of our 50% equity interest in ESS.

During fiscal 2012, acquisitions totaled \$1.1 billion driven by the acquisition of an incremental 43% interest in UTV and a 49% interest in Seven TV network in Russia. We also made a \$300 million equity contribution to AETN.

During fiscal 2011, we received proceeds from dispositions of \$0.6 billion primarily from the sale of Miramax and invested \$0.2 billion in acquisitions, which included additional payments related to the fiscal 2010 acquisition of Playdom, Inc.

### **Financing Activities**

Cash used in financing activities was \$4.2 billion in fiscal 2013 compared to \$3.0 billion in fiscal 2012. The net use of cash in the current year was due to repurchases of common stock of \$4.1 billion and dividends of \$1.3 billion, partially offset by cash benefits associated with the exercise and vesting of equity awards of \$0.8 billion and contributions from our Shanghai Disney Resort joint venture partner of \$0.5 billion. The increase in net cash used in financing activities of \$1.2 billion versus the prior fiscal year was primarily due to higher repurchases of common stock of \$1.1 billion.

Cash used in financing activities in fiscal 2012 was \$3.0 billion compared to \$3.2 billion in fiscal 2011. The net use of cash in fiscal 2012 was driven by repurchases of common stock of \$3.0 billion and dividend payments of \$1.1 billion, partially offset by proceeds from exercises of stock options of \$1.0 billion and net borrowings of \$0.4 billion. The decrease in cash used by financing activities of \$0.2 billion compared to fiscal 2011 was primarily due to a decrease of \$2.0 billion in repurchases of common stock, partially offset by \$1.2 billion less net borrowings, an increase of \$0.3 billion in dividend payments and \$0.1 billion lower proceeds from exercises of stock options.

During the year ended September 28, 2013, the Company's borrowing activity was as follows:

(in millions)	September 29, 2012	Additions	Payments	Other Activity	September 28, 2013
Commercial paper borrowings	\$ 2,050	\$ —	\$ (2,050)	\$ —	\$ —
U.S. medium-term notes	10,117	3,780	(751)	9	13,155
European medium-term notes and other foreign currency denominated borrowings <sup>(1)</sup>	1,315	151	(728)	(229)	509
Other <sup>(2)</sup>	562	—	(30)	(183)	349
Hong Kong Disneyland Resort borrowings	267	—	—	8	275
Total	<u>\$ 14,311</u>	<u>\$ 3,931</u>	<u>\$ (3,559)</u>	<u>\$ (395)</u>	<u>\$ 14,288</u>

<sup>(1)</sup> The other activity is primarily the impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Japanese yen.

<sup>(2)</sup> The other activity is primarily market value adjustments for debt with qualifying hedges.



## TABLE OF CONTENTS

The Company's bank facilities as of September 28, 2013 were as follows:

(in millions)	Committed Capacity	Capacity Used	Unused Capacity
Facility expiring March 2014	\$ 1,500	\$ —	\$ 1,500
Facility expiring February 2015	2,250	—	2,250
Facility expiring June 2017	2,250	—	2,250
Total	<u>\$ 6,000</u>	<u>\$ —</u>	<u>\$ 6,000</u>

These bank facilities allow for borrowings at LIBOR-based rates plus a spread depending on the credit default swap spread applicable to the Company's debt, subject to a cap and floor that vary with the Company's debt rating assigned by Moody's Investors Service and Standard and Poor's. The spread above LIBOR can range from 0.23% to 1.93%.

The Company also has the ability to issue up to \$800 million of letters of credit under the facility expiring in February 2015, which if utilized, reduces available borrowings under this facility. As of September 28, 2013, \$252 million of letters of credit had been issued of which none were issued under this facility.

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.

The Company paid a \$0.75 per share dividend (\$1.3 billion) during the first quarter of fiscal 2013 related to fiscal 2012. The Company paid a \$0.60 per share dividend (\$1.1 billion) during the second quarter of fiscal 2012 related to fiscal 2011. The Company paid a \$0.40 per share dividend (\$0.8 billion) during the second quarter of fiscal 2011 related to fiscal 2010. As of the filing date of this report, the Board of Directors had not yet declared a dividend related to fiscal 2013.

During fiscal 2013, the Company repurchased 71 million shares of its common stock for approximately \$4.1 billion. During fiscal 2012, the Company repurchased 72 million shares of its common stock for approximately \$3.0 billion. During fiscal 2011, the Company repurchased 135 million shares of its common stock for \$5.0 billion. As of September 28, 2013, the Company had remaining authorization in place to repurchase 161 million additional shares.

We believe that the Company's financial condition is strong and that its cash balances, other liquid assets, operating cash flows, access to debt and equity capital markets and borrowing capacity, taken together, provide adequate resources to fund 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. See "Item 1A – Risk Factors". In addition to macroeconomic factors, the Company's borrowing costs can be impacted by short- and long-term debt ratings assigned by independent 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 September 28, 2013, 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 F-1, respectively, with stable outlook. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on September 28, 2013, by a significant margin. The Company's bank facilities also specifically exclude certain entities, such as Disneyland Paris, Hong Kong Disneyland Resort and Shanghai Disney Resort, from any representations, covenants or events of default.

## **CONTRACTUAL OBLIGATIONS, COMMITMENTS AND OFF BALANCE SHEET ARRANGEMENTS**

The Company has various contractual obligations, which are recorded as liabilities in our consolidated financial statements. Other items, such as certain purchase commitments and other executory contracts are not recognized as liabilities in our consolidated financial statements but are required to be disclosed in the footnotes to the financial statements. For example, the Company is contractually committed to acquire broadcast programming and make certain minimum lease payments for the use of property under operating lease agreements.



## TABLE OF CONTENTS

The following table summarizes our significant contractual obligations and commitments on an undiscounted basis at September 28, 2013 and the future periods in which such obligations are expected to be settled in cash. In addition, the table reflects the timing of principal and interest payments on outstanding borrowings based on their contractual maturities. Additional details regarding these obligations are provided in the Notes to the Consolidated Financial Statements, as referenced in the table:

(in millions)	Payments Due by Period				
	Total	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years
Borrowings (Note 8) <sup>(1)</sup>	\$ 19,209	\$ 1,943	\$ 4,764	\$ 3,536	\$ 8,966
Operating lease commitments (Note 14)	3,544	507	764	489	1,784
Capital lease obligations (Note 14)	743	60	108	53	522
Sports programming commitments (Note 14)	48,157	4,839	9,338	8,350	25,630
Broadcast programming commitments (Note 14)	2,527	1,156	599	496	276
Total sports and other broadcast programming commitments	50,684	5,995	9,937	8,846	25,906
Other <sup>(2)</sup>	4,976	2,638	983	342	1,013
Total contractual obligations <sup>(3)</sup>	<u>\$ 79,156</u>	<u>\$ 11,143</u>	<u>\$ 16,556</u>	<u>\$ 13,266</u>	<u>\$ 38,191</u>

<sup>(1)</sup> Amounts exclude market value adjustments totaling \$117 million, which are recorded in the balance sheet. Amounts include interest payments based on contractual terms for fixed rate debt, and on current interest rates for variable rate debt. In 2023, the Company has the ability to call a debt instrument prior to its scheduled maturity, which if exercised by the Company would reduce future interest payments by \$1.1 billion.

<sup>(2)</sup> Other commitments primarily comprise contractual commitments for creative talent and employment agreements and unrecognized tax benefits. Creative talent and employment agreements include obligations to actors, producers, sports, television and radio personalities and executives.

<sup>(3)</sup> Contractual commitments include the following:

Liabilities recorded on the balance sheet	\$ 15,446
Commitments not recorded on the balance sheet	63,710
	<u>\$ 79,156</u>

The Company also has obligations with respect to its pension and postretirement medical benefit plans. See Note 10 to the Consolidated Financial Statements.

### *Contingent Commitments and Contractual Guarantees*

The Company has certain contractual arrangements that would require the Company to make payments or provide funding if certain circumstances occur. The Company does not currently expect that these arrangements will result in any significant amounts being paid by the Company. See Note 14 to the Consolidated Financial Statements for information regarding the Company's contingent commitments and contractual guarantees.

### *Legal and Tax Matters*

As disclosed in Notes 9 and 14 to the Consolidated Financial Statements, the Company has exposure for certain tax and legal 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.

## [TABLE OF CONTENTS](#)

### *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 extent of home entertainment sales achieved. Home entertainment sales vary based on the number and quality of competing home video 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 the immediate write-off 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 movies, series and other programs based on the number of times the program is expected to be aired or on a straight-line basis over the useful life, as appropriate. Amortization of those television programming assets being amortized on a number of airings basis may be accelerated if we reduce the estimated future airings and slowed if we increase the estimated future airings. The number of future airings of a particular program is impacted primarily by the program's ratings in previous airings, expected advertising rates and availability and quality of alternative programming. Accordingly, planned usage is reviewed periodically and revised if necessary. We amortize rights costs for multi-year sports programming arrangements during the applicable seasons based on the estimated relative value of each year in the arrangement. The estimated values of each year are based on our projection 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 relative value, we expense the related contractual payment 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 network and cable). The net realizable values of other cable programming assets are reviewed on an aggregated basis for each cable channel. 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 for a summary of these revenue recognition policies.

We reduce home entertainment and software product 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 and concessions in a particular period,

we may record less revenue in later periods when returns exceed the estimated amount.

## [TABLE OF CONTENTS](#)

Conversely, if we overestimate the level of returns and concessions for a period, we may have additional revenue in later periods when returns and concessions are less than estimated.

We recognize revenues from advance theme park ticket sales when the tickets are used. For non-expiring, multi-day tickets, we recognize revenue over a five-year time period based on estimated usage, which is 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 critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement, which we evaluate annually. 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. We increased our discount rate to 5.00% at the end of fiscal 2013 from 3.85% at the end of fiscal 2012 to reflect market interest rate conditions at our September 28, 2013 measurement date. This increase in the discount rate will affect net periodic pension and postretirement medical expense (benefit expense) in fiscal 2014. The assumed discount rate reflects market rates for high-quality corporate bonds currently available. The Company's discount rate was determined by considering the average of pension yield curves constructed of a large population of high quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves. A one percentage point decrease in the assumed discount rate would increase total benefit expense for fiscal 2014 by \$204 million and would increase the projected benefit obligation at September 28, 2013 by \$1.9 billion. A one percentage point increase in the assumed discount rate would decrease total benefit expense and the projected benefit obligation by \$192 million and \$1.6 billion, respectively.

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. We decreased our long-term expected return on plan assets to 7.50% at the end of fiscal 2013 from 7.75% at the end of the fiscal 2012. A one percentage point change in the long-term asset return assumption would impact fiscal 2014 annual benefit expense by approximately \$90 million.

See Note 10 to the Consolidated Financial Statements for more information on our pension and postretirement medical plans.

### *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, and we could be required to record impairment charges.

The Company is required to compare the fair values of other indefinite-lived intangible assets to their carrying amounts. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized. Fair



## TABLE OF CONTENTS

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

The Company has cost and equity investments. The fair value of these investments is dependent on the performance of the investee companies as well as volatility inherent in the external markets for these investments. In assessing 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.

During fiscal years 2013, 2012 and 2011, the Company tested its goodwill and other intangible assets, investments and long-lived assets for impairment, and the impairment charges recorded were not material.

### *Allowance for Doubtful Accounts*

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

### *Contingencies and Litigation*

We are currently involved in certain legal proceedings and, as required, have accrued estimates of the probable and estimable losses for the resolution of these 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 14 to the 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.

[TABLE OF CONTENTS](#)**FORWARD-LOOKING STATEMENTS**

The Private Securities Litigation Reform Act of 1995 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 SEC and in reports to our shareholders. Such statements may, for example, express expectations or projections about future actions that we may take, including restructuring or strategic initiatives, or about developments beyond our control including changes in domestic or global economic conditions. These statements are made on the basis of management’s views and assumptions as of the time the statements are made and we undertake no obligation to update these statements. There can be no assurance, however, that our expectations will necessarily come to pass. Significant factors affecting these expectations are set forth under Item 1A – Risk Factors of this Report on Form 10-K.

**ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk**

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

**Policies and Procedures**

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

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

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

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

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

**Value at Risk (VAR)**

The Company utilizes a VAR model to estimate the maximum potential one-day loss in the fair value of its interest rate, foreign exchange and market sensitive equity financial instruments. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. Various modeling techniques can be used in a VAR computation. The Company’s computations are based on the interrelationships between movements in various interest rates, currencies and equity prices (a variance/co-variance technique). These interrelationships were determined by observing interest rate, foreign currency and equity market changes over the preceding quarter for the calculation of VAR amounts at fiscal year end. The model includes all of the Company’s debt as well as all interest rate



and foreign exchange derivative contracts and market sensitive equity investments. Forecasted transactions, firm commitments, and accounts receivable and payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were excluded from the model.

## [TABLE OF CONTENTS](#)

The VAR model is a risk analysis tool and does not purport to represent actual losses in fair value that will be incurred by the Company, nor does it consider the potential effect of favorable changes in market factors.

VAR on a combined basis decreased to \$63 million at September 28, 2013 from \$79 million at September 29, 2012.

The estimated maximum potential one-day loss in fair value, calculated using the VAR model, is as follows (unaudited, in millions):

Fiscal Year 2013	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Equity Sensitive Financial Instruments	Combined Portfolio
Year end VAR	\$ 60	\$ 29	\$ 17	\$ 63
Average VAR	\$ 50	\$ 36	\$ 10	\$ 65
Highest VAR	\$ 77	\$ 45	\$ 17	\$ 77
Lowest VAR	\$ 32	\$ 29	\$ 5	\$ 54
Beginning of year VAR (year end fiscal 2012)	\$ 44	\$ 47	\$ 3	\$ 79

The VAR for Disneyland Paris and Hong Kong Disneyland Resort is immaterial as of September 28, 2013 and has been excluded from the above table.

## **ITEM 8. Financial Statements and Supplementary Data**

See Index to Financial Statements and Supplemental Data on page 60.

## **ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## **ITEM 9A. 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 September 28, 2013, 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.

### **Management's Report on Internal Control Over Financial Reporting**

Management's report set forth on page 61 is incorporated herein by reference.

### **Changes in Internal Controls**

There have been no changes in our internal control over financial reporting during the fourth quarter of the fiscal year ended September 28, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. Other Information**

None.

[TABLE OF CONTENTS](#)**PART III****ITEM 10. Directors, Executive Officers and Corporate Governance**

Information regarding Section 16(a) compliance, the Audit Committee, the Company's code of ethics, background of the directors and director nominations appearing under the captions "Section 16(a) Beneficial Ownership Reporting Compliance," "Committees," "Governing Documents," "Director Selection Process" and "Election of Directors" in the Company's Proxy Statement for the 2014 annual meeting of Shareholders is hereby incorporated by reference.

Information regarding executive officers is included in Part I of this Form 10-K as permitted by General Instruction G(3).

**ITEM 11. Executive Compensation**

Information appearing under the captions "Director Compensation," "Executive Compensation Discussion and Analysis" and "Executive Compensation Tables" in the 2014 Proxy Statement (other than the "Compensation Committee Report," which is deemed furnished herein by reference) is hereby incorporated by reference.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information setting forth the security ownership of certain beneficial owners and management appearing under the caption "Stock Ownership" and information in the "Equity Compensation Plans" table appearing under the caption "Equity Compensation Plans" in the 2014 Proxy Statement is hereby incorporated by reference.

**ITEM 13. Certain Relationships and Related Transactions, and Director Independence**

Information regarding certain related transactions appearing under the captions "Certain Relationships and Related Person Transactions" and information regarding director independence appearing under the caption "Director Independence" in the 2014 Proxy Statement is hereby incorporated by reference.

**ITEM 14. Principal Accounting Fees and Services**

Information appearing under the captions "Auditor Fees and Services" and "Policy for Approval of Audit and Permitted Non-Audit Services" in the 2014 Proxy Statement is hereby incorporated by reference.

[TABLE OF CONTENTS](#)**PART IV****ITEM 15. Exhibits and Financial Statement Schedules****(1) Financial Statements and Schedules**

See Index to Financial Statements and Supplemental Data on page 60.

**(2) Exhibits**

The documents set forth below are filed herewith or incorporated herein by reference to the location indicated.

<b>Exhibit</b>		<b>Location</b>
3.1	Restated Certificate of Incorporation of the Company	Exhibit 3.1 to the Current Report on Form 8-K of the Company dated March 10, 2010
3.2	Bylaws of the Company	Exhibit 3.1 to the Current Report on Form 8-K of the Company dated October 8, 2013
4.1	Four-Year Credit Agreement dated as of February 22, 2011	Exhibit 10.1 to the Current Report on Form 8-K of the Company, filed February 25, 2011
4.2	Five-Year Credit Agreement dated as of June 8, 2012	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed June 11, 2012
4.3	364-Day Credit Agreement dated as of March 15, 2013	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed March 15, 2013
4.4	Senior Debt Securities Indenture, dated as of September 24, 2001, between the Company and Wells Fargo Bank, N.A., as Trustee	Exhibit 4.1 to the Current Report on Form 8-K of the Company, dated September 24, 2001
4.5	Other long-term borrowing instruments are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Company undertakes to furnish copies of such instruments to the Commission upon request	
10.1	Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger	Exhibit 10.1 to the Form 10-K of the Company for the fiscal year ended October 1, 2011
10.2	Amendment dated July 1, 2013 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed July 1, 2013
10.3	Employment Agreement, dated as of January 1, 2010 between the Company and James A. Rasulo	Exhibit 10.1 to the Current Report on Form 8-K of the Company dated January 8, 2010
10.4	Amendment dated March 17, 2011, to the Amended and Restated Employment Agreement, dated as of January 1, 2010 between the Company and James A. Rasulo	Exhibit 10.1 to the Current Report on Form 8-K of the Company dated March 18, 2011
10.5	Employment Agreement, dated as of September 27, 2013 between the Company and Alan N. Braverman	Exhibit 10.1 to the Current Report on Form 8-K of the Company dated October 2, 2013
10.6	Employment Agreement dated November 16, 2012 and effective as of October 1, 2012 between the Company and Kevin A. Mayer	Exhibit 10.1 to the Form 10-K of the Company for the fiscal year ended September 29, 2012
10.7	Employment Agreement dated November 16, 2012 and effective as of September 1, 2012 between the Company	Exhibit 10.1 to the Form 10-K of the Company for the fiscal year ended September 29, 2012

	and Jayne Parker	
10.8	Description of Directors Compensation	Exhibit 10.2 to the Form 10-Q of the Company for the quarter ended June 29, 2013
10.9	Amended and Restated Director's Retirement Policy	Exhibit 10.6 to the Form 10-Q of the Company for the quarter ended January 2, 2010
10.10	Form of Indemnification Agreement for certain officers and directors	Annex C to the Proxy Statement for the 1987 annual meeting of DEI

[TABLE OF CONTENTS](#)

<b>Exhibit</b>		<b>Location</b>
10.11	1995 Stock Option Plan for Non-Employee Directors	Exhibit 20 to the Form S-8 Registration Statement (No. 33-57811) of DEI, dated Feb. 23, 1995
10.12	Amended and Restated 2002 Executive Performance Plan	Annex A to the Proxy Statement for the 2013 Annual Meeting of the Registrant
10.13	Management Incentive Bonus Program	The section of the Proxy Statement for the 2013 annual meeting of the Company titled “Annual Performance Based Bonus”
10.14	Amended and Restated 1997 Non-Employee Directors Stock and Deferred Compensation Plan	Annex II to the Proxy Statement for the 2003 annual meeting of the Company
10.15	The Walt Disney Company/Pixar 1995 Stock Plan	Exhibit 10.1 to the Form S-8 Registration Statement (NO. 333-133840) of the Company dated May 5, 2006
10.16	Amended and Restated The Walt Disney Company/Pixar 2004 Equity Incentive Plan	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed December 1, 2006
10.17	Amended and Restated 2011 Stock Incentive Plan	Exhibit 10.1 to the Form 8-K of the Company dated March 16, 2012
10.18	The Amended and Restated The Walt Disney Productions and Associated Companies Key Employees Deferred Compensation and Retirement Plan	Exhibit 10.5 to the Form 10-Q of the Company for the quarter ended April 2, 2011
10.19	Amended and Restated Benefit Equalization Plan of ABC, Inc.	Exhibit 10.6 to the Form 10-Q of the Company for the quarter ended April 2, 2011
10.20	Disney Key Employees Retirement Savings Plan	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended July 2, 2011
10.21	Group Personal Excess Liability Insurance Plan	Exhibit 10(x) to the Form 10-K of the Company for the period ended September 30, 1997
10.22	Amended and Restated Severance Pay Plan	Exhibit 10.4 to the Form 10-Q of the Company for the quarter ended December 27, 2008
10.23	Form of Restricted Stock Unit Award Agreement (Time-Based Vesting)	Exhibit 10(aa) to the Form 10-K of the Company for the period ended September 30, 2004
10.24	Form of Performance-Based Stock Unit Award Agreement (Section 162(m) Vesting Requirement)	Exhibit 10.2 to the Form 10-Q of the Company for the quarter ended April 2, 2011
10.25	Form of Performance-Based Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/EPS Growth Tests/ Section 162(m) Vesting Requirement)	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed January 11, 2013
10.26	Form of Non-Qualified Stock Option Award Agreement	Exhibit 10.4 to the Form 10-Q of the Company for the quarter ended April 2, 2011
10.27	Disney Savings and Investment Plan as Amended and Restated Effective January 1, 2010	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended July 3, 2010
10.28	First Amendment dated December 13, 2011 to the Disney Savings and Investment Plan as amended and restated effective January 1, 2010	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended December 31, 2011
10.29	Second Amendment dated December 3, 2012 to the	Exhibit 10.2 to the Form 10-Q of the Company for the

Disney Savings and Investment Plan

quarter ended December 29, 2012

10.30 Registration Rights Agreement dated December 21, 2012

Exhibit 10.3 to the Form 10-Q of the Company for the  
quarter ended December 29, 2012



[TABLE OF CONTENTS](#)

<b>Exhibit</b>		<b>Location</b>
12.1	Ratio of earnings to fixed charges	Filed herewith
21	Subsidiaries of the Company	Filed herewith
23	Consent of PricewaterhouseCoopers LLP	Filed herewith
31(a)	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31(b)	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32(a)	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*	Furnished herewith
32(b)	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*	Furnished herewith
101	The following materials from the Company's Annual Report on Form 10-K for the year ended September 28, 2013 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Equity and (vi) related notes	Filed herewith

\* 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 SEC or its staff upon request.

[TABLE OF CONTENTS](#)**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

	<u>THE WALT DISNEY COMPANY</u>
	(Registrant)
Date: November 20, 2013	By: <u>/s/ ROBERT A. IGER</u>
	(Robert A. Iger, Chairman and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<i>Principal Executive Officer</i> <u>/s/ ROBERT A. IGER</u> (Robert A. Iger)	Chairman and Chief Executive Officer	November 20, 2013
<i>Principal Financial and Accounting Officers</i> <u>/s/ JAMES A. RASULO</u> (James A. Rasulo)	Senior Executive Vice President and Chief Financial Officer	November 20, 2013
<u>/s/ BRENT A. WOODFORD</u> (Brent A. Woodford)	Senior Vice President-Planning and Control	November 20, 2013
<i>Directors</i> <u>/s/ SUSAN E. ARNOLD</u> (Susan E. Arnold)	Director	November 20, 2013
<u>/s/ JOHN S. CHEN</u> (John S. Chen)	Director	November 20, 2013
<u>/s/ JUDITH L. ESTRIN</u> (Judith L. Estrin)	Director	November 20, 2013
<u>/s/ ROBERT A. IGER</u> (Robert A. Iger)	Chairman of the Board and Director	November 20, 2013
<u>/s/ FRED H. LANGHAMMER</u> (Fred H. Langhammer)	Director	November 20, 2013
<u>/s/ AYLWIN B. LEWIS</u> (Aylwin B. Lewis)	Director	November 20, 2013
<u>/s/ MONICA C. LOZANO</u>	Director	November 20, 2013

---

(Monica C. Lozano)

---

/s/ ROBERT W. MATSCHULLAT

Director

November 20, 2013

---

(Robert W. Matschullat)

---

/s/ SHERYL SANDBERG

Director

November 20, 2013

---

(Sheryl Sandberg)

---

/s/ ORIN C. SMITH

Director

November 20, 2013

---

(Orin C. Smith)

[TABLE OF CONTENTS](#)

**THE WALT DISNEY COMPANY AND SUBSIDIARIES**  
**INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA**

	<b>Page</b>
Management's Report on Internal Control Over Financial Reporting	<a href="#"><u>55</u></a>
Report of Independent Registered Public Accounting Firm	<a href="#"><u>56</u></a>
Consolidated Financial Statements of The Walt Disney Company and Subsidiaries	
Consolidated Statements of Income for the Years Ended September 28, 2013, September 29, 2012 and October 1, 2011	<a href="#"><u>57</u></a>
Consolidated Statements of Comprehensive Income for the Years Ended September 28, 2013, September 29, 2012 and October 1, 2011	<a href="#"><u>58</u></a>
Consolidated Balance Sheets as of September 28, 2013 and September 29, 2012	<a href="#"><u>59</u></a>
Consolidated Statements of Cash Flows for the Years Ended September 28, 2013, September 29, 2012 and October 1, 2011	<a href="#"><u>60</u></a>
Consolidated Statements of Shareholders' Equity for the Years Ended September 28, 2013, September 29, 2012 and October 1, 2011	<a href="#"><u>61</u></a>
Notes to Consolidated Financial Statements	<a href="#"><u>62</u></a>
Quarterly Financial Summary (unaudited)	<a href="#"><u>101</u></a>

All schedules are omitted for the reason that they are not applicable or the required information is included in the financial statements or notes.

[TABLE OF CONTENTS](#)**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Based on our evaluation under the framework in *Internal Control — Integrated Framework*, management concluded that our internal control over financial reporting was effective as of September 28, 2013.

The effectiveness of our internal control over financial reporting as of September 28, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

[TABLE OF CONTENTS](#)**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of The Walt Disney Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, statements of comprehensive income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of The Walt Disney Company and its subsidiaries (the Company) at September 28, 2013 and September 29, 2012, and the results of their operations and their cash flows for each of the three years in the period ended September 28, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 28, 2013, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992 (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PRICEWATERHOUSECOOPERS LLP

Los Angeles, California  
November 20, 2013

[TABLE OF CONTENTS](#)

**CONSOLIDATED STATEMENTS OF INCOME**  
**(in millions, except per share data)**

	2013	2012	2011
Revenues	\$ 45,041	\$ 42,278	\$ 40,893
Costs and expenses	(35,591)	(33,415)	(33,112)
Restructuring and impairment charges	(214)	(100)	(55)
Other income/(expense), net	(69)	239	75
Net interest expense	(235)	(369)	(343)
Equity in the income of investees	688	627	585
Income before income taxes	9,620	9,260	8,043
Income taxes	(2,984)	(3,087)	(2,785)
Net income	6,636	6,173	5,258
Less: Net income attributable to noncontrolling interests	(500)	(491)	(451)
Net income attributable to The Walt Disney Company (Disney)	\$ 6,136	\$ 5,682	\$ 4,807
Earnings per share attributable to Disney:			
Diluted	\$ 3.38	\$ 3.13	\$ 2.52
Basic	\$ 3.42	\$ 3.17	\$ 2.56
Weighted average number of common and common equivalent shares outstanding:			
Diluted	1,813	1,818	1,909
Basic	1,792	1,794	1,878

*See Notes to Consolidated Financial Statements*

[TABLE OF CONTENTS](#)

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(in millions)**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Income	\$ 6,636	\$ 6,173	\$ 5,258
Other comprehensive income (loss), net of tax:			
Market value adjustments for investments	137	(3)	(1)
Market value adjustments for hedges	135	2	48
Pension and postretirement medical plan adjustments	1,963	(609)	(759)
Foreign currency translation and other	(125)	(41)	(27)
Other comprehensive income (loss)	<u>2,110</u>	<u>(651)</u>	<u>(739)</u>
Comprehensive income	8,746	5,522	4,519
Less: Net income attributable to noncontrolling interests	(500)	(491)	(451)
Less: Other comprehensive (income) loss attributable to noncontrolling interests	(31)	15	(10)
Comprehensive income attributable to Disney	<u>\$ 8,215</u>	<u>\$ 5,046</u>	<u>\$ 4,058</u>

*See Notes to Consolidated Financial Statements*



[TABLE OF CONTENTS](#)

**CONSOLIDATED BALANCE SHEETS**  
**(in millions, except per share data)**

	September 28, 2013	September 29, 2012
<i>ASSETS</i>		
Current assets		
Cash and cash equivalents	\$ 3,931	\$ 3,387
Receivables	6,967	6,540
Inventories	1,487	1,537
Television costs and advances	634	676
Deferred income taxes	485	765
Other current assets	605	804
Total current assets	14,109	13,709
Film and television costs	4,783	4,541
Investments	2,849	2,723
Parks, resorts and other property		
Attractions, buildings and equipment	41,192	38,582
Accumulated depreciation	(22,459)	(20,687)
	18,733	17,895
Projects in progress	2,476	2,453
Land	1,171	1,164
	22,380	21,512
Intangible assets, net	7,370	5,015
Goodwill	27,324	25,110
Other assets	2,426	2,288
Total assets	\$ 81,241	\$ 74,898
<i>LIABILITIES AND EQUITY</i>		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 6,803	\$ 6,393
Current portion of borrowings	1,512	3,614
Unearned royalties and other advances	3,389	2,806
Total current liabilities	11,704	12,813
Borrowings	12,776	10,697
Deferred income taxes	4,050	2,251
Other long-term liabilities	4,561	7,179
Commitments and contingencies (Note 14)		
Equity		
Preferred stock, \$.01 par value		
Authorized – 100 million shares, Issued – none	—	—
Common stock, \$.01 par value		
Authorized – 4.6 billion shares, Issued – 2.8 billion shares	33,440	31,731

Retained earnings	47,758	42,965
Accumulated other comprehensive loss	(1,187)	(3,266)
	<u>80,011</u>	<u>71,430</u>
Treasury stock, at cost, 1.0 billion shares	(34,582)	(31,671)
Total Disney Shareholders' equity	<u>45,429</u>	<u>39,759</u>
Noncontrolling interests	2,721	2,199
Total equity	<u>48,150</u>	<u>41,958</u>
Total liabilities and equity	<u>\$ 81,241</u>	<u>\$ 74,898</u>

*See Notes to Consolidated Financial Statements*

[TABLE OF CONTENTS](#)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)

	2013	2012	2011
<i>OPERATING ACTIVITIES</i>			
Net income	\$ 6,636	\$ 6,173	\$ 5,258
Depreciation and amortization	2,192	1,987	1,841
Gains on dispositions and acquisitions	(252)	(184)	(75)
Deferred income taxes	92	472	127
Equity in the income of investees	(688)	(627)	(585)
Cash distributions received from equity investees	694	663	608
Net change in film and television costs and advances	(49)	(52)	332
Equity-based compensation	402	408	423
Other	322	217	204
Changes in operating assets and liabilities:			
Receivables	(374)	(108)	(518)
Inventories	51	18	(199)
Other assets	(30)	(151)	(189)
Accounts payable and other accrued liabilities	367	(608)	(367)
Income taxes	89	(242)	134
Cash provided by operations	9,452	7,966	6,994
<i>INVESTING ACTIVITIES</i>			
Investments in parks, resorts and other property	(2,796)	(3,784)	(3,559)
Proceeds from dispositions	397	15	564
Acquisitions	(2,443)	(1,088)	(184)
Other	166	98	(107)
Cash used in investing activities	(4,676)	(4,759)	(3,286)
<i>FINANCING ACTIVITIES</i>			
Commercial paper borrowings, net	(2,050)	467	393
Borrowings	3,931	3,779	2,350
Reduction of borrowings	(1,502)	(3,822)	(1,096)
Dividends	(1,324)	(1,076)	(756)
Repurchases of common stock	(4,087)	(3,015)	(4,993)
Proceeds from exercise of stock options	587	1,008	1,128
Other	231	(326)	(259)
Cash used in financing activities	(4,214)	(2,985)	(3,233)
Impact of exchange rates on cash and cash equivalents	(18)	(20)	(12)

Increase in cash and cash equivalents	<b>544</b>	202	463
Cash and cash equivalents, beginning of year	<b>3,387</b>	3,185	2,722
Cash and cash equivalents, end of year	<b>\$ 3,931</b>	<b>\$ 3,387</b>	<b>\$ 3,185</b>

## Supplemental disclosure of cash flow information:

Interest paid	<b>\$ 316</b>	\$ 718	\$ 377
Income taxes paid	<b>\$ 2,531</b>	\$ 2,630	\$ 2,341

*See Notes to Consolidated Financial Statements*

[TABLE OF CONTENTS](#)

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**(in millions)**

	Equity Attributable to Disney							
	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Disney Equity	Non-controlling Interests	Total Equity
Balance at October 2, 2010	1,894	\$ 28,736	\$ 34,327	\$ (1,881)	\$ (23,663)	\$ 37,519	\$ 1,823	\$ 39,342
Comprehensive income	—	—	4,807	(749)	—	4,058	461	4,519
Equity compensation activity	49	1,548	—	—	—	1,548	—	1,548
Common stock repurchases	(135)	—	—	—	(4,993)	(4,993)	—	(4,993)
Dividends	—	10	(766)	—	—	(756)	—	(756)
Distributions and other	—	2	7	—	—	9	(216)	(207)
Balance at October 1, 2011	1,808	\$ 30,296	\$ 38,375	\$ (2,630)	\$ (28,656)	\$ 37,385	\$ 2,068	\$ 39,453
Comprehensive income	—	—	5,682	(636)	—	5,046	476	5,522
Equity compensation activity	44	1,415	—	—	—	1,415	—	1,415
Common stock repurchases	(72)	—	—	—	(3,015)	(3,015)	—	(3,015)
Dividends	—	16	(1,092)	—	—	(1,076)	—	(1,076)
Distributions and other	—	4	—	—	—	4	(345)	(341)
Balance at September 29, 2012	1,780	\$ 31,731	\$ 42,965	\$ (3,266)	\$ (31,671)	\$ 39,759	\$ 2,199	\$ 41,958
Comprehensive income	—	—	6,136	2,079	—	8,215	531	8,746
Equity compensation activity	27	1,007	—	—	—	1,007	—	1,007
Common stock repurchases	(71)	—	—	—	(4,087)	(4,087)	—	(4,087)
Dividends	—	18	(1,342)	—	—	(1,324)	—	(1,324)
Acquisition of Lucasfilm	37	679	—	—	1,176	1,855	6	1,861
Contributions	—	—	—	—	—	—	505	505
Distributions and other	—	5	(1)	—	—	4	(520)	(516)
Balance at September 28, 2013	1,773	\$ 33,440	\$ 47,758	\$ (1,187)	\$ (34,582)	\$ 45,429	\$ 2,721	\$ 48,150

*See Notes to Consolidated Financial Statements*

[TABLE OF CONTENTS](#)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Tabular dollars in millions, except per share amounts)**

## **1 Description of the Business and Segment Information**

The Walt Disney Company, together with the subsidiaries through which businesses are conducted (the Company), is a diversified worldwide entertainment company with operations in the following business segments: Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products and Interactive.

### **DESCRIPTION OF THE BUSINESS**

#### *Media Networks*

The Company operates cable programming services including the ESPN, Disney Channels Worldwide, ABC Family, SOAPnet and UTV/Bindass networks, broadcast businesses, which include ABC and eight owned television stations, radio businesses consisting of the ESPN Radio Network and 30 owned and operated Radio Disney and ESPN radio stations. The ABC and ESPN Radio Networks have affiliated stations providing coverage to consumers throughout the U.S. The Company also produces original live-action and animated television programming, which may be sold in network, first-run syndication, pay and international television markets, on DVD and Blu-ray formats and through online services. The Company has interests in media businesses that are accounted for under the equity method including AETN, Hulu and Seven TV. Our Media Networks business also operates branded internet sites.

#### *Parks and Resorts*

The Company owns and operates the Walt Disney World Resort in Florida and the Disneyland Resort in California. The Walt Disney World Resort includes four theme parks (the Magic Kingdom, Epcot, Disney's Hollywood Studios and Disney's Animal Kingdom), 18 resort hotels, a retail, dining and entertainment complex, a sports complex, conference centers, campgrounds, water parks and other recreational facilities. The Disneyland Resort includes two theme parks (Disneyland and Disney California Adventure), three resort hotels and a retail, dining and entertainment complex. Internationally, the Company manages and has a 51% effective ownership interest in Disneyland Paris, which includes two theme parks (Disneyland Park and Walt Disney Studios Park), seven themed hotels, two convention centers, a shopping, dining and entertainment complex and a 27-hole golf facility. The Company manages and has a 48% ownership interest in Hong Kong Disneyland Resort (HKDL), which includes one theme park and two resort hotels. The Company has a 43% ownership interest in Shanghai Disney Resort, which is currently under construction, and a 70% ownership interest in the management company of Shanghai Disney Resort. The Company also earns royalties on revenues generated by the Tokyo Disneyland Resort, which includes two theme parks (Tokyo Disneyland and Tokyo DisneySea) and three Disney-branded hotels, and is owned and operated by an unrelated Japanese corporation. The Company manages and markets vacation club ownership interests through the Disney Vacation Club, operates the Disney Cruise Line, the Adventures by Disney guided group vacations business and Aulani, a hotel and vacation club resort in Hawaii. The Company's Walt Disney Imagineering unit designs and develops theme park concepts and attractions as well as resort properties.

#### *Studio Entertainment*

The Company produces and acquires live-action and animated motion pictures for worldwide distribution to the theatrical, home entertainment and television markets. The Company distributes these products through its own distribution and marketing companies in the U.S. and both directly and through independent companies and joint ventures in foreign markets primarily under the Walt Disney Pictures, Pixar, Marvel, Touchstone, Lucasfilm and UTV banners. We also distribute certain motion pictures for DreamWorks under our Touchstone Pictures banner. The Company also produces stage plays and musical recordings and licenses and produces live entertainment events.

#### *Consumer Products*

The Company licenses trade names, characters and visual and literary properties to various retailers, show promoters and publishers throughout the world. The Company also engages in retail and online distribution of products through The Disney Store and DisneyStore.com. We operate The Disney Store in North America, Europe and Japan. The Company publishes entertainment and educational books and magazines and comic books for children and families and operates English language learning centers in China.

#### *Interactive*

The Company creates and delivers branded entertainment and lifestyle content across interactive media platforms. The primary operating businesses are Interactive Games, which produces and distributes console, online and mobile games, and Interactive Media, which develops branded online services and provides website maintenance and design for other Company businesses. Certain

properties are also licensed to third-party game publishers. Interactive also manages the Disney-branded mobile phone business in Japan, which provides mobile phones and content to consumers.

[TABLE OF CONTENTS](#)

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.

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

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

	2013	2012	2011
Media Networks			
Cable Networks	\$ 788	\$ 664	\$ 578
Broadcasting	(46)	(37)	6
Equity in the income of investees included in segment operating income	\$ 742	\$ 627	\$ 584

In fiscal 2013, the Company recorded a \$55 million charge for our share of expense related to an equity redemption at Hulu LLC (Hulu Equity Redemption). This charge is recorded in equity in the income of investees in the Consolidated Statement of Income but has been excluded from segment operating income. See Note 3 for further discussion of the transaction.

The following segment results include allocations of certain costs, including information technology, pension, legal, and other shared services costs, which are allocated based on metrics designed to correlate with consumption. These allocations are agreed-upon amounts between the businesses and may differ from amounts that would be negotiated in arm's length transactions. In addition, all significant intersegment transactions have been eliminated except that Studio Entertainment revenues and operating income include an allocation of Consumer Products and Interactive revenues, which is meant to reflect royalties on sales of merchandise generated by Consumer Products and Interactive, which is based on intellectual property from certain Studio Entertainment films.



TABLE OF CONTENTS

	2013	2012	2011
<i>Revenues</i>			
Media Networks	\$ 20,356	\$ 19,436	\$ 18,714
Parks and Resorts	14,087	12,920	11,797
Studio Entertainment			
Third parties	5,721	5,566	6,061
Intersegment	258	259	290
	<u>5,979</u>	<u>5,825</u>	<u>6,351</u>
Consumer Products			
Third parties	3,811	3,499	3,335
Intersegment	(256)	(247)	(286)
	<u>3,555</u>	<u>3,252</u>	<u>3,049</u>
Interactive			
Third parties	1,066	857	986
Intersegment	(2)	(12)	(4)
	<u>1,064</u>	<u>845</u>	<u>982</u>
Total consolidated revenues	<u>\$ 45,041</u>	<u>\$ 42,278</u>	<u>\$ 40,893</u>
<i>Segment operating income (loss)</i>			
Media Networks	\$ 6,818	\$ 6,619	\$ 6,146
Parks and Resorts	2,220	1,902	1,553
Studio Entertainment	661	722	618
Consumer Products	1,112	937	816
Interactive	(87)	(216)	(308)
Total segment operating income	<u>\$ 10,724</u>	<u>\$ 9,964</u>	<u>\$ 8,825</u>
<i>Reconciliation of segment operating income to income before income taxes</i>			
Segment operating income	\$ 10,724	\$ 9,964	\$ 8,825
Corporate and unallocated shared expenses	(531)	(474)	(459)
Restructuring and impairment charges	(214)	(100)	(55)
Other income/(expense), net	(69)	239	75
Net interest expense	(235)	(369)	(343)
Hulu Equity Redemption charge	(55)	—	—
Income before income taxes	<u>\$ 9,620</u>	<u>\$ 9,260</u>	<u>\$ 8,043</u>
<i>Capital expenditures</i>			
Media Networks			
Cable Networks	\$ 176	\$ 170	\$ 179
Broadcasting	87	85	128
Parks and Resorts			
Domestic	1,140	2,242	2,294
International	970	641	429

Studio Entertainment	<b>78</b>	79	118
Consumer Products	<b>45</b>	69	115
Interactive	<b>13</b>	27	21
Corporate	<b>287</b>	471	275
Total capital expenditures	<u><b>\$ 2,796</b></u>	<u><b>\$ 3,784</b></u>	<u><b>\$ 3,559</b></u>

---

64

---

TABLE OF CONTENTS

	2013	2012	2011
<i>Depreciation expense</i>			
Media Networks	\$ 238	\$ 241	\$ 229
Parks and Resorts			
Domestic	1,041	927	842
International	327	314	323
Studio Entertainment	54	48	53
Consumer Products	57	55	48
Interactive	20	17	16
Corporate	220	182	148
Total depreciation expense	<u>\$ 1,957</u>	<u>\$ 1,784</u>	<u>\$ 1,659</u>
<i>Amortization of intangible assets</i>			
Media Networks	\$ 13	\$ 17	\$ 8
Parks and Resorts	2	—	—
Studio Entertainment	107	94	79
Consumer Products	89	60	57
Interactive	24	32	38
Corporate	—	—	—
Total amortization of intangible assets	<u>\$ 235</u>	<u>\$ 203</u>	<u>\$ 182</u>
<i>Identifiable assets<sup>(1)(2)</sup></i>			
Media Networks	\$ 28,627	\$ 28,660	
Parks and Resorts	22,056	20,951	
Studio Entertainment	14,750	12,928	
Consumer Products	7,506	5,016	
Interactive	2,311	1,926	
Corporate <sup>(3)</sup>	5,991	5,417	
Total consolidated assets	<u>\$ 81,241</u>	<u>\$ 74,898</u>	
<i>Supplemental revenue data</i>			
Media Networks			
Advertising <sup>(4)</sup>	\$ 8,006	\$ 7,773	\$ 7,668
Affiliate Fees	10,018	9,360	8,837
Parks and Resorts			
Merchandise, food and beverage	4,189	3,945	3,738
Admissions	4,704	4,225	3,870
<i>Revenues</i>			
United States and Canada	\$ 34,021	\$ 31,770	\$ 30,848
Europe	6,181	6,223	6,455
Asia Pacific	3,333	2,990	2,517
Latin America and Other	1,506	1,295	1,073
	<u>\$ 45,041</u>	<u>\$ 42,278</u>	<u>\$ 40,893</u>

*Segment operating income*

United States and Canada	\$	7,871	\$	6,991	\$	6,388
Europe		1,361		1,692		1,517
Asia Pacific		1,016		835		627
Latin America and Other		476		446		293
	\$	<u>10,724</u>	\$	<u>9,964</u>	\$	<u>8,825</u>

**TABLE OF CONTENTS**

	<b>2013</b>	<b>2012</b>
<i>Long-lived assets</i> <sup>(5)</sup>		
United States and Canada	\$ 53,225	\$ 47,959
Europe	7,552	7,484
Asia Pacific	3,909	3,303
Latin America and Other	215	270
	<b>\$ 64,901</b>	<b>\$ 59,016</b>

(1) Identifiable assets include amounts associated with equity method investments. Equity method investments by segment are as follows:

	<b>2013</b>	<b>2012</b>
Media Networks	\$ 2,369	\$ 2,423
Parks and Resorts	15	8
Studio Entertainment	2	2
Consumer Products	1	1
Interactive	—	—
Corporate	20	4
	<b>\$ 2,407</b>	<b>\$ 2,438</b>

(2) Goodwill and intangible assets by segment are as follows:

	<b>2013</b>	<b>2012</b>
Media Networks	\$ 17,782	\$ 17,854
Parks and Resorts	342	172
Studio Entertainment	8,425	6,783
Consumer Products	6,262	3,700
Interactive	1,753	1,486
Corporate	130	130
	<b>\$ 34,694</b>	<b>\$ 30,125</b>

(3) Primarily fixed assets, deferred tax assets, cash and cash equivalents

(4) Advertising revenue includes amounts reported in Interactive

(5) Long-lived assets are total assets less the following: current assets, long-term receivables, deferred taxes, financial investments and derivatives

## **2 Summary of Significant Accounting Policies**

### *Principles of Consolidation*

The consolidated financial statements of the Company include the accounts of The Walt Disney Company and its majority-owned and controlled subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

The Company enters into relationships or investments with other entities in which it does not have majority ownership or control. In certain instances, the entity in which the Company has a relationship or investment 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. Although the Company has less than a 50% direct ownership interest in Disneyland Paris, HKDL and Shanghai Disney Resort (collectively the “International Theme Parks”), they are VIEs, and given the nature of the Company’s relationships with these entities, which include management agreements, the Company has consolidated the International Theme Parks in its financial statements.

## [TABLE OF CONTENTS](#)

### *Reporting Period*

The Company's fiscal year ends on the Saturday closest to September 30 and consists of fifty-two weeks with the exception that approximately every six years, we have a fifty-three week year. When a fifty-three week year occurs, the Company reports the additional week in the fourth quarter. 2013, 2012 and 2011 were fifty-two week fiscal years.

### *Reclassifications*

Certain reclassifications have been made in the fiscal 2012 and fiscal 2011 financial statements and notes to conform to the fiscal 2013 presentation.

### *Use of Estimates*

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

### *Revenue Recognition*

Television advertising revenues are recognized when commercials are aired. Revenues from television subscription services related to the Company's primary cable programming services are recognized as services are provided. Certain of the Company's contracts with cable and satellite operators include annual programming commitments. In these cases, recognition of revenues subject to the commitments is deferred until the annual commitments are satisfied, which generally results in higher revenue recognition in the second half of the year.

Revenues from advance theme park ticket sales are recognized when the tickets are used. For non-expiring, multi-day tickets, revenues are recognized over a five-year time period based on estimated usage, which is derived from historical usage patterns.

Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited. Revenues from home entertainment and video game sales, net of anticipated returns and customer incentives, are recognized on the date that video units are made available for sale by retailers. Revenues from the licensing of feature films and television programming are recorded when the content is available for telecast by the licensee and when certain other conditions are met. Revenues from the sale of electronic formats of feature films and television programming are recognized when the product is received by the consumer.

Merchandise licensing advances and guarantee royalty payments are recognized based on the contractual royalty rate when the licensed product is sold by the licensee. Non-refundable advances and minimum guarantee royalty payments in excess of royalties earned are generally recognized as revenue at the end of the contract term.

Revenues from our branded online and mobile operations are recognized as services are rendered. Advertising revenues at our internet operations are recognized when advertisements are viewed online.

Taxes collected from customers and remitted to governmental authorities are presented in the Consolidated Statements of Income on a net basis.

### *Allowance for Doubtful Accounts*

The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivables. The allowance for doubtful accounts is estimated based on our analysis of trends in overall receivables aging, specific identification of certain receivables that are at risk of not being paid, past collection experience and current economic trends.

### *Advertising Expense*

Advertising costs are expensed as incurred. Advertising expense for fiscal years 2013, 2012 and 2011 was \$2.6 billion, \$2.5 billion and \$2.8 billion, respectively.

### *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less.

## [TABLE OF CONTENTS](#)

### *Investments*

Debt securities that the Company has the positive intent and ability to hold to maturity are classified as “held-to-maturity” and reported at amortized cost. Debt securities not classified as held-to-maturity and marketable equity securities are considered “available-for-sale” and recorded at fair value with unrealized gains and losses included in accumulated other comprehensive income/(loss) (AOCI). All other equity securities are accounted for using either the cost method or the equity method.

The Company regularly reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary. If the decline in fair value is determined to be other than temporary, the cost basis of the investment is written down to fair value.

### *Translation Policy*

The U.S. dollar is the functional currency for the majority of our international operations. The local currency is the functional currency for the International Theme Parks, international locations of The Disney Stores, our UTV businesses in India, our English language learning centers in China and certain international equity method investments.

For U.S. dollar functional currency locations, foreign currency assets and liabilities are remeasured into U.S. dollars at end-of-period exchange rates, except for non-monetary balance sheet accounts, which are remeasured at historical exchange rates. Revenue and expenses are remeasured at average exchange rates in effect during each period, except for those expenses related to the non-monetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in income.

For local currency functional locations, assets and liabilities are translated at end-of-period rates while revenues and expenses are translated at average rates in effect during the period. Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of AOCI.

### *Inventories*

Inventory primarily includes vacation timeshare units, merchandise, materials and supplies. Carrying amounts of vacation ownership units are recorded at the lower of cost or net realizable value. Carrying amounts of merchandise, materials and supplies inventories are generally determined on a moving average cost basis and are recorded at the lower of cost or market.

### *Film and Television Costs*

Film and television costs include capitalizable production costs, production overhead, interest, development costs and acquired production costs and are stated at the lower of cost, less accumulated amortization, or fair value. Acquired programming costs for the Company’s cable and broadcast television networks are stated at the lower of cost, less accumulated amortization, or net realizable value. Acquired television broadcast program licenses and rights are recorded when the license period begins and the program is available for use. Marketing, distribution and general and administrative costs are expensed as incurred.

Film and television production, participation and residual costs are expensed over the applicable product life cycle based upon the ratio of the current period’s revenues to estimated remaining total revenues (Ultimate Revenues) for each production. 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. For acquired film libraries, remaining revenues include amounts to be earned for up to twenty years from the date of acquisition. Costs of film and television productions are subject to regular recoverability assessments, which compare the estimated fair values with the unamortized costs. The Company bases these fair value measurements on the Company’s assumptions about how market participants would price the asset at the balance sheet date, which may be different than the amounts ultimately realized in future periods. The amount by which the unamortized costs of film and television productions exceed their estimated fair values is written off. Film development costs for projects that have been abandoned or have not been set for production within three years are generally written off.

The costs of television broadcast rights for acquired movies, series and other programs are expensed 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. Rights costs for multi-year sports programming arrangements are amortized during the applicable seasons based on the estimated relative value of each year in the arrangement. The estimated values of each year are 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 relative value, we expense the related contractual payments during the applicable season. Individual programs are written off when there are no plans to air or sublicense the program.





## TABLE OF CONTENTS

The net realizable values of network 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). The net realizable values of other cable programming assets are reviewed on an aggregated basis for each cable network.

### *Internal-Use Software Costs*

The Company expenses costs incurred in the preliminary project stage of developing or acquiring internal use software, such as research and feasibility studies as well as costs incurred in the post-implementation/operational stage, such as maintenance and training. Capitalization of software development costs occurs only after the preliminary-project stage is complete, management authorizes the project and it is probable that the project will be completed and the software will be used for the function intended. As of September 28, 2013 and September 29, 2012, capitalized software costs, net of accumulated depreciation, totaled \$831 million and \$423 million, respectively. The capitalized costs are amortized on a straight-line basis over the estimated useful life of the software, ranging from 3-10 years.

### *Software Product Development Costs*

Software product development costs incurred prior to reaching technological feasibility are expensed. We have determined that technological feasibility of our video game software is generally not established until substantially all product development is complete.

### *Parks, Resorts and Other Property*

Parks, resorts and other property are carried at historical cost. Depreciation is computed on the straight-line method over estimated useful lives as follows:

Attractions	25 – 40 years
Buildings and improvements	20 – 40 years
Leasehold improvements	Life of lease or asset life if less
Land improvements	20 – 40 years
Furniture, fixtures and equipment	3 – 25 years

### *Goodwill, Other Intangible Assets and Long-Lived Assets*

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. 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.

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

The Company is required to compare the fair values of other indefinite-lived intangible assets to their carrying amounts. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized. 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 against the carrying value of the asset group. An asset group is established by identifying the

## TABLE OF CONTENTS

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 the 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 amount, 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.

During fiscal years 2013, 2012 and 2011, the Company tested its goodwill and other intangible assets for impairment, and the impairment charges recorded were not material.

Amortizable intangible assets are generally amortized on a straight-line basis over periods up to 40 years. The costs to periodically renew our intangible assets are expensed as incurred. The Company has determined that there are currently no legal, competitive, economic or other factors that materially limit the useful life of our FCC licenses and trademarks.

The Company expects its aggregate annual amortization expense for existing amortizable intangible assets for fiscal years 2014 through 2018 to be as follows:

2014	\$	209
2015		193
2016		190
2017		183
2018		181

### *Risk Management Contracts*

In the normal course of business, the Company employs a variety of financial instruments including interest rate and cross-currency swap agreements and forward and option contracts to manage its exposure to fluctuations in interest rates, foreign currency exchange rates and commodity prices.

The Company formally documents all relationships between hedging instruments and hedged items as well as its risk management objectives and strategies for undertaking various hedge transactions. There are two types of derivatives into which the Company enters: hedges of fair value exposure and hedges of cash flow exposure. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset, liability, or a firm commitment. Hedges of cash flow exposure are entered into in order to hedge a forecasted transaction (e.g. forecasted revenue) or the variability of cash flows to be paid or received, related to a recognized liability or asset (e.g. floating rate debt).

The Company designates and assigns the financial instruments as hedges of forecasted transactions, specific assets or specific liabilities. When hedged assets or liabilities are sold or extinguished or the forecasted transactions being hedged occur or are no longer expected to occur, the Company recognizes the gain or loss on the designated hedging instruments.

Option premiums and unrealized gains on forward contracts and the accrued differential for interest rate swaps to be received under the agreements are recorded on the balance sheet as assets. Unrealized losses on forward contracts and the accrued differential for interest rate swaps to be paid under the agreements are included in liabilities. Realized gains and losses from hedges are classified in the income statement consistent with the accounting treatment of the items being hedged. The Company accrues the differential for interest rate swaps to be paid or received under the agreements as interest rates change as adjustments to interest expense over the lives of the swaps. Gains and losses on the termination of effective swap agreements, prior to their original maturity, are deferred and amortized to interest expense over the remaining term of the underlying hedged transactions.

The Company enters into risk management contracts that are not designated as hedges and do not qualify for hedge accounting. These contracts are intended to offset certain economic exposures of the Company and are carried at market value with any changes in value recorded in earnings. Cash flows from hedging activities are classified in the Consolidated Statements of Cash Flows under the same category as the cash flows from the related assets, liabilities or forecasted transactions (see Notes 8 and 16).



## TABLE OF CONTENTS

### *Income Taxes*

Deferred income tax assets and liabilities are recorded with respect to temporary differences in the accounting treatment of items for financial reporting purposes and for income tax purposes. Where, based on the weight of all available evidence, it is more likely than not that some amount of recorded deferred tax assets will not be realized, a valuation allowance is established for the amount that, in management's judgment, is sufficient to reduce the deferred tax asset to an amount that is more likely than not to be realized.

A tax position must meet a minimum probability threshold before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

### *Earnings Per Share*

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income attributable to Disney by the weighted average number of common shares outstanding during the year. Diluted EPS is based upon the weighted average number of common and common equivalent shares outstanding during the year, which is calculated using the treasury-stock method for equity-based awards (Awards). Common equivalent shares are excluded from the computation in periods for which they have an anti-dilutive effect. Stock options for which the exercise price exceeds the average market price over the period are anti-dilutive and, accordingly, are excluded from the calculation.

A reconciliation of the weighted average number of common and common equivalent shares outstanding and the number of Awards excluded from the diluted earnings per share calculation, as they were anti-dilutive, are as follows:

	2013	2012	2011
Weighted average number of common and common equivalent shares outstanding (basic)	1,792	1,794	1,878
Weighted average dilutive impact of Awards	21	24	31
Weighted average number of common and common equivalent shares outstanding (diluted)	1,813	1,818	1,909
Awards excluded from diluted earnings per share	2	10	8

## 3 *Acquisitions*

### *Lucasfilm*

On December 21, 2012, the Company acquired Lucasfilm Ltd. LLC (Lucasfilm), a privately held entertainment company. This acquisition will allow Disney to utilize Lucasfilm's content across our multiple platforms, businesses and markets, which we believe will generate growth as well as significant long-term value.

Under the terms of the merger agreement, Disney issued 37.1 million shares and made a cash payment of \$2.2 billion. Based on the \$50.00 per share closing price of Disney shares on December 21, 2012, the transaction had a value of \$4.1 billion.

The following table summarizes our allocation of the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed. The excess of the purchase price over those fair values and the related deferred taxes was allocated to goodwill, which is not deductible for tax purposes.

(in billions)	Estimated Fair Value
Intangible assets	\$ 2.6

Goodwill	2.3
Deferred income taxes	(0.8)
	<u>\$ 4.1</u>

## TABLE OF CONTENTS

Intangible assets primarily consist of intellectual property based on the *Star Wars* franchise with an estimated useful life of approximately 40 years. The goodwill reflects the value to Disney from leveraging Lucasfilm intellectual property across our distribution channels, taking advantage of Disney's established global reach.

The revenue and net income of Lucasfilm included in the Company's Consolidated Statement of Income in fiscal 2013 was not material.

### *Hulu*

On October 5, 2012, Hulu LLC (Hulu) redeemed Providence Equity Partners' 10% equity interest in Hulu for \$200 million, increasing the Company's ownership interest in Hulu from 29% to 32%. In connection with the transaction, Hulu incurred a charge of approximately \$174 million primarily related to employee equity-based compensation and borrowed \$338 million under a five-year term loan, which was guaranteed by the Company and the other partners. The Company's share of the charge totaled \$55 million and was recorded in equity in the income of investees in fiscal 2013.

In July 2013, Fox Entertainment Group, NBCUniversal and the Company agreed to provide Hulu with a total of \$750 million in cash to fund Hulu's operations and investments for future growth of which the Company's share is \$257 million. To date, the Company has contributed \$134 million, increasing its ownership to 33%, and will continue to guarantee its share of Hulu's \$338 million term loan.

The Company accounts for its interest in Hulu as an equity method investment.

### *AETN*

A&E Television Networks LLC (AETN) is a joint venture that operates multiple cable programming services, which was owned 42.1% by the Company, 42.1% by the Hearst Corporation (Hearst) and 15.8% by NBCUniversal until August 2012 when AETN redeemed NBCUniversal's equity interest for approximately \$3.0 billion. The redemption was financed with third-party borrowings and equity contributions of \$300 million each from the Company and Hearst. As a result of the transaction, the Company's and Hearst's ownership interest each increased to 50%. The Company accounts for its interest in AETN as an equity method investment.

### *UTV*

Pursuant to a delisting offer process governed by Indian law, on February 2, 2012, the Company paid \$377 million to purchase publicly held shares and all of the shares held by the founder of UTV Software Communications Limited (UTV), a media and entertainment company headquartered in India. The Company also assumed approximately \$300 million of UTV's borrowings. The purchase increased the Company's ownership interest to 93% from 50%. As a result, the Company changed its accounting for UTV from an equity investment to a consolidated subsidiary. The acquisition of UTV supports the Company's strategic priority of increasing its brand presence and reach in key international markets.

Upon consolidation, the Company recognized a non-cash gain of \$184 million (\$116 million after tax) as a result of adjusting the carrying value of the Company's 50% equity investment to its estimated fair value of \$405 million. The gain was recorded in Other income/(expense), net in the fiscal 2012 Consolidated Statement of Income. The fair value was determined based on the Company's internal valuation of the UTV business using an income approach (discounted cash flow model), which the Company believes provides the most appropriate indicator of fair value.

The Company's allocation of the purchase price to the estimated fair value of the tangible and intangible assets acquired and liabilities assumed resulted in the majority of the purchase price being allocated to goodwill, which is not deductible for tax purposes. The goodwill reflects the synergies and increased Indian market penetration expected from combining the operations of UTV and the Company.

Since the February 2012 delisting process, the Company has acquired an incremental 6% interest for \$74 million, which has increased the Company's ownership to over 99%.

### *Seven TV*

On November 18, 2011, the Company acquired a 49% ownership interest in Seven TV, a broadcast television network in Russia, for \$300 million. Following the acquisition, this network was converted to an advertising-supported, free-to-air Disney Channel. The Company accounts for its interest in Seven TV as an equity method investment.





[TABLE OF CONTENTS](#)*Goodwill*

The changes in the carrying amount of goodwill for the years ended September 28, 2013 and September 29, 2012 are as follows:

	Media Networks	Parks and Resorts	Studio Entertainment	Consumer Products	Interactive	Total
Balance at Oct 1, 2011	\$ 15,728	\$ 172	\$ 5,284	\$ 1,797	\$ 1,164	\$ 24,145
Acquisitions	434	—	431	—	179	1,044
Dispositions	—	—	(1)	(3)	—	(4)
Other, net	(31)	—	(34)	—	(10)	(75)
Balance at Sept. 29, 2012	\$ 16,131	\$ 172	\$ 5,680	\$ 1,794	\$ 1,333	\$ 25,110
Acquisitions	21	81	975	1,149	155	2,381
Dispositions	(9)	—	—	(3)	—	(12)
Other, net	(72)	—	(64)	2	(21)	(155)
<b>Balance at Sept. 28, 2013</b>	<b>\$ 16,071</b>	<b>\$ 253</b>	<b>\$ 6,591</b>	<b>\$ 2,942</b>	<b>\$ 1,467</b>	<b>\$ 27,324</b>

The carrying amount of goodwill at September 28, 2013, September 29, 2012 and October 1, 2011 includes accumulated impairments of \$29 million at Interactive.

**4 Dispositions and Other Income/(Expense)***ESPN STAR Sports*

On November 7, 2012, the Company sold its 50% equity interest in ESPN STAR Sports (ESS) to the joint venture partner of ESS for \$335 million resulting in a gain of \$219 million (\$125 million after tax and allocation to noncontrolling interest). The gain is reported in Other income/(expense), net in the fiscal 2013 Consolidated Statement of Income.

*Miramax*

On December 3, 2010, the Company sold Miramax Film NY, LLC (Miramax) for \$663 million. Net proceeds, which reflect closing adjustments, the settlement of related claims and obligations and Miramax's cash balance at closing were \$532 million, resulting in a pre-tax gain of \$64 million, which is reported in "Other income /(expense), net" in the fiscal 2011 Consolidated Statement of Income. The book value of Miramax included \$217 million of allocated goodwill that is not deductible for tax purposes. Accordingly, tax expense recorded in connection with the transaction was approximately \$103 million resulting in a loss of \$39 million after tax.

*Other Dispositions*

During fiscal years 2013, 2012 and 2011, the Company sold its interest in various businesses for total proceeds of \$61 million, \$15 million and \$5 million, respectively and recognized pre-tax gains of \$33 million, \$0 million and \$11 million, respectively. These gains are reported in Other income/(expense), net in the Consolidated Statements of Income.

*Other income/(expense)*

Other income/(expense) is as follows:

	2013	2012	2011
Celador litigation charge	\$ (321)	\$ —	\$ —
Gain on sale of equity interest in ESS	219	—	—
Gains on sale of Miramax and other businesses	33	—	75
Gain related to the acquisition of UTV	—	184	—

Lehman recovery	—	79	—
DLP debt charge	—	(24)	—
Other income/(expense), net	<u>\$ (69)</u>	<u>\$ 239</u>	<u>\$ 75</u>

73

---

[TABLE OF CONTENTS](#)

## 5 Investments

Investments consist of the following:

	September 28, 2013	September 29, 2012
Investments, equity basis	\$ 2,407	\$ 2,438
Investments, other	442	285
	<u>\$ 2,849</u>	<u>\$ 2,723</u>

### *Investments, Equity Basis*

A summary of combined financial information for equity investments, which primarily includes media investments such as AETN and Seven TV, is as follows:

	2013	2012	2011
<i>Results of Operations:</i>			
Revenues	\$ 6,231	\$ 5,923	\$ 5,529
Net Income	<u>\$ 1,470</u>	<u>\$ 1,528</u>	<u>\$ 1,417</u>
	<b>September 28, 2013</b>	<b>September 29, 2012</b>	<b>October 1, 2011</b>
<i>Balance Sheet</i>			
Current assets	\$ 2,662	\$ 2,714	\$ 3,123
Non-current assets	5,495	5,674	5,430
	<u>\$ 8,157</u>	<u>\$ 8,388</u>	<u>\$ 8,553</u>
Current liabilities	\$ 1,357	\$ 1,360	\$ 1,488
Non-current liabilities	3,368	3,531	1,013
Shareholders' equity	3,432	3,497	6,052
	<u>\$ 8,157</u>	<u>\$ 8,388</u>	<u>\$ 8,553</u>

As of September 28, 2013, the book value of the Company's equity method investments exceeded our share of the book value of the investees' underlying net assets by approximately \$0.7 billion, which represents amortizable intangible assets and goodwill arising from acquisitions.

### *Investments, Other*

As of September 28, 2013 and September 29, 2012, the Company held \$305 million and \$86 million, respectively, of securities classified as available-for-sale, \$101 million and \$163 million, respectively, of non-publicly traded cost-method investments and \$36 million and \$36 million, respectively of investments in leveraged leases.

In fiscal 2013, the Company had realized gains of \$40 million on available-for-sale securities. In fiscal years 2012 and 2011, the Company had no significant realized gains or losses on available-for-sale securities.

In fiscal years 2013, 2012 and 2011, the Company recorded non-cash charges of \$37 million, \$11 million and \$24 million, respectively, to reflect other-than-temporary losses in value of certain investments.

## 6 *International Theme Park Investments*

The Company has a 51% effective ownership interest in the operations of Disneyland Paris, a 48% 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 2 for the Company's policy on consolidating VIEs.

[TABLE OF CONTENTS](#)

The following tables present summarized balance sheet information for the Company as of September 28, 2013 and September 29, 2012, reflecting the impact of consolidating the International Theme Parks balance sheets.

As of September 28, 2013			
	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash and cash equivalents	\$ 3,325	\$ 606	\$ 3,931
Other current assets	9,896	282	10,178
Total current assets	13,221	888	14,109
Investments/Advances	6,415	(3,566)	2,849
Parks, resorts and other property	17,117	5,263	22,380
Other assets	41,879	24	41,903
Total assets	\$ 78,632	\$ 2,609	\$ 81,241
Current portion of borrowings	\$ 1,512	\$ —	\$ 1,512
Other current liabilities	9,622	570	10,192
Total current liabilities	11,134	570	11,704
Borrowings	12,501	275	12,776
Deferred income taxes and other long-term liabilities	8,466	145	8,611
Equity	46,531	1,619	48,150
Total liabilities and equity	\$ 78,632	\$ 2,609	\$ 81,241
As of September 29, 2012			
	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash and cash equivalents	\$ 2,839	\$ 548	\$ 3,387
Other current assets	10,066	256	10,322
Total current assets	12,905	804	13,709
Investments	6,065	(3,342)	2,723
Parks, resorts and other property	17,005	4,507	21,512
Other assets	36,949	5	36,954
Total assets	\$ 72,924	\$ 1,974	\$ 74,898
Current portion of borrowings	\$ 3,614	\$ —	\$ 3,614
Other current liabilities	8,742	457	9,199
Total current liabilities	12,356	457	12,813

Borrowings	10,430	267	10,697
Deferred income taxes and other long-term liabilities	9,325	105	9,430
Equity	40,813	1,145	41,958
Total liabilities and equity	<u>\$ 72,924</u>	<u>\$ 1,974</u>	<u>\$ 74,898</u>

---

75

---

[TABLE OF CONTENTS](#)

The following table presents summarized income statement information of the Company for the year ended September 28, 2013, reflecting the impact of consolidating the International Theme Parks income statements.

	Before International Theme Parks Consolidation <sup>(1)</sup>	International Theme Parks and Adjustments	Total
Revenues	\$ 42,861	\$ 2,180	\$ 45,041
Cost and expenses	(33,379)	(2,212)	(35,591)
Restructuring and impairment charges	(214)	—	(214)
Other income/(expense), net	(69)	—	(69)
Net interest expense	(173)	(62)	(235)
Equity in the income of investees	642	46	688
Income before income taxes	9,668	(48)	9,620
Income taxes	(2,967)	(17)	(2,984)
Net income	\$ 6,701	\$ (65)	\$ 6,636

<sup>(1)</sup> These amounts include the International Theme Parks under the equity method of accounting. As such, royalty and management fee income from these operations is included in Revenues and our share of their net income/(loss) is included in Equity in the income of investees. There were \$174 million of royalties and management fees recognized for the year ended September 28, 2013.

The following table presents summarized cash flow statement information of the Company for the year ended September 28, 2013, reflecting the impact of consolidating the International Theme Parks cash flow statements.

	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash provided by operations	\$ 9,306	\$ 146	\$ 9,452
Investments in parks, resorts and other property	(1,826)	(970)	(2,796)
Cash (used in)/provided by other investing activities	(2,247)	367	(1,880)
Cash (used in)/provided by financing activities	(4,718)	504	(4,214)
Impact of exchange rates on cash and cash equivalents	(29)	11	(18)
Increase in cash and cash equivalents	486	58	544
Cash and cash equivalents, beginning of year	2,839	548	3,387
Cash and cash equivalents, end of year	\$ 3,325	\$ 606	\$ 3,931

*Disneyland Paris Refinancing*

In September 2012, the Company provided Disneyland Paris with €1.3 billion (\$1.7 billion) of intercompany financing, bringing the total financing provided to Disneyland Paris to €1.7 billion (\$2.3 billion) as of September 28, 2013. Disneyland Paris used the new financing to repay its outstanding third-party bank debt. In fiscal 2012, the Company recorded a net charge of \$24 million on the repayment of the third-party bank debt. Certain of the financial and operating covenants, notably those related to capital expenditures and the payment of royalties and management fees due to the Company were eliminated.



The Company has also provided Disneyland Paris with a line of credit totaling €250 million (\$337 million), which bears interest at EURIBOR and expires in two tranches: €100 million in 2014 and €150 million in 2018. There were no outstanding borrowings under the line of credit at September 28, 2013.

## [TABLE OF CONTENTS](#)

### *Hong Kong Disneyland Resort Capital Realignment*

In July 2009, the Company entered into a capital realignment and expansion plan for HKDL with the Government of the Hong Kong Special Administrative Region (HKSAR), HKDL's majority shareholder. The expansion cost approximately \$0.5 billion, was completed in 2013 and was financed equally by the Company and HKSAR. As a result the Company's equity interest in HKDL increased to 48%.

### *Shanghai Disney Resort*

In fiscal 2011, the Company and Shanghai Shendi (Group) Co., Ltd (Shendi) received Chinese central government approval of an agreement to build and operate a Disney Resort (Shanghai Disney Resort) in the Pudong district of Shanghai at a planned investment of approximately 29 billion yuan (\$4.7 billion). Construction of the project began in April 2011 and will include a theme park, two hotels and a retail, dining and entertainment area. The resort is owned by a joint venture in which Shendi owns 57% and the Company owns 43%, and the investment will be funded in accordance with each partner's ownership percentage. An additional joint venture, in which Disney has a 70% interest and Shendi a 30% interest, is responsible for creating, constructing and operating the resort. Shanghai Disney Resort is currently targeted to open by the end of calendar 2015.

## **7 Film and Television Costs and Advances**

Film and television costs and advances are as follows:

	<b>September 28, 2013</b>	September 29, 2012
Theatrical film costs		
Released, less amortization	<b>\$ 1,382</b>	\$ 1,389
Completed, not released	<b>20</b>	45
In-process	<b>1,670</b>	1,409
In development or pre-production	<b>271</b>	280
	<b>3,343</b>	3,123
Television costs		
Released, less amortization	<b>514</b>	693
Completed, not released	<b>311</b>	268
In-process	<b>196</b>	242
In development or pre-production	<b>6</b>	—
	<b>1,027</b>	1,203
Television programming rights and advances	<b>1,047</b>	891
	<b>5,417</b>	5,217
Less current portion	<b>634</b>	676
Non-current portion	<b>\$ 4,783</b>	\$ 4,541

Based on management's total gross revenue estimates as of September 28, 2013, approximately 78% of unamortized film and television costs for released productions (excluding amounts allocated to acquired film and television libraries) is expected to be amortized during the next three years. By the end of fiscal 2017, we will have reached on a cumulative basis, 80% amortization of the September 28, 2013 balance of unamortized film and television costs. Approximately \$0.8 billion of accrued participation and residual liabilities will be paid in fiscal year 2014. The Company expects to amortize, based on current estimates, approximately \$1.0 billion in capitalized film and television production costs during fiscal 2014.

At September 28, 2013, acquired film and television libraries have remaining unamortized costs of \$234 million, which are generally amortized straight-line over a weighted-average remaining period of approximately 11 years.

[TABLE OF CONTENTS](#)

## 8 Borrowings

The Company's borrowings at September 28, 2013 and September 29, 2012, including the impact of interest rate and cross-currency swaps, are summarized below:

	2013					
	2013	2012	Stated Interest Rate <sup>(1)</sup>	Pay Floating Interest rate and Cross-Currency Swaps <sup>(2)</sup>	Effective Interest Rate <sup>(3)</sup>	Swap Maturities
Commercial paper borrowings	\$ —	\$ 2,050	—	\$ —	—	
U.S. medium-term notes	13,155	10,117	3.09%	5,550	2.55%	2015-2023
European medium-term notes	—	90	—	—	—	
Other foreign currency denominated debt	509	1,225	5.27%	318	4.68%	2017
Capital Cities/ABC debt	111	112	8.75%	—	6.03%	
Other <sup>(4)</sup>	238	450	—	—	—	
	<u>14,013</u>	<u>14,044</u>	<u>3.22%</u>	<u>5,868</u>	<u>2.66%</u>	
HKDL borrowings	275	267	3.25%	—	3.39%	
Total borrowings	<u>14,288</u>	<u>14,311</u>	<u>3.22%</u>	<u>5,868</u>	<u>2.68%</u>	
Less current portion	<u>1,512</u>	<u>3,614</u>	<u>5.18%</u>	<u>—</u>	<u>5.35%</u>	
Total long-term borrowings	<u>\$ 12,776</u>	<u>\$ 10,697</u>		<u>\$ 5,868</u>		

(1) The stated interest rate represents the weighted-average coupon rate for each category of borrowings. For floating rate borrowings, interest rates are the rates in effect at September 28, 2013; these rates are not necessarily an indication of future interest rates.

(2) Amounts represent notional values of interest rate and cross-currency swaps outstanding as of September 28, 2013.

(3) The effective interest rate includes the impact of existing and terminated interest rate and cross-currency swaps, purchase accounting adjustments and debt issuance discounts and costs.

(4) Includes market value adjustments for debt with qualifying hedges totaling \$117 million and \$296 million at September 28, 2013 and September 29, 2012, respectively.

### Commercial Paper

At September 28, 2013, the Company had no commercial paper debt outstanding and had bank facilities with a syndicate of lenders to support commercial paper borrowings as follows:

	Committed Capacity	Capacity Used	Unused Capacity
Facility expiring March 2014	\$ 1,500	\$ —	\$ 1,500
Facility expiring February 2015	2,250	—	2,250
Facility expiring June 2017	2,250	—	2,250
Total	<u>\$ 6,000</u>	<u>\$ —</u>	<u>\$ 6,000</u>



## TABLE OF CONTENTS

These bank facilities allow for borrowings at LIBOR-based rates plus a spread depending on the credit default swap spread applicable to the Company's debt, subject to a cap and floor that vary with the Company's debt rating assigned by Moody's Investors Service and Standard and Poor's. The spread above LIBOR can range from 0.23% to 1.93%. The Company also has the ability to issue up to \$800 million of letters of credit under the facility expiring in February 2015, which if utilized, reduces available borrowings under this facility. As of September 28, 2013, \$252 million of letters of credit had been issued of which none was issued under this facility. The facilities contain only one financial covenant, relating to interest coverage, which the Company met on September 28, 2013 by a significant margin, and specifically exclude certain entities, including the International Theme Parks, from any representations, covenants, or events of default.

### *Shelf Registration Statement*

At September 28, 2013, the Company had a shelf registration statement in place, which allows the Company to issue various types of debt instruments, such as fixed or floating rate notes, U.S. dollar or foreign currency denominated notes, redeemable notes, global notes, and dual currency or other indexed notes. Issuances under the shelf registration will require the filing of a prospectus supplement identifying the amount and terms of the securities to be issued. Our ability to issue debt is subject to market conditions and other factors impacting our borrowing capacity.

### *U.S. Medium-Term Note Program*

At September 28, 2013, the total debt outstanding under the U.S. medium-term note program was \$13.2 billion. The maturities of current outstanding borrowings range from 1 to 80 years. The debt outstanding includes \$12.3 billion of fixed rate notes, which have stated interest rates that range from 0.45% to 7.55% and \$810 million of floating rate notes that bear interest at U.S. LIBOR minus a spread. At September 28, 2013, the effective rate was 0.25%.

### *European Medium-Term Note Program*

At September 28, 2013, the Company had a European medium-term note program, which allows the Company to issue various types of debt instruments such as fixed or floating rate notes, U.S. dollar or foreign currency denominated notes, redeemable notes and index linked or dual currency notes. Capacity under the program is \$4.0 billion, subject to market conditions and other factors impacting our borrowing capacity. Capacity under the program replenishes as outstanding debt under the program is repaid. The Company had no outstanding borrowings under the program at September 28, 2013.

### *Other Foreign Currency Denominated Debt*

In July 2012, the Company refinanced CAD 328 million (\$318 million) borrowed in connection with the acquisition of Club Penguin Entertainment, Inc. in July 2007. This borrowing bears interest at the Canadian Dealer Offered Rate plus 0.83% (2.11% at September 28, 2013) and matures in 2017.

In July 2008, the Company borrowed JPY 54 billion (\$538 million) of floating rate loans that had an interest rate of Japanese LIBOR plus 0.42% and which matured in 2013.

In September 2012, the Company refinanced certain UTV borrowings with Indian Rupee (INR) 9.4 billion of term bank loans. At September 28, 2013, the outstanding balance was INR 9.1 billion (\$147 million), which bears interest at an average rate of 10.49%, subject to annual revisions, and matures in 2015. The Company also arranged for short-term credit facilities of INR 11.7 billion (\$188 million), which bear interest at rates determined at the time of drawdown and expire in 2014. The Company has borrowed INR 2.8 billion (\$44 million) under the short-term credit facilities, which bears interest at an average rate of 10.25%.

### *Capital Cities/ABC Debt*

In connection with the Capital Cities/ABC, Inc. acquisition in 1996, the Company assumed debt previously issued by Capital Cities/ABC, Inc. At September 28, 2013, the outstanding balance was \$111 million, matures in 2021 and has a stated interest rate of 8.75%.

### *Disneyland Paris Borrowings*

In September 2012, the Company provided Disneyland Paris with €1.3 billion (\$1.7 billion) of financing, which was used to repay Disneyland Paris' outstanding third-party bank debt. The Company incurred a net charge of \$24 million on the repayment of the third-party debt, which is reported in Other income/(expense), net in the fiscal 2012 Consolidated Statement of Income.

[TABLE OF CONTENTS](#)*Hong Kong Disneyland Resort Borrowings*

HKDL has an unsecured loan facility of HK \$2.1 billion (\$275 million) from the HKSAR scheduled to mature on dates through September 12, 2030, however earlier repayment may occur depending on future operations and capital expenditures of the park. The interest rate on this loan is subject to biannual revisions, but is capped at an annual rate of 6.75% (until March 2014), 7.625% (until March 2022) and 8.50% (until September 2030). As of September 28, 2013, the rate on the loans was 3.25%.

Total borrowings excluding market value adjustments, have the following scheduled maturities:

	Before International Theme Parks Consolidation	International Theme Parks	Total
2014	\$ 1,508	\$ —	\$ 1,508
2015	2,014	—	2,014
2016	2,013	23	2,036
2017	1,661	24	1,685
2018	1,293	25	1,318
Thereafter	5,407	203	5,610
	<u>\$ 13,896</u>	<u>\$ 275</u>	<u>\$ 14,171</u>

The Company capitalizes interest on assets constructed for its parks, resorts and other property and on theatrical productions. In fiscal years 2013, 2012 and 2011, total interest capitalized was \$77 million, \$92 million and \$91 million, respectively. Interest expense, net of capitalized interest, for fiscal years 2013, 2012 and 2011 was \$349 million, \$472 million and \$435 million, respectively.

**9 Income Taxes**

	2013	2012	2011
<i>Income Before Income Taxes</i>			
Domestic (including U.S. exports)	\$ 8,972	\$ 8,105	\$ 7,330
Foreign subsidiaries	648	1,155	713
	<u>\$ 9,620</u>	<u>\$ 9,260</u>	<u>\$ 8,043</u>
<i>Income Tax Expense/(Benefit)</i>			
Current			
Federal	\$ 2,354	\$ 1,975	\$ 1,851
State	98	227	272
Foreign <sup>(1)</sup>	474	422	521
	<u>2,926</u>	<u>2,624</u>	<u>2,644</u>
Deferred			
Federal	29	465	147
State	61	(2)	(6)
Foreign	(32)	—	—
	<u>58</u>	<u>463</u>	<u>141</u>

\$	<b>2,984</b>	\$	3,087	\$	2,785
----	--------------	----	-------	----	-------

(1) Includes foreign withholding taxes

80



[TABLE OF CONTENTS](#)

	<b>September 28, 2013</b>	September 29, 2012
<i>Components of Deferred Tax Assets and Liabilities</i>		
Deferred tax assets		
Accrued liabilities	\$ (2,019)	\$ (3,034)
Foreign subsidiaries	(795)	(579)
Equity-based compensation	(86)	(160)
Noncontrolling interest net operating losses	(632)	(584)
Other	(396)	(361)
Total deferred tax assets	<u>(3,928)</u>	<u>(4,718)</u>
Deferred tax liabilities		
Depreciable, amortizable and other property	5,987	4,924
Licensing revenues	325	336
Leveraged leases	22	33
Other	117	100
Total deferred tax liabilities	<u>6,451</u>	<u>5,393</u>
Net deferred tax liability before valuation allowance	2,523	675
Valuation allowance	1,042	811
Net deferred tax liability	<u>\$ 3,565</u>	<u>\$ 1,486</u>

The valuation allowance primarily relates to a \$632 million deferred tax asset for the noncontrolling interest share of net operating losses at the International Theme Parks. The ultimate recognition of the noncontrolling interest share of the net operating losses, which have an indefinite carryforward period in France and Hong Kong and a five-year carryforward period in China, would not have an impact on net income attributable to Disney as any income tax benefit would be offset by a charge to noncontrolling interests in the income statement.

As of September 28, 2013, the Company had undistributed earnings of foreign subsidiaries of approximately \$1.5 billion for which deferred taxes have not been provided. The Company intends to reinvest these earnings for the foreseeable future. If these amounts were distributed to the United States, in the form of dividends or otherwise, the Company would be subject to additional U.S. income taxes. Assuming the permanently reinvested foreign earnings were repatriated under laws and rates applicable at 2013 fiscal year end, the incremental federal tax applicable to the earnings would be approximately \$315 million.

A reconciliation of the effective income tax rate to the federal rate is as follows:

	<b>2013</b>	2012	2011
Federal income tax rate	<b>35.0 %</b>	35.0 %	35.0 %
State taxes, net of federal benefit	<b>1.8</b>	2.0	2.1
Domestic production activity deduction	<b>(2.5)</b>	(2.5)	(2.3)
Earnings in jurisdictions taxed at rates different from the statutory U.S. federal rate	<b>(1.9)</b>	(0.5)	(0.2)
Other, including tax reserves and related interest	<b>(1.4)</b>	(0.7)	—
	<u><b>31.0 %</b></u>	<u>33.3 %</u>	<u>34.6 %</u>

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits, excluding the related accrual for interest, is as follows:

	<b>2013</b>	2012	2011
Balance at the beginning of the year	\$ <b>668</b>	\$ 718	\$ 680
Increases for current year tax positions	<b>222</b>	85	75
Increases for prior year tax positions	<b>365</b>	26	41
Decreases in prior year tax positions	<b>(9)</b>	(68)	(17)
Settlements with taxing authorities	<b>(126)</b>	(93)	(61)
Balance at the end of the year	<u>\$ <b>1,120</b></u>	<u>\$ 668</u>	<u>\$ 718</u>

81

[TABLE OF CONTENTS](#)

The fiscal year-end 2013, 2012 and 2011 balances include \$449 million, \$452 million, and \$480 million, respectively, that if recognized, would reduce our income tax expense and effective tax rate. These amounts are net of the offsetting benefits from other tax jurisdictions.

As of the end of fiscal 2013, 2012 and 2011, the Company had \$211 million, \$209 million and \$175 million, respectively, in accrued interest and penalties related to unrecognized tax benefits. During fiscal years 2013, 2012 and 2011, the Company accrued additional interest of \$42 million, \$25 million and \$17 million, respectively, and recorded reductions in accrued interest of \$55 million, \$12 million and \$13 million, respectively, as a result of audit settlements and other prior-year adjustments. The Company's policy is to report interest and penalties as a component of income tax expense.

The Company is no longer subject to U.S. federal examination for years prior to 2010 and is no longer subject to examination in any of its major state or foreign tax jurisdictions for years prior to 2004.

In the next twelve months, it is reasonably possible that our unrecognized tax benefits could change due to the resolution of certain tax matters, which could include payments on those tax matters. These resolutions and payments could reduce our unrecognized tax benefits by \$434 million.

In fiscal years 2013, 2012 and 2011, income tax benefits attributable to equity-based compensation transactions exceeded the amounts recorded based on grant date fair value. Accordingly, \$204 million, \$120 million and \$109 million were credited to shareholders' equity, respectively in these years.

## ***10 Pension and Other Benefit Programs***

The Company maintains pension and postretirement medical benefit plans covering most of its employees not covered by union or industry-wide plans. Employees generally hired after January 1, 1987 for certain of our media businesses and other employees generally hired after January 1, 1994 are not eligible for postretirement medical benefits. Pension benefits are generally based on years of service and/or compensation.

In fiscal 2011, the Company substantially amended its salaried employee pension plans with respect to benefits earned for service after December 31, 2011. The Company reduced the vesting requirement from five years of vesting service to three years of vesting service, revised the early retirement reduction factors and excluded employees hired after December 31, 2011 from plan participation. In addition, the percentage of average monthly compensation on which salary-related benefits are based was reduced while overtime, commissions and regular bonus amounts were added to the calculation of average monthly compensation received after December 31, 2011 to the extent those elements of compensation were not previously included.

[TABLE OF CONTENTS](#)

The following chart summarizes the benefit obligations, assets, funded status and balance sheet impacts associated with the pension and postretirement medical benefit plans based upon the actuarial valuations prepared as of September 28, 2013 and September 29, 2012.

	Pension Plans		Postretirement Medical Plans	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Projected benefit obligations				
Beginning obligations	\$ (11,530)	\$ (9,481)	\$ (1,748)	\$ (1,578)
Service cost	(349)	(278)	(18)	(21)
Interest cost	(433)	(440)	(66)	(74)
Actuarial gain / (loss)	2,044	(1,635)	476	(107)
Plan amendments and other	(60)	51	(9)	—
Benefits paid	262	253	40	32
Ending obligations	<u>\$ (10,066)</u>	<u>\$ (11,530)</u>	<u>\$ (1,325)</u>	<u>\$ (1,748)</u>
Fair value of plans' assets				
Beginning fair value	\$ 8,049	\$ 6,551	\$ 388	\$ 302
Actual return on plan assets	807	972	45	48
Contributions	397	833	108	72
Benefits paid	(262)	(253)	(40)	(32)
Expenses and other	(26)	(54)	7	(2)
Ending fair value	<u>\$ 8,965</u>	<u>\$ 8,049</u>	<u>\$ 508</u>	<u>\$ 388</u>
Underfunded status of the plans	<u>\$ (1,101)</u>	<u>\$ (3,481)</u>	<u>\$ (817)</u>	<u>\$ (1,360)</u>
Amounts recognized in the balance sheet				
Non-current assets	\$ 234	\$ 27	\$ —	\$ —
Current liabilities	(46)	(24)	(15)	(16)
Non-current liabilities	(1,289)	(3,484)	(802)	(1,344)
	<u>\$ (1,101)</u>	<u>\$ (3,481)</u>	<u>\$ (817)</u>	<u>\$ (1,360)</u>

The components of net periodic benefit cost are as follows:

	Pension Plans			Postretirement Medical Plans		
	2013	2012	2011	2013	2012	2011
Service costs	\$ 349	\$ 278	\$ 293	\$ 18	\$ 21	\$ 18
Interest costs	433	440	411	66	74	66
Expected return on plan assets	(604)	(514)	(440)	(30)	(23)	(24)
Amortization of prior year service costs	10	12	14	(2)	(2)	(1)
Recognized net actuarial loss	418	309	230	40	31	9
Net periodic benefit cost	<u>\$ 606</u>	<u>\$ 525</u>	<u>\$ 508</u>	<u>\$ 92</u>	<u>\$ 101</u>	<u>\$ 68</u>



[TABLE OF CONTENTS](#)

Key assumptions are as follows:

	Pension Plans			Postretirement Medical Plans		
	2013	2012	2011	2013	2012	2011
Discount rate	<b>5.00%</b>	3.85%	4.75%	<b>5.00%</b>	3.85%	4.75%
Rate of return on plan assets	<b>7.50%</b>	7.75%	7.75%	<b>7.50%</b>	7.75%	7.75%
Rate of salary increase	<b>4.00%</b>	4.00%	4.00%	n/a	n/a	n/a
Year 1 increase in cost of benefits	n/a	n/a	n/a	<b>7.25%</b>	7.50%	8.00%
Rate of increase to which the cost of benefits is assumed to decline (the ultimate trend rate)	n/a	n/a	n/a	<b>4.25%</b>	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	n/a	n/a	n/a	<b>2027</b>	2026	2025

Net periodic benefit cost is based on assumptions determined at the prior-year end measurement date.

AOCI, before tax, as of September 28, 2013 consists of the following amounts that have not yet been recognized in net periodic benefit cost:

	Pension Plans	Postretirement Medical Plans	Total
Unrecognized prior service (cost) / credit	\$ (74)	\$ 4	\$ (70)
Unrecognized net actuarial (loss) / gain	(1,984)	71	(1,913)
Total amounts included in AOCI	(2,058)	75	(1,983)
Prepaid / (accrued) pension cost	957	(892)	65
Net balance sheet liability	\$ (1,101)	\$ (817)	\$ (1,918)

Amounts included in AOCI, before tax, as of September 28, 2013 that are expected to be recognized as components of net periodic benefit cost during fiscal 2014 are:

	Pension Plans	Postretirement Medical Plans	Total
Prior service (cost) / credit	\$ (14)	\$ 2	\$ (12)
Net actuarial (loss) / gain	(153)	7	(146)
Total	\$ (167)	\$ 9	\$ (158)

#### *Plan Funded Status*

The projected benefit obligation, accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$864 million, \$797 million and \$2 million, respectively, as of September 28, 2013 and \$10.6 billion, \$9.8 billion and \$7.1 billion as of September 29, 2012, respectively.

For pension plans with projected benefit obligations in excess of plan assets, the projected benefit obligation and aggregate fair value of plan assets were \$7.9 billion and \$6.6 billion, respectively, as of September 28, 2013 and \$10.6 billion and \$7.1 billion as of September 29, 2012, respectively.

The Company's total accumulated pension benefit obligations at September 28, 2013 and September 29, 2012 were \$9.3 billion and \$10.7 billion, respectively, of which 97% for both years was vested.

The accumulated postretirement medical benefit obligations and fair value of plan assets for postretirement medical plans with accumulated postretirement medical benefit obligations in excess of plan assets were \$1.3 billion and \$0.5 billion, respectively, at September 28, 2013 and \$1.7 billion and \$0.4 billion, respectively, at September 29, 2012.

## TABLE OF CONTENTS

### *Plan Assets*

A significant portion of the assets of the Company's defined benefit plans are managed on a commingled basis in a third-party master trust. The investment policy and allocation of the assets in the master trust were approved by the Company's Investment and Administrative Committee, which has oversight responsibility for the Company's retirement plans. The investment policy ranges for the major asset classes are as follows:

Asset Class	Minimum	Maximum
Equity investments		
Domestic small cap	—%	10%
Domestic mid/large cap	15%	30%
International	7%	37%
Total equity investments	31%	60%
Fixed income investments	20%	40%
Alternative investments		
Diversified	—%	10%
Distressed	—%	10%
Private equity/venture capital	—%	12%
Real estate	—%	15%
Commodity	—%	10%
Total alternative investments	15%	30%
Cash & money market funds	—%	10%

The primary investment objective for the assets within the master trust is the prudent and cost effective management of assets to satisfy benefit obligations to plan participants. Financial risks are managed through diversification of plan assets, selection of investment managers and through the investment guidelines incorporated in investment management agreements. Assets are monitored to ensure that investment returns are commensurate with risks taken.

The long-term asset allocation policy for the master trust was established taking into consideration a variety of factors that include, but are not limited to, the average age of participants, the number of retirees, the duration of liabilities and the expected payout ratio. Liquidity needs of the master trust are generally managed using cash generated by investments or by liquidating securities.

Assets are generally managed by external investment managers, and we have investment management agreements with respect to securities in the master trust. These agreements include account guidelines that establish permitted securities and risk controls commensurate with the account's investment strategy. Some agreements permit the use of derivative securities (futures, options, interest rate swaps, credit default swaps) that enable investment managers to enhance returns and manage exposures within their accounts. Investment managers are prohibited from using derivatives to leverage returns.

### *Fair Value Measurements of Plan Assets*

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 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

## TABLE OF CONTENTS

Following is a description of the valuation methodologies used for assets reported at fair value. There have been no changes in the methodologies used at September 28, 2013 and September 29, 2012.

Level 1 investments are valued based on observable market prices on the last trading day of the year. Investments in common and preferred stocks are valued based on the securities exchange-listed price or a broker's quote in an active market. Investments in U.S. Treasury securities are valued based on a broker's quote in an active market.

Level 2 investments in certain government and federal agency bonds, mortgage-backed securities (MBS), asset-backed securities and corporate bonds are valued using a broker's quote in a non-active market or an evaluated price based on a compilation of reported market information, such as benchmark yield curves, credit spreads and estimated default rates. Derivative financial instruments are valued based on models that incorporate observable inputs for the underlying securities, such as interest rates. Shares in money market and mutual funds are valued at the net asset value of the shares held by the Plan at year-end based on the fair value of the underlying investments.

Level 3 investments consist of investments in limited partnerships, which are valued based on the master trust's pro-rata share of the partnerships' underlying net investment holdings as reported in the partnerships' financial statements. The investments held by the partnerships are recorded at fair value by the partnerships and the partnerships' financial statements are generally audited annually. The fair values of the underlying investments are estimated using significant unobservable inputs (e.g., discounted cash flow models or relative valuation methods that incorporate comparable market information such as earnings and cash flow multiples from similar publicly traded companies or real estate properties).

The Company's defined benefit plan assets are summarized by level in the following tables:

Description	As of September 28, 2013				
	Level 1	Level 2	Level 3	Total	Plan Asset Mix
Equities:					
Domestic small cap	\$ 220	\$ —	\$ —	\$ 220	2%
Domestic mid/large cap <sup>(1)</sup>	1,864	—	—	1,864	19%
International	1,384	595	—	1,979	21%
Fixed income					
Corporate bonds	—	667	—	667	7%
Government and federal agency bonds, notes and MBS	802	770	—	1,572	17%
MBS & asset-backed securities	—	322	—	322	3%
Alternative investments					
Diversified	85	262	270	617	7%
Distressed	—	—	153	153	2%
Private equity/venture capital	—	—	673	673	7%
Real estate	—	—	359	359	4%
Derivatives and other, net	—	119	—	119	1%
Cash & money market funds	42	886	—	928	10%
Total	\$ 4,397	\$ 3,621	\$ 1,455	\$ 9,473	100%

TABLE OF CONTENTS

	As of September 29, 2012								
Description	Level 1		Level 2	Level 3	Total	Plan Asset Mix			
Equities:									
Domestic small cap	\$	93	\$	—	\$	93	1%		
Domestic mid/large cap <sup>(1)</sup>		1,746		—		1,746	21%		
International		1,096		450		1,546	18%		
Fixed income									
Corporate bonds		—		736		736	9%		
Government and federal agency bonds, notes and MBS		827		910		1,737	21%		
MBS & asset-backed securities		—		212		212	3%		
Alternative investments									
Diversified		83		282		179	544	6%	
Distressed		—		—		194	194	2%	
Private equity/venture capital		—		—		623	623	7%	
Real estate		—		—		328	328	4%	
Derivatives and other, net		—		11		—	11	—%	
Cash & money market funds		95		572		—	667	8%	
Total	\$	3,940	\$	3,173	\$	1,324	\$	8,437	100%

<sup>(1)</sup> Large cap domestic equities include 2.9 million shares of Company common stock valued at \$185 million (2% of total plan assets) and 2.8 million shares valued at \$147 million (2% of total plan assets) at September 28, 2013 and September 29, 2012, respectively.

Changes in Level 3 assets for the years ended September 28, 2013 and September 29, 2012 are as follows:

	Alternative Investments				
	Diversified	Distressed	Private equity/venture capital	Real estate	Total
Balance at Oct 1, 2011	\$ 171	\$ 228	\$ 567	\$ 263	\$ 1,229
Additions	1	19	121	75	216
Distributions	(2)	(52)	(68)	(20)	(142)
Gain / (loss)	9	(1)	3	10	21
Balance at Sept. 29, 2012	\$ 179	\$ 194	\$ 623	\$ 328	\$ 1,324
Additions	86	23	115	46	270
Distributions	(6)	(73)	(73)	(43)	(195)
Gain / (loss)	11	9	8	28	56
<b>Balance at Sept. 28, 2013</b>	<b>\$ 270</b>	<b>\$ 153</b>	<b>\$ 673</b>	<b>\$ 359</b>	<b>\$ 1,455</b>

*Uncalled Capital Commitments*

Alternative investments held by the master trust include interests in limited partnerships that have rights to make capital calls to

the limited partner investors. In such cases, the master trust would be contractually obligated to make a cash capital contribution to the limited partnership at the time of a capital call. At September 28, 2013, the total committed capital still uncalled and unpaid was \$584 million.

#### *Plan Contributions*

During fiscal 2013, the Company made contributions to its pension and postretirement medical plans totaling \$505 million, which included discretionary contributions above the minimum requirements for pension plans. The Company currently expects pension and postretirement medical plan contributions in fiscal 2014 to total approximately \$275 million to \$325 million. Final minimum funding requirements for fiscal 2014 will be determined based on our January 1, 2014 funding actuarial valuation, which we expect to receive during the fourth quarter of fiscal 2014.

[TABLE OF CONTENTS](#)*Estimated Future Benefit Payments*

The following table presents estimated future benefit payments for the next ten fiscal years:

	Pension Plans	Postretirement Medical Plans <sup>(1)</sup>
2014	\$ 419	\$ 42
2015	364	45
2016	389	48
2017	416	51
2018	444	55
2019 – 2023	2,691	336

<sup>(1)</sup> Estimated future benefit payments are net of expected Medicare subsidy receipts of \$65 million.

*Assumptions*

Actuarial assumptions, such as the discount rate, long-term rate of return on plan assets and the healthcare cost trend rate, have a significant effect on the amounts reported for net periodic benefit cost as well as the related benefit obligations.

*Discount Rate* — The assumed discount rate for pension and postretirement medical plans reflects the market rates for high-quality corporate bonds currently available. The Company's discount rate was determined by considering the average of pension yield curves constructed of a large population of high quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves.

*Long-term rate of return on plan assets* — The long-term rate of return on plan assets represents an estimate of long-term returns on an investment portfolio consisting of a mixture of equities, fixed income and alternative investments. When determining the long-term rate of return on plan assets, the Company considers long-term rates of return on the asset classes (both historical and forecasted) in which the Company expects the pension funds to be invested. The following long-term rates of return by asset class were considered in setting the long-term rate of return on plan assets assumption:

Equity Securities	9% - 12%
Debt Securities	4% - 7%
Alternative Investments	6% - 13%

*Healthcare cost trend rate* — The Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates for the postretirement medical benefit plans. For the 2013 actuarial valuation, we assumed a 7.25% annual rate of increase in the per capita cost of covered healthcare claims with the rate decreasing in even increments over fourteen years until reaching 4.25%.

*Sensitivity* — A one percentage point (ppt) change in the key assumptions would have had the following effects on the projected benefit obligations for pension and postretirement medical plans as of September 28, 2013 and on cost for fiscal 2014:

	Discount Rate		Expected Long-Term Rate of Return On Assets	Assumed Healthcare Cost Trend Rate	
Increase/(decrease)	Benefit Expense	Projected Benefit Obligations	Benefit Expense	Net Periodic Postretirement Medical Cost	Projected Benefit Obligations
1 ppt decrease	\$ 204	\$ 1,912	\$ 90	\$ (24)	\$ (171)
1 ppt increase	(192)	(1,629)	(90)	34	209



## [TABLE OF CONTENTS](#)

### *Multiemployer Pension Plans*

The Company participates in a number of multiemployer pension plans under union and industry-wide collective bargaining agreements that cover our union-represented employees and expenses its contributions to these plans as incurred. These plans generally provide for retirement, death and/or termination benefits for eligible employees within the applicable collective bargaining units, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in these multiemployer plans are different from single-employer plans. For example:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may become the obligation of the remaining participating employers.
- If the Company chooses to stop participating in these multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company also participates in several multiemployer health and welfare plans that cover both active and retired employees. Health care benefits are provided to participants who meet certain eligibility requirements under the applicable collective bargaining unit.

The following table sets forth our fiscal year contributions to multiemployer pension and health and welfare benefit plans that were expensed during the fiscal years 2013, 2012 and 2011, respectively:

	2013	2012	2011
Pension plans	\$ 97	\$ 91	\$ 86
Health & welfare plans	147	140	119
Total contributions	<u>\$ 244</u>	<u>\$ 231</u>	<u>\$ 205</u>

### *Defined Contribution Plans*

The Company has savings and investment plans that allow eligible employees to allocate up to 50% of their salary through payroll deductions depending on the plan in which the employee participates. The Company matches 50% of the employee's pre-tax contribution up to plan limits. Effective January 1, 2012, the Company adopted new defined contribution retirement plans for employees who begin service after December 31, 2011 and are not eligible to participate in the defined benefit pension plans. In general, the Company contributes from 3% to 9% of an employee's compensation depending on the employee's age and years of service with the Company up to plan limits. In fiscal years 2013, 2012 and 2011, the costs of these plans were \$68 million, \$63 million and \$59 million, respectively.

## 11 *Equity*

As of the filing date of this report, the Board of Directors had not yet declared a dividend related to fiscal 2013. The Company paid a \$0.75 per share dividend (\$1.3 billion) during the first quarter of fiscal 2013 related to fiscal 2012. The Company paid a \$0.60 per share dividend (\$1.1 billion) during the second quarter of fiscal 2012 related to fiscal 2011. The Company paid a \$0.40 per share dividend (\$0.8 billion) during the second quarter of fiscal 2011 related to fiscal 2010.

During fiscal 2013, the Company repurchased 71 million shares of its common stock for approximately \$4.1 billion. During fiscal 2012, the Company repurchased 72 million shares of its common stock for approximately \$3.0 billion. During fiscal 2011, the Company repurchased 135 million shares of its common stock for approximately \$5.0 billion. On March 22, 2011, the Company's Board of Directors increased the amount of shares that can be repurchased to 400 million shares as of that date. As of September 28, 2013, the Company had remaining authorization in place to repurchase 161 million additional shares. The repurchase program does not have an expiration date.

**TABLE OF CONTENTS**

The following table summarizes the changes in each component of AOCI including our proportional share of equity method investee amounts, net of 37% estimated tax:

	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
	Investments	Cash Flow Hedges <sup>(1)</sup>			
Balance at Oct 2, 2010	\$ 7	\$ (102)	\$ (1,866)	\$ 80	\$ (1,881)
Unrealized gains (losses) arising during the period	2	(72)	(915)	(37)	(1,022)
Reclassifications of realized net (gains) losses to net income	(3)	120	156	—	273
Balance at Oct 1, 2011	6	(54)	(2,625)	43	(2,630)
Unrealized gains (losses) arising during the period	4	38	(829)	(60)	(847)
Reclassifications of realized net (gains) losses to net income	(7)	(36)	220	34	211
Balance at Sept. 29, 2012	3	(52)	(3,234)	17	(3,266)
Unrealized gains (losses) arising during the period	162	208	1,668	(162)	1,876
Reclassifications of realized net (gains) losses to net income	(25)	(73)	295	6	203
Balance at Sept. 28, 2013	\$ 140	\$ 83	\$ (1,271)	\$ (139)	\$ (1,187)

<sup>(1)</sup> Reclassifications of gains / (losses) on cash flow hedges are primarily recorded in revenue.

At September 28, 2013, the Company held available-for-sale investments in unrecognized gain positions totaling \$228 million and no investments in significant unrecognized loss positions. At September 29, 2012, there were no available-for-sale investments in significant unrecognized gain or loss positions.

## 12 *Equity-Based Compensation*

Under various plans, the Company may grant stock options and other equity-based awards to executive, management, and creative personnel. The Company's approach to long-term incentive compensation contemplates awards of stock options and restricted stock units (RSUs). Certain RSUs awarded to senior executives vest based upon the achievement of market and/or performance conditions (Performance RSUs).

Stock options are generally granted at exercise prices equal to or exceeding the market price at the date of grant and become exercisable ratably over a four-year period from the grant date. The following table summarizes contractual terms for our stock option grants:

Grant dates	Contractual Term
Prior to January 2005	10 years



January 2005 through December 2010

7 years

After December 2010

10 years

At the discretion of the Compensation Committee of the Company's Board of Directors, options can occasionally extend up to 15 years after date of grant.

**TABLE OF CONTENTS**

The following table summarizes vesting terms for our RSUs:

Grant dates	Vesting Terms
<i>RSUs:</i>	
Prior to January 2009	50% on each of the second and fourth anniversaries of the grant date
Effective January 2009	Ratably over four years
<i>Performance RSUs:</i>	
Prior to January 2010	50% on each of the second and fourth anniversaries of the grant date subject to achieving market and/or performance conditions
Effective January 2010	Fully after three years, subject to achieving market and/or performance conditions

Starting March 2009 for our primary plan, each share granted subject to a stock option award reduces the number of shares available by one share while each share granted subject to a RSU award reduces the number of shares available by two shares. In March 2011, shareholders of the Company approved the 2011 Stock Incentive Plan, which increased the number of shares authorized to be awarded as grants by 64 million shares. In March 2012, shareholders of the Company approved an amendment to the 2011 Stock Incentive Plan, which increased the number of shares authorized to be awarded as grants by an incremental 15 million shares. As of September 28, 2013, the maximum number of shares available for issuance (assuming all the awards are in the form of stock options) was approximately 113 million shares and the number available for issuance assuming all awards are in the form of RSUs was approximately 57 million shares. The Company satisfies stock option exercises and vesting of RSUs with newly issued shares. Stock options and RSUs are generally forfeited by employees who terminate prior to vesting.

Each year, generally during the second quarter, the Company awards stock options and restricted stock units to a broad-based group of management and creative personnel. The fair value of options is estimated based on the binomial valuation model. The binomial valuation model takes into account variables such as volatility, dividend yield and the risk-free interest rate. The binomial valuation model also considers the expected exercise multiple (the multiple of exercise price to grant price at which exercises are expected to occur on average) and the termination rate (the probability of a vested option being cancelled due to the termination of the option holder) in computing the value of the option.

In fiscal years 2013, 2012 and 2011, the weighted average assumptions used in the option-valuation model were as follows:

	2013	2012	2011
Risk-free interest rate	1.8%	2.0%	3.2%
Expected volatility	26%	31%	28%
Dividend yield	1.60%	1.56%	1.15%
Termination rate	2.7%	2.7%	2.5%
Exercise multiple	1.41	1.41	1.40

Although the initial fair value of stock options is not adjusted after the grant date, changes in the Company's assumptions may change the value of, and therefore the expense related to, future stock option grants. The assumptions that cause the greatest variation in fair value in the binomial valuation model are the expected volatility and expected exercise multiple. Increases or decreases in either the expected volatility or expected exercise multiple will cause the binomial option value to increase or decrease, respectively.

The volatility assumption considers both historical and implied volatility and may be impacted by the Company's performance

as well as changes in economic and market conditions.

Compensation expense for RSUs and stock options is recognized ratably over the service period of the award. Compensation expense for RSUs is based on the market price of the shares underlying the awards on the grant date. Compensation expense for Performance RSUs reflects the estimated probability that the market and/or performance conditions will be met. Effective January 2010, equity-based award grants generally provide continued vesting, in the event of

[TABLE OF CONTENTS](#)

termination, for employees that reach age 60 or greater, have at least ten years of service and have held the award for at least one year.

The impact of stock options/rights and RSUs on income and cash flows for fiscal years 2013, 2012 and 2011, was as follows:

	2013	2012	2011
Stock option/rights compensation expense <sup>(1)</sup>	\$ 101	\$ 115	\$ 133
RSU compensation expense	311	310	300
Total equity-based compensation expense <sup>(2)</sup>	412	425	433
Tax impact	(139)	(145)	(151)
Reduction in net income	\$ 273	\$ 280	\$ 282
Equity-based compensation expense capitalized during the period	\$ 58	\$ 56	\$ 66
Tax benefit reported in cash flow from financing activities	\$ 204	\$ 122	\$ 124

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

<sup>(2)</sup> Equity-based compensation expense is net of capitalized equity-based compensation and excludes amortization of previously capitalized equity-based compensation costs. Amortization of previously capitalized equity-based compensation totaled \$65 million, \$59 million and \$57 million in fiscal years 2013, 2012 and 2011, respectively.

The following table summarizes information about stock option transactions (shares in millions):

	2013	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	54	\$ 32.02
Awards forfeited	(1)	39.62
Awards granted	8	51.37
Awards exercised	(20)	29.57
Awards expired/cancelled	—	—
Outstanding at end of year	41	37.06
Exercisable at end of year	18	30.03

The following tables summarize information about stock options vested and expected to vest at September 28, 2013 (shares in millions):

Range of Exercise Prices	Vested		
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Years of Contractual Life
\$ 0 — \$ 20	1	\$ 18.90	1.8
\$ 21 — \$ 25	3	21.70	1.9
\$ 26 — \$ 30	6	28.84	1.7

\$ 31 — \$ 35	5	32.38	3.6
\$ 36 — \$ 45	3	39.60	7.7
	<u>18</u>		

[TABLE OF CONTENTS](#)

Range of Exercise Prices	Expected to Vest		
	Number of Options <sup>(1)</sup>	Weighted Average Exercise Price	Weighted Average Remaining Years of Contractual Life
\$ 0 — \$ 30	1	\$ 27.84	2.5
\$ 31 — \$ 35	2	31.19	6.3
\$ 36 — \$ 45	10	39.11	7.9
\$ 46 — \$ 65	7	51.17	9.3
	<u>20</u>		

<sup>(1)</sup> Number of options expected to vest is total unvested options less estimated forfeitures.

The following table summarizes information about RSU transactions (shares in millions):

	2013	
	Units	Weighted Average Grant-Date Fair Value
Unvested at beginning of year	27	\$ 35.49
Granted <sup>(1)</sup>	7	50.92
Vested	(12)	31.73
Forfeited	(1)	36.65
Unvested at end of year <sup>(2)</sup>	<u>21</u>	<u>42.28</u>

<sup>(1)</sup> RSU grants include 0.4 million shares of Performance RSUs.

<sup>(2)</sup> 1.3 million of the unvested RSUs are Performance RSUs.

The weighted average grant-date fair values of options granted during 2013, 2012 and 2011 were \$12.38, \$10.65 and \$10.96, respectively. The total intrinsic value (market value on date of exercise less exercise price) of options exercised and RSUs vested during 2013, 2012 and 2011 totaled \$1,162 million, \$1,033 million and \$969 million, respectively. The aggregate intrinsic values of stock options vested and expected to vest at September 28, 2013 were \$635 million and \$459 million, respectively.

As of September 28, 2013, there was \$147 million of unrecognized compensation cost related to unvested stock options and \$520 million related to unvested RSUs. That cost is expected to be recognized over a weighted-average period of 1.6 years for stock options and 1.6 years for RSUs.

Cash received from option exercises for 2013, 2012 and 2011 was \$587 million, \$1,008 million and \$1,128 million, respectively. Tax benefits realized from tax deductions associated with option exercises and RSU activity for 2013, 2012 and 2011 totaled \$398 million, \$360 million and \$342 million, respectively.

[TABLE OF CONTENTS](#)**13 Detail of Certain Balance Sheet Accounts**

	September 28, 2013	September 29, 2012
<i>Current receivables</i>		
Accounts receivable	\$ 6,694	\$ 6,313
Other	428	388
Allowance for doubtful accounts	(155)	(161)
	<u>\$ 6,967</u>	<u>\$ 6,540</u>
<i>Other current assets</i>		
Prepaid expenses	\$ 443	\$ 469
Other	162	335
	<u>\$ 605</u>	<u>\$ 804</u>
<i>Parks, resorts and other property</i>		
Attractions, buildings and improvements	\$ 21,195	\$ 19,678
Leasehold improvements	697	696
Furniture, fixtures and equipment	15,135	14,317
Land improvements	4,165	3,891
	<u>41,192</u>	<u>38,582</u>
Accumulated depreciation	(22,459)	(20,687)
Projects in progress	2,476	2,453
Land	1,171	1,164
	<u>\$ 22,380</u>	<u>\$ 21,512</u>
<i>Intangible assets</i>		
Character/franchise intangibles and copyrights	\$ 5,771	\$ 3,197
Other amortizable intangible assets	624	603
Accumulated amortization	(980)	(745)
Net amortizable intangible assets	<u>5,415</u>	<u>3,055</u>
FCC licenses	717	722
Trademarks	1,218	1,218
Other indefinite lived intangible assets	20	20
	<u>\$ 7,370</u>	<u>\$ 5,015</u>
<i>Other non-current assets</i>		
Receivables	\$ 1,547	\$ 1,645
Prepaid expenses	190	194
Other	<u>689</u>	<u>449</u>

	<b>\$ 2,426</b>	<b>\$ 2,288</b>
<i>Accounts payable and other accrued liabilities</i>		
Accounts payable	<b>\$ 4,899</b>	<b>\$ 4,619</b>
Payroll and employee benefits	<b>1,628</b>	<b>1,521</b>
Other	<b>276</b>	<b>253</b>
	<b>\$ 6,803</b>	<b>\$ 6,393</b>



[TABLE OF CONTENTS](#)

	September 28, 2013	September 29, 2012
<i>Other long-term liabilities</i>		
Deferred revenues	\$ 298	\$ 275
Capital lease obligations	274	284
Program licenses and rights	78	59
Participation and residual liabilities	385	348
Pension and postretirement medical plan liabilities	2,091	4,828
Other <sup>(1)</sup>	1,435	1,385
	<u>\$ 4,561</u>	<u>\$ 7,179</u>

<sup>(1)</sup> Includes unrecognized tax benefits.

## 14 Commitments and Contingencies

### Commitments

The Company has various contractual commitments for broadcast rights for sports, feature films and other programming, totaling approximately \$50.7 billion, including approximately \$0.8 billion for available programming as of September 28, 2013, and approximately \$48.2 billion related to sports programming rights, primarily college football (including college bowl games) and basketball conferences, NFL, MLB, NBA and NASCAR.

The Company has entered into operating leases for various real estate and equipment needs, including retail outlets and distribution centers for consumer products, broadcast equipment and office space for general and administrative purposes. Rental expense for operating leases during fiscal years 2013, 2012 and 2011, including common-area maintenance and contingent rentals, was \$875 million, \$863 million and \$820 million, respectively.

The Company also has contractual commitments for creative talent and employment agreements and unrecognized tax benefits. Creative talent and employment agreements include obligations to actors, producers, sports, television and radio personalities and executives.

Contractual commitments for broadcast programming rights, future minimum lease payments under non-cancelable operating leases and creative talent and other commitments totaled \$59.2 billion at September 28, 2013, payable as follows:

	Broadcast Programming	Operating Leases	Other	Total
2014	\$ 5,995	\$ 507	\$ 2,638	\$ 9,140
2015	4,984	422	634	6,040
2016	4,953	342	349	5,644
2017	4,469	272	197	4,938
2018	4,377	217	145	4,739
Thereafter	25,906	1,784	1,013	28,703
	<u>\$ 50,684</u>	<u>\$ 3,544</u>	<u>\$ 4,976</u>	<u>\$ 59,204</u>

## TABLE OF CONTENTS

The Company has assets under non-cancelable capital leases, primarily for land and broadcast equipment, which had gross carrying values of \$572 million and \$559 million at September 28, 2013 and September 29, 2012, respectively. Accumulated amortization related to these capital leases totaled \$208 million and \$167 million at September 28, 2013 and September 29, 2012, respectively. Future payments under these leases as of September 28, 2013 are as follows:

2014	\$	60
2015		70
2016		38
2017		35
2018		18
Thereafter		522
Total minimum obligations		743
Less amount representing interest		(451)
Present value of net minimum obligations		292
Less current portion		(18)
Long-term portion	\$	274

### *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 September 28, 2013, the remaining debt service obligation guaranteed by the Company was \$343 million, of which \$75 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 Anaheim bonds.

### *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 that discussed the subject of labeling requirements for production processes related to a product one plaintiff produces that is added to ground beef before sale to consumers. Plaintiffs seek actual and consequential damages in excess of \$400 million, statutory damages (including treble damages) pursuant to South Dakota's Agricultural Food Products Disparagement Act, and punitive damages. On October 24, 2012, the Company removed the action to the United States District Court for the District of South Dakota, and on October 31, 2012, the Company moved to dismiss all claims. On November 28, 2012, plaintiffs filed motion to remand the case to state court. On June 12, 2013, the district court granted plaintiffs' motion to remand to state court and denied the Company's motions to dismiss all claims, without prejudice to its right to move again in state court. On July 9, 2013, the Company moved in state court to dismiss all claims, and the hearing on those motions is set for December 17, 2013.

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.

### *Celador International Ltd. v. American Broadcasting Companies, Inc.*

In connection with the Company's litigation with Celador International Ltd., the Company recorded a \$321 million charge in Other income/(expense), net, in fiscal 2013. This amount was paid in fiscal 2013.



[TABLE OF CONTENTS](#)

### *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 within the Media Networks segment and vacation ownership units within the Parks and Resorts segment. 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 September 28, 2013. The activity in fiscal 2013 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 \$0.7 billion as of September 28, 2013. The activity in fiscal 2013 related to the allowance for credit losses was not material.

## 15 *Fair Value Measurement*

The Company's assets and liabilities measured at fair value are summarized in the following tables by fair value measurement Level. See Note 10 for the definitions of fair value and each Level within the fair value hierarchy.

Fair Value Measurement at September 28, 2013				
Description	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investments	\$ 305	\$ —	\$ —	\$ 305
Derivatives <sup>(1)</sup>				
Interest rate	—	170	—	170
Foreign exchange	—	267	—	267
<b>Liabilities</b>				
Derivatives <sup>(1)</sup>				
Interest rate	—	(94)	—	(94)
Foreign exchange	—	(201)	—	(201)
Total recorded at fair value	\$ 305	\$ 142	\$ —	\$ 447
Fair value of borrowings	\$ —	\$ 13,630	\$ 914	\$ 14,544

Fair Value Measurement at September 29, 2012				
Description	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investments	\$ 86	\$ —	\$ —	\$ 86
Derivatives <sup>(1)</sup>				
Interest rate	—	239	—	239
Foreign exchange	—	390	—	390
<b>Liabilities</b>				

Derivatives <sup>(1)</sup>

Foreign exchange	—	(235)	—	(235)
Total recorded at fair value	\$ 86	\$ 394	\$ —	\$ 480
Fair value of borrowings	\$ —	\$ 13,493	\$ 1,653	\$ 15,146

<sup>(1)</sup> The Company has a master netting arrangement by counterparty for its derivative contracts. Contracts in a liability position totaling \$171 million and \$153 million have been netted against contracts in an asset position in the Consolidated Balance Sheets at September 28, 2013 and September 29, 2012, respectively.

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

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

Level 3 borrowings, which include HKDL 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 account 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 fiscal years 2013 and 2012, the Company recorded film production cost impairment charges of \$100 million and \$121 million, respectively. At September 28, 2013, the aggregate carrying value of the films for which we prepared the fair value analyses in fiscal 2013 was \$142 million. At September 29, 2012, the aggregate carrying value of the films for which we prepared the fair value analyses in fiscal 2012 was \$172 million. These impairment charges are reported in "Costs and expenses" in the Consolidated Statements of Income. The film impairment charges reflected the excess of the unamortized cost of the impaired films over their estimated fair value using discounted cash flows, which is a level 3 valuation technique.

*Transfers of Financial Assets*

Through December 4, 2008, the Company sold mortgage receivables arising from sales of its vacation ownership units under a facility that expired on December 4, 2008 and was not renewed. In fiscal 2012, the Company repurchased these receivables for the outstanding principal balance of \$191 million, which approximated fair value.

*Credit Concentrations*

The Company monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments on an ongoing basis and does not currently anticipate nonperformance by the counterparties.

The Company does not expect that it would realize a material loss, based on the fair value of its derivative financial instruments as of September 28, 2013, in the event of nonperformance by any single derivative counterparty. The Company enters into transactions only with derivative counterparties that have a credit rating of A- or better. The Company's current policy regarding agreements with derivative counterparties is generally to require collateral in the event credit ratings fall below A- or in the event aggregate exposures exceed limits as defined by contract. In addition, the Company limits the amount of investment credit exposure with any one institution.

The Company does not have material cash and cash equivalent balances with financial institutions that have a credit rating of less than investment grade. As of September 28, 2013, the Company's balances with individual financial institutions that exceeded 10% of the Company's total cash and cash equivalents were 26% of total cash and cash equivalents compared to 44% as of September 29, 2012.

The Company's trade receivables and financial investments do not represent a significant concentration of credit risk at September 28, 2013 due to the wide variety of customers and markets into which the Company's products are sold, their dispersion across geographic areas and the diversification of the Company's portfolio among issuers.

## 16 *Derivative Instruments*

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

[TABLE OF CONTENTS](#)

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

As of September 28, 2013				
	Current Assets	Other Assets	Other Accrued Liabilities	Other Long- Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 146	\$ 106	\$ (68)	\$ (24)
Interest rate	—	170	(94)	—
Derivatives not designated as hedges				
Foreign exchange	15	—	(82)	(27)
Gross fair value of derivatives	161	276	(244)	(51)
Counterparty netting	(137)	(34)	143	28
Total Derivatives <sup>(1)</sup>	<u>\$ 24</u>	<u>\$ 242</u>	<u>\$ (101)</u>	<u>\$ (23)</u>
As of September 29, 2012				
	Current Assets	Other Assets	Other Accrued Liabilities	Other Long- Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 84	\$ 30	\$ (94)	\$ (50)
Interest rate	1	238	—	—
Derivatives not designated as hedges				
Foreign exchange	258	18	(91)	—
Gross fair value of derivatives	343	286	(185)	(50)
Counterparty netting	(117)	(36)	117	36
Total Derivatives <sup>(1)</sup>	<u>\$ 226</u>	<u>\$ 250</u>	<u>\$ (68)</u>	<u>\$ (14)</u>

<sup>(1)</sup> Refer to Note 15 for further information on derivative fair values and counterparty netting.

*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 September 28, 2013 and September 29, 2012, the total notional amount of the Company's pay-floating interest rate swaps was \$5.6 billion and \$3.1 billion, respectively. The following table summarizes adjustments related to fair value hedges included in net interest expense in the Consolidated Statements of Income.

	2013	2012	2011
Gain (loss) on interest rate swaps	\$ (180)	\$ 23	\$ 17
Gain (loss) on hedged borrowings	180	(23)	(17)

In addition, the Company realized net benefits of \$80 million, \$58 million and \$66 million for fiscal years 2013, 2012 and 2011, respectively, in net interest expense related to the 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 September 28, 2013 or at September 29, 2012.



## TABLE OF CONTENTS

### *Foreign Exchange Risk Management*

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

The Company enters into option and forward contracts that change in value as foreign currency exchange rates change to protect the value of its existing foreign currency assets, liabilities, firm commitments and forecasted but not firmly committed foreign currency transactions. In accordance with policy, the Company hedges its forecasted foreign currency transactions for periods generally not to exceed four years within an established minimum and maximum range of annual exposure. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related forecasted transaction, asset, liability or firm commitment. The principal currencies hedged are the euro, Japanese yen, 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 September 28, 2013 and September 29, 2012, the notional amounts of the Company's net foreign exchange cash flow hedges were \$4.3 billion and \$4.6 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 fiscal years 2013, 2012 and 2011 were not material. Net deferred gains recorded in AOCI for contracts that will be reclassified to earnings in the next twelve months totaled \$64 million.

Foreign exchange risk management contracts with respect to foreign currency assets and liabilities are not designated as hedges and do not qualify for hedge accounting. The notional amounts of these foreign exchange contracts at September 28, 2013 and September 29, 2012 were \$4.3 billion and \$4.1 billion, respectively. The following table summarizes the net foreign exchange gains or losses recognized on foreign currency denominated assets and liabilities and the offsetting net foreign exchange gains or losses on the related foreign exchange contracts for fiscal years 2013, 2012 and 2011 by corresponding line item in which they are recorded in the Consolidated Statements of Income:

	Costs and Expenses			Interest Expense		
	2013	2012	2011	2013	2012	2011
Net gains (losses) on foreign currency denominated assets and liabilities	\$ (33)	\$ (63)	\$ 15	\$ 199	\$ (9)	\$ (40)
Net gains (losses) on foreign exchange risk management contracts not designated as hedges	(8)	9	(16)	(194)	—	40
Net gains (losses)	<u>\$ (41)</u>	<u>\$ (54)</u>	<u>\$ (1)</u>	<u>\$ 5</u>	<u>\$ (9)</u>	<u>\$ —</u>

### *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 fair value of commodity hedging contracts at September 28, 2013 and September 29, 2012 were not material. The related gains and losses recognized in earnings were not material for fiscal years 2013, 2012 and 2011.

### *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 commodity 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 fair value of these contracts at September 28, 2013 and September 29, 2012 were not material. The related gains and losses recognized in earnings were not material for fiscal years 2013, 2012 and 2011.

At October 1, 2011, the notional amount of pay fixed interest rate swaps not designated as hedges was \$184 million. On June 5, 2012, the Company terminated these pay fixed interest rate swaps in connection with the repurchase of securitized vacation ownership mortgage receivables.

[TABLE OF CONTENTS](#)*Contingent Features*

The Company's derivative financial instruments may require the Company 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. If the Company's credit ratings were to fall below investment grade, such counterparties 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 \$124 million and \$82 million at September 28, 2013 and September 29, 2012, respectively. The Company had posted collateral of \$54 million at September 28, 2013. There was no collateral posted at September 29, 2012.

## ***17 Restructuring and Impairment Charges***

The Company recorded \$214 million, \$100 million and \$55 million of restructuring and impairment charges in fiscal years 2013, 2012 and 2011, respectively. Charges in fiscal 2013 were due to severance, contract and lease termination costs and intangible and other asset impairments. The charges include amounts incurred in connection with the acquisition of Lucasfilm. Charges in fiscal 2012 were primarily due to severance, lease termination costs and the write-off of an intellectual property asset. Charges in fiscal 2011 were due to severance costs and asset impairments. Charges in each fiscal year were largely due to organizational and cost structure initiatives across various of our businesses.

[TABLE OF CONTENTS](#)

**QUARTERLY FINANCIAL SUMMARY**  
**(In millions, except per share data)**

(unaudited)	Q1 <sup>(1)</sup>		Q2 <sup>(2)</sup>		Q3 <sup>(3)</sup>		Q4 <sup>(4)</sup>	
<b>2013</b>								
Revenues	\$	11,341	\$	10,554	\$	11,578	\$	11,568
Net income		1,438		1,621		2,034		1,543
Net income attributable to Disney		1,382		1,513		1,847		1,394
Earnings per share:								
Diluted	\$	0.77	\$	0.83	\$	1.01	\$	0.77
Basic		0.78		0.84		1.02		0.78
<b>2012</b>								
Revenues	\$	10,779	\$	9,629	\$	11,088	\$	10,782
Net income		1,521		1,226		2,036		1,390
Net income attributable to Disney		1,464		1,143		1,831		1,244
Earnings per share:								
Diluted	\$	0.80	\$	0.63	\$	1.01	\$	0.68
Basic		0.81		0.64		1.02		0.69

- (1) Results for the first quarter of fiscal 2013 include charges related to the Celador litigation (\$0.11 per diluted share) and our share of expense associated with the Hulu Equity Redemption (\$0.02 per diluted share), partially offset by a gain on the sale of our 50% interest in ESS (\$0.07 per diluted share) and a tax benefit related to an increase in the amount of prior-year foreign earnings considered to be indefinitely reinvested outside of the United States (\$0.04 per diluted share). These items had a net adverse impact of \$0.02 on diluted earnings per share. The first quarter of fiscal 2012 includes restructuring charges, which had no net impact on earnings per share.
- (2) Results for the second quarter of fiscal 2013 include favorable tax adjustments related to pre-tax earnings in prior years (\$0.06 per diluted share), partially offset by restructuring and impairment charges (\$0.02 per diluted share). These items collectively had a net positive impact of \$0.04 on diluted earnings per share. The second quarter of fiscal 2012 includes a non-cash gain on the Company's equity investment in UTV, which arose in connection with the acquisition of a controlling interest in UTV (\$0.06 per diluted share) and restructuring and impairment charges (\$0.01 per diluted share). These items had a net positive impact of \$0.05 on diluted earnings per share.
- (3) Results for the third quarter of fiscal 2013 include restructuring and impairment charges, which had an adverse impact of \$0.02 on diluted earnings per share. The third quarter of fiscal 2012 includes restructuring charges, which had no net impact on earnings per share.
- (4) Results for the fourth quarter of fiscal 2013 include restructuring and impairment charges (\$0.03 per diluted share), offset by a tax benefit related to an increase in the amount of prior-year foreign earnings considered to be indefinitely reinvested outside of the United States (\$0.02 per diluted share) and gains on the sale of various businesses (\$0.01 per diluted share), which collectively had no net impact on earnings per share. The fourth quarter of fiscal 2012 includes the Lehman recovery (\$0.03 per diluted share) offset by restructuring and impairment charges (\$0.02 per diluted share) and the DLP debt charge (rounds to \$0.00 per diluted share), which collectively had no net impact on earnings per share.