WALT DISNEY CO/
Form 10-Q
February 03, 2015

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

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

For the Quarterly Period Ended December 27, 2014	Commission File Number 1-11605

Incorporated in Delaware	I.R.S. Employer Identification No. 95-4545390

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	x	Accelerated filer	¨
Non-accelerated filer (do not check if smaller reporting company)	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x
There were 1,699,563,381 shares of common stock outstanding as of January 28, 2015.

PART I. FINANCIAL INFORMATION
Item 1: Financial Statements
THE WALT DISNEY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited; in millions, except per share data)

	Quarter Ended December 27, 2014	December 28, 2013
Revenues:		
Services	$10,727	$9,857
Products	2,664	2,452
Total revenues	13,391	12,309
Costs and expenses:		
Cost of services (exclusive of depreciation and amortization)	(6,134)	(5,614)
Cost of products (exclusive of depreciation and amortization)	(1,522)	(1,451)
Selling, general, administrative and other	(1,935)	(2,018)
Depreciation and amortization	(592)	(561)
Total costs and expenses	(10,183)	(9,644)
Restructuring and impairment charges	—	(19)
Other income, net	—	6
Interest income/(expense), net	(58)	49
Equity in the income of investees	212	239
Income before income taxes	3,362	2,940
Income taxes	(1,118)	(1,036)
Net income	2,244	1,904
Less: Net income attributable to noncontrolling interests	(62)	(64)
Net income attributable to The Walt Disney Company (Disney)	$2,182	$1,840
Earnings per share attributable to Disney:		
Diluted	$1.27	$1.03
Basic	$1.28	$1.04
Weighted average number of common and common equivalent shares outstanding:		
Diluted	1,717	1,784
Basic	1,700	1,762
Dividends declared per share	$1.15	$0.86

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended	
	December 27, 2014	December 28, 2013
Net income	$2,244	$1,904
Other comprehensive income/(loss), net of tax:		
Market value adjustments for investments	(16)	(19)
Market value adjustments for hedges	135	31
Pension and postretirement medical plan adjustments	44	25
Foreign currency translation and other	(95)	14
Other comprehensive income/(loss)	68	51
Comprehensive income	2,312	1,955
Less: Net income attributable to noncontrolling interests	(62)	(64)
Less: Other comprehensive (income)/loss attributable to noncontrolling interests	20	(8)
Comprehensive income attributable to Disney	$2,270	$1,883

See Notes to Condensed Consolidated Financial Statements

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

	December 27, 2014	September 27, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$5,077	$3,421
Receivables	8,591	7,822
Inventories	1,476	1,574
Television costs and advances	712	1,061
Deferred income taxes	452	497
Other current assets	932	801
Total current assets	17,240	15,176
Film and television costs	5,672	5,325
Investments	2,642	2,696
Parks, resorts and other property		
Attractions, buildings and equipment	42,324	42,263
Accumulated depreciation	(24,045)	(23,722)
	18,279	18,541
Projects in progress	4,148	3,553
Land	1,233	1,238
	23,660	23,332
Intangible assets, net	7,369	7,434
Goodwill	27,849	27,881
Other assets	2,603	2,342
Total assets	$87,035	$84,186
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	$9,069	$7,595
Current portion of borrowings	4,376	2,164
Unearned royalties and other advances	3,359	3,533
Total current liabilities	16,804	13,292
Borrowings	12,167	12,676
Deferred income taxes	4,414	4,098
Other long-term liabilities	5,857	5,942
Commitments and contingencies (Note 10)		
Equity		
Preferred stock, $.01 par value Authorized – 100 million shares, Issued – none	—	—
Common stock, $.01 par value Authorized – 4.6 billion shares, Issued – 2.8 billion shares	34,488	34,301
Retained earnings	53,969	53,734
Accumulated other comprehensive loss	(1,880)	(1,968)
	86,577	86,067
Treasury stock, at cost, 1.1 billion shares at December 27, 2014 and September 27, 2014	(42,412)	(41,109)
Total Disney Shareholders' equity	44,165	44,958

Noncontrolling interests	3,628	3,220
Total equity	47,793	48,178
Total liabilities and equity	$87,035	$84,186

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended	
	December 27, 2014	December 28, 2013
OPERATING ACTIVITIES		
Net income	$2,244	$1,904
Depreciation and amortization	592	561
Gains on sales of investments and dispositions	—	(111)
Deferred income taxes	290	(85)
Equity in the income of investees	(212)	(239)
Cash distributions received from equity investees	197	187
Net change in film and television costs and advances	114	(299)
Equity-based compensation	104	96
Other	171	27
Changes in operating assets and liabilities:		
Receivables	(1,027)	(1,175)
Inventories	92	97
Other assets	(44)	(20)
Accounts payable and other accrued liabilities	(1,283)	(707)
Income taxes	617	976
Cash provided by operations	1,855	1,212
INVESTING ACTIVITIES		
Investments in parks, resorts and other property	(998)	(658)
Sales of investments/proceeds from dispositions	—	136
Other	7	(5)
Cash used in investing activities	(991)	(527)
FINANCING ACTIVITIES		
Commercial paper borrowings, net	2,747	2,149
Borrowings	69	66
Reduction of borrowings	(1,098)	(1,046)
Repurchases of common stock	(1,303)	(1,718)
Proceeds from exercise of stock options	65	94
Other	417	218
Cash provided by/(used in) financing activities	897	(237)
Impact of exchange rates on cash and cash equivalents	(105)	18
Increase in cash and cash equivalents	1,656	466
Cash and cash equivalents, beginning of period	3,421	3,931
Cash and cash equivalents, end of period	$5,077	$4,397

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended					
	December 27, 2014			December 28, 2013		
	Disney Shareholders	Non-controlling Interests	Total Equity	Disney Shareholders	Non-controlling Interests	Total Equity
Beginning balance	$44,958	$3,220	$48,178	$45,429	$2,721	$48,150
Comprehensive income	2,270	42	2,312	1,883	72	1,955
Equity compensation activity	179	—	179	238	—	238
Dividends	(1,948)	—	(1,948)	(1,508)	—	(1,508)
Common stock repurchases	(1,303)	—	(1,303)	(1,718)	—	(1,718)
Contributions	—	351	351	—	180	180
Distributions and other	9	15	24	—	(1)	(1)
Ending balance	$44,165	$3,628	$47,793	$44,324	$2,972	$47,296

See Notes to Condensed Consolidated Financial Statements

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

1. Principles of Consolidation

These Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. We believe that we have included all normal recurring adjustments necessary for a fair presentation of the results for the interim period. Operating results for the quarter ended December 27, 2014 are not necessarily indicative of the results that may be expected for the year ending October 3, 2015. Certain reclassifications have been made in the prior-year financial statements to conform to the current-year presentation.

These financial statements should be read in conjunction with the Company’s 2014 Annual Report on Form 10-K.

The Company enters into relationships or investments with other entities in which it does not have majority ownership. 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 (as defined by ASC 810-10-25-38) or the right to receive benefits from the VIE that could potentially be significant to the VIE. Disneyland Paris, Hong Kong Disneyland Resort (HKDL) and Shanghai Disney Resort (collectively the International Theme Parks) are VIEs. Company subsidiaries (the Management Companies) have management agreements with the International Theme Parks, which provide the Management Companies, subject to certain protective rights of joint venture partners, with the ability to direct the day-to-day operating activities and the development of business strategies that we believe most significantly impact the economic performance of the International Theme Parks. In addition, the Management Companies receive management fees under these arrangements that we believe could be significant to the International Theme Parks. Therefore, although the Company has less than a 50% direct ownership interest in the International Theme Parks, the Company has consolidated the International Theme Parks in its financial statements.

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

2. Segment Information

The operating segments reported below are the segments of the Company for which separate financial information is available and for which segment results are evaluated regularly by the Chief Executive Officer in deciding how to allocate resources and in assessing performance. The Company reports the performance of its operating segments including equity in the income of investees. Equity in the income of investees included in segment operating results is as follows:

	Quarter Ended	
	December 27, 2014	December 28, 2013
Media Networks		
Cable Networks	$242	$257
Broadcasting	(29)	(18)
Equity in the income of investees included in segment operating income	$213	$239

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

	Quarter Ended	
	December 27, 2014	December 28, 2013
Revenues [1]:		
Media Networks	$5,860	$5,290
Parks and Resorts	3,910	3,597
Studio Entertainment	1,858	1,893
Consumer Products	1,379	1,126
Interactive	384	403
	$13,391	$12,309
Segment operating income [1]:		
Media Networks	$1,495	$1,455
Parks and Resorts	805	671
Studio Entertainment	544	409
Consumer Products	626	430
Interactive	75	55
	$3,545	$3,020

[1] Studio Entertainment segment revenues and operating income include an allocation of Consumer Products revenues, which is meant to reflect royalties on sales of merchandise based on certain film properties. The increase to Studio Entertainment revenues and operating income and corresponding decrease to Consumer Products revenues and operating income totaled $145 million and $63 million for the quarters ended December 27, 2014 and December 28, 2013, respectively.

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

	Quarter Ended	
	December 27, 2014	December 28, 2013
Segment operating income	$3,545	$3,020
Corporate and unallocated shared expenses	(125)	(116)
Restructuring and impairment charges	—	(19)
Other income, net	—	6
Interest income/(expense), net	(58)	49
Income before income taxes	$3,362	$2,940

3. Acquisitions

Maker Studios

On May 7, 2014, the Company acquired Maker Studios, Inc. (Maker), a leading network of online video content, for approximately $500 million of cash consideration, subject to certain conditions and adjustments. Maker shareholders may also receive up to $450 million of additional cash upon final determination of Maker's achievement of performance targets for calendar years 2014 and 2015. The Company has recognized a $198 million liability for the fair value of the contingent consideration (determined by a probability weighting of potential payouts). Subsequent changes in the estimated fair value, if any, will be recognized in earnings. The majority of the purchase price has been allocated to goodwill, which is not deductible for tax purposes. Goodwill reflects the synergies expected from enhancing the presence of Disney's franchises and brands through the use of Maker's distribution platform, advanced technology and business intelligence capability. The revenue and net income of Maker included in the Company's Condensed Consolidated Statement of Income for the quarter ended December 27, 2014 was not material.

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

Goodwill

The changes in the carrying amount of goodwill for the quarter ended December 27, 2014 are as follows:

	Media Networks	Parks and Resorts	Studio Entertainment	Consumer Products	Interactive	Total
Balance at Sept. 27, 2014	$16,378	$291	$6,856	$2,967	$1,389	$27,881
Acquisitions	—	—	—	—	—	—
Dispositions	—	—	—	(1)	—	(1)
Other, net	(14)	—	(12)	—	(5)	(31)
Balance at Dec. 27, 2014	$16,364	$291	$6,844	$2,966	$1,384	$27,849

4. Borrowings

During the quarter ended December 27, 2014, the Company's borrowing activity was as follows:

	September 27, 2014	Borrowings	Reductions of borrowings	Other Activity	December 27, 2014
Commercial paper with original maturities less than three months, net [1]	$50	$1,025	$—	$—	$1,075
Commercial paper with original maturities greater than three months	—	1,722	—	—	1,722
U.S. medium-term notes	13,713	—	(1,000)	3	12,716
Foreign currency denominated debt	783	69	(93)	(19)	740
Other	294	—	(12)	8	290
Total	$14,840	$2,816	$(1,105)	$(8)	$16,543

[1] Borrowings and reductions of borrowings are reported net.

The Company has bank facilities with a syndicate of lenders to support commercial paper borrowings. The following is a summary of the bank facilities at December 27, 2014:

	Committed Capacity	Capacity Used	Unused Capacity
Facility expiring March 2015	$1,500	$—	$1,500
Facility expiring June 2017	2,250	—	2,250
Facility expiring March 2019	2,250	—	2,250
Total	$6,000	$—	$6,000

All of the above bank facilities allow for borrowings at LIBOR-based rates plus a spread depending on the credit default swap spread applicable to the Company's debt, subject to a cap and floor that vary with the Company's debt rating assigned by Moody's Investors Service and Standard and Poor's. The spread above LIBOR can range from 0.23% to 1.63%. The Company also has the ability to issue up to $800 million of letters of credit under the facility expiring in March 2019, which if utilized, reduces available borrowings under this facility. As of December 27, 2014, $214 million of letters of credit were outstanding, of which none were issued under this facility. The facilities contain only one financial covenant, relating to interest coverage, which the Company met on December 27, 2014 by a significant margin, and specifically exclude certain entities, including the International Theme Parks, from any representations, covenants, or events of default.

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Interest income/(expense)

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

	Quarter Ended	
	December 27, 2014	December 28, 2013
Interest expense	$(69)	$(81)
Interest and investment income	11	130
Interest income/(expense), net	$(58)	$49

Interest and investment income includes gains and losses on the sale of available-for-sale and non-publicly traded cost method investments, investment impairments and interest earned on cash and cash equivalents and certain receivables. There were no sales of investments during the quarter ended December 27, 2014. The quarter ended December 28, 2013 included $59 million and $46 million of realized net gains on available-for-sale and cost method investments, respectively.

5. International Theme Park Investments

At December 27, 2014, the Company had 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 1 for the Company's policy on consolidating VIEs.

The following tables present summarized balance sheet information for the Company as of December 27, 2014 and September 27, 2014, reflecting the impact of consolidating the International Theme Parks balance sheets.

	As of December 27, 2014		
	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash and cash equivalents	$4,174	$903	$5,077
Other current assets	11,883	280	12,163
Total current assets	16,057	1,183	17,240
Investments/Advances	6,812	(4,170)	2,642
Parks, resorts and other property	16,981	6,679	23,660
Other assets	43,480	13	43,493
Total assets	$83,330	$3,705	$87,035
Current portion of borrowings	$4,376	$—	$4,376
Other current liabilities	11,660	768	12,428
Total current liabilities	16,036	768	16,804
Borrowings	11,912	255	12,167
Deferred income taxes and other long-term liabilities	10,088	183	10,271
Equity	45,294	2,499	47,793
Total liabilities and equity	$83,330	$3,705	$87,035

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

	As of September 27, 2014		
	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash and cash equivalents	$2,645	$776	$3,421
Other current assets	11,452	303	11,755
Total current assets	14,097	1,079	15,176
Investments/Advances	6,627	(3,931)	2,696
Parks, resorts and other property	17,081	6,251	23,332
Other assets	42,958	24	42,982
Total assets	$80,763	$3,423	$84,186
Current portion of borrowings	$2,164	$—	$2,164
Other current liabilities	10,318	810	11,128
Total current liabilities	12,482	810	13,292
Borrowings	12,423	253	12,676
Deferred income taxes and other long-term liabilities	9,859	181	10,040
Equity	45,999	2,179	48,178
Total liabilities and equity	$80,763	$3,423	$84,186

The following table presents summarized income statement information of the Company for the quarter ended December 27, 2014, reflecting the impact of consolidating the International Theme Parks income statements.

	Before International Theme Parks Consolidation[1]	International Theme Parks and Adjustments	Total
Revenues	$12,813	$578	$13,391
Cost and expenses	(9,597)	(586)	(10,183)
Other income/(expense), net	(31)	31	—
Interest income/(expense), net	(43)	(15)	(58)
Equity in the income of investees	218	(6)	212
Income before income taxes	3,360	2	3,362
Income taxes	(1,118)	—	(1,118)
Net income	$2,242	$2	$2,244

(1) 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 $14 million of royalties and management fees recognized for the quarter ended December 27, 2014.

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

The following table presents summarized cash flow statement information of the Company for the quarter ended December 27, 2014, 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	$1,742	$113	$1,855
Investments in parks, resorts and other property	(360)	(638)	(998)
Cash (used in)/provided by other investing activities	(320)	327	7
Cash provided by financing activities	562	335	897
Impact of exchange rates on cash and cash equivalents	(95)	(10)	(105)
Change in cash and cash equivalents	1,529	127	1,656
Cash and cash equivalents, beginning of period	2,645	776	3,421
Cash and cash equivalents, end of period	$4,174	$903	$5,077

Disneyland Paris

In September 2012, the Company provided Disneyland Paris with €1.2 billion ($1.5 billion) of intercompany loans, which were used to repay its outstanding third-party bank debt. The Company has also provided Disneyland Paris lines of credit totaling €350 million ($428 million), one of which bears interest at EURIBOR and expires in two tranches (€100 million in 2015 and €150 million in 2018) and another €100 million credit line, which bears interest at EURIBOR plus 2.0% and expires in 2017. The balance outstanding under the lines of credit was €250 million ($305 million) at December 27, 2014. The total outstanding balance of loans provided to Disneyland Paris, including amounts outstanding under the lines of credit, was €1.8 billion ($2.2 billion) as of December 27, 2014.

Disneyland Paris is currently implementing a €1.0 billion ($1.2 billion) recapitalization consisting of the following:

- An equity rights offering to raise approximately €0.4 billion ($0.4 billion) in cash proceeds of which the Company will fund approximately €0.2 billion ($0.3 billion). To the extent the other Disneyland Paris shareholders choose not to participate in the rights offering, the Company will also purchase the unsubscribed shares.
- The Company will convert €0.6 billion ($0.7 billion) of its loans to Disneyland Paris into equity.
- The Company will be required to make a mandatory tender offer to the other Disneyland Paris shareholders to purchase their shares at a price, which is subject to French regulatory approval. Based on the proposed price of €1.25 per share, the Company may be required to purchase up to an additional €0.3 billion ($0.4 billion) in shares.
- To mitigate the dilution caused by the loan conversion, the Disneyland Paris shareholders will have the right to purchase shares from the Company at the price used to convert debt to equity.
- The Company will replace the existing lines of credit with a new consolidated €350 million line of credit bearing interest at EURIBOR plus 2.0% and maturing in 2023.

The Company’s ownership interest in Disneyland Paris after the proposed recapitalization will depend on the number of Disneyland Paris shareholders that participate in the rights offering, accept the Company’s tender offer, and/or exercise their anti-dilution rights to purchase Disneyland Paris shares from the Company. The Company will have a minimum effective ownership interest of 51% after the above transaction.

The recapitalization received Disneyland Paris shareholders’ approval in January 2015 and the rights offering has commenced. The recapitalization is expected to be completed in fiscal 2015.

The Company has recognized approximately $365 million of deferred income tax assets on the difference between the Company’s tax basis in its investment in Disneyland Paris and the Company’s financial statement carrying value of Disneyland Paris. The Company will likely be required to write-off this deferred tax asset as a result of the recapitalization.

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

Hong Kong Disneyland Resort

At December 27, 2014, the Government of the Hong Kong Special Administrative Region (HKSAR) and the Company had a 52% and 48% equity interest in HKDL, respectively. In addition, HKSAR holds a right to receive additional shares over time if HKDL exceeds certain return on asset performance targets. The amount of additional shares HKSAR can receive varies to the extent certain performance targets are exceeded but is capped on both an annual and cumulative basis. Based on the number of shares currently outstanding, these additional shares could decrease the Company's equity interest by up to 10 percentage points over a period no shorter than 18 years. As HKDL exceeded the performance targets in fiscal 2014, HKSAR received an additional equity interest of one percentage point in January 2015.

HKDL plans to build a third hotel at the resort, which is expected to open in 2017 and cost approximately $550 million. To fund the construction, the Company will contribute approximately $219 million of equity, and HKSAR will convert an equal amount of its outstanding loan to HKDL into equity. Additionally, the Company and HKSAR will provide shareholder loans of up to approximately $149 million and $104 million, respectively. The loans will mature on dates from fiscal 2022 through fiscal 2025 and bear interest at a rate of three month HIBOR plus 2%.

Shanghai Disney Resort

The Company and Shanghai Shendi (Group) Co., Ltd (Shendi) are constructing a Disney Resort (Shanghai Disney Resort) in the Pudong district of Shanghai that includes a theme park, two hotels and a retail, dining and entertainment area with a planned investment of approximately 34 billion yuan ($5.5 billion). Construction on the project began in April 2011, with the completion of major construction work anticipated by the end of calendar 2015 and opening planned for spring 2016.

The total investment in Shanghai Disney Resort will be funded in accordance with each partner's ownership percentage, with approximately 67% from equity contributions and 33% from shareholder loans. Shanghai Disney Resort is owned through two joint venture companies, in which Shendi owns 57% and the Company owns 43%. An additional joint venture, in which the Company has a 70% interest and Shendi a 30% interest, is responsible for designing, constructing and operating Shanghai Disney Resort.

6. Pension and Other Benefit Programs

The components of net periodic benefit cost are as follows:

	Pension Plans		Postretirement Medical Plans	
	Quarter Ended		Quarter Ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
Service costs	$83	$71	$4	$3
Interest costs	131	122	17	16
Expected return on plan assets	(178)	(161)	(10)	(9)
Amortization of prior-year service costs	4	4	—	—
Recognized net actuarial loss/(gain)	62	36	3	(2)
Net periodic benefit cost	$102	$72	$14	$8

During the quarter ended December 27, 2014, the Company did not make any material contributions to its pension and postretirement medical plans. The Company expects total pension and postretirement medical plan contributions in fiscal 2015 of approximately $350 million to $375 million. Final minimum pension plan funding requirements for fiscal 2015 will be determined based on our January 1, 2015 funding actuarial valuation, which will be available in the fourth quarter of fiscal 2015.

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

7. Earnings Per Share

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

	Quarter Ended	
	December 27, 2014	December 28, 2013
Shares (in millions):		
Weighted average number of common and common equivalent shares outstanding (basic)	1,700	1,762
Weighted average dilutive impact of Awards	17	22
Weighted average number of common and common equivalent shares outstanding (diluted)	1,717	1,784
Awards excluded from diluted earnings per share	9	10

8. Equity

On December 3, 2014, the Company declared a $1.15 per share dividend ($1.9 billion) related to fiscal 2014 for shareholders of record on December 15, 2014, which was paid on January 8, 2015. The Company paid a $0.86 per share dividend ($1.5 billion) during the second quarter of fiscal 2014 related to fiscal 2013.

During the quarter ended December 27, 2014, the Company repurchased 15 million shares of its common stock for $1.3 billion. On January 30, 2015, 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.

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

	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
	Investments, net	Cash Flow Hedges			
Balance September 27, 2014	$100	$204	$(2,196)	$(76)	$(1,968)
Unrealized gains (losses) arising during the period	(16)	176	—	(75)	85
Reclassifications of net (gains) losses to net income	—	(41)	44	—	3
Balance at December 27, 2014	$84	$339	$(2,152)	$(151)	$(1,880)
Balance at September 28, 2013	$95	$83	$(1,271)	$(94)	$(1,187)
Unrealized gains (losses) arising during the period	18	41	—	6	65
Reclassifications of net (gains) losses to net income	(37)	(10)	25	—	(22)
Balance at December 28, 2013	$76	$114	$(1,246)	$(88)	$(1,144)

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

Gains/(losses) in net income:	Affected line item in the Condensed Consolidated Statements of Income:	Quarter Ended December 27, 2014	December 28, 2013
Investments, net	Interest income/(expense), net	$—	$59
Estimated tax	Income taxes	—	(22)
		—	37
Cash flow hedges	Primarily revenue	65	16
Estimated tax	Income taxes	(24)	(6)
		41	10
Pension and postretirement medical expense	Primarily included in the computation of net periodic benefit cost (see Note 6)	(70)	(40)
Estimated tax	Income taxes	26	15
		(44)	(25)
Total reclassifications for the period		$(3)	$22

At December 27, 2014, the Company held available-for-sale investments in net unrecognized gain positions totaling $46 million and no investments in significant unrecognized loss positions. At September 27, 2014, the Company held available-for-sale investments in net unrecognized gain positions totaling $55 million and no investments in significant unrecognized loss positions.

9. Equity-Based Compensation

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

	Quarter Ended December 27, 2014	December 28, 2013
Stock options/rights [1]	$25	$25
RSUs	79	74
Total equity-based compensation expense [2]	$104	$99
Equity-based compensation expense capitalized during the period	$15	$14

[1] Includes stock appreciation rights.

[2] Equity-based compensation expense is net of capitalized equity-based compensation and excludes amortization of previously capitalized equity-based compensation costs. During the quarters ended December 27, 2014 and December 28, 2013, amortization of previously capitalized equity-based compensation totaled $9 million and $13 million, respectively.

Unrecognized compensation cost related to unvested stock options/rights and RSUs totaled approximately $237 million and $762 million, respectively, as of December 27, 2014.

The weighted average grant date fair values of options issued during the quarters ended December 27, 2014 and December 28, 2013 were $22.61 and $19.15, respectively.

During the quarter ended December 27, 2014, the Company made equity compensation grants consisting of 4.9 million stock options and 3.9 million RSUs, of which 0.2 million RSUs included market and/or performance conditions.

10. Commitments and Contingencies

Legal Matters

Beef Products, Inc. v. American Broadcasting Companies, Inc. On September 13, 2012, plaintiffs filed an action in South Dakota state court against certain subsidiaries and employees of the Company and others, asserting claims for defamation arising from alleged false statements and implications, statutory and common law product disparagement, and tortious interference with existing and prospective business relationships. The claims arise out of ABC News reports published in March and April 2012 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 July 9, 2013, the Company moved in state court to dismiss all claims and on March 27, 2014, the state court dismissed certain common law disparagement counts as preempted by South Dakota's produce disparagement statute, but denied the motion on the remaining claims. On April 23, 2014, the Company petitioned the South Dakota Supreme Court to allow a discretionary appeal seeking reversal of the state court's order permitting the remaining common law disparagement claims to proceed and also seeking reversal of its decision to allow certain claims to proceed as defamation claims. On May 22, 2014, the South Dakota Supreme Court denied the Company's petition. On May 23, 2014, the Company answered the Complaint. Trial is set for February 2017. At this time, the Company is not able to predict the ultimate outcome of this matter, nor can it estimate the range of possible loss.

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

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

Contractual Guarantees

The Company has guaranteed bond issuances by the Anaheim Public Authority that were used by the City of Anaheim to finance construction of infrastructure and a public parking facility adjacent to the Disneyland Resort. Revenues from sales, occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds. In the event of a debt service shortfall, the Company will be responsible to fund the shortfall. As of December 27, 2014, the remaining debt service obligation guaranteed by the Company was $334 million, of which $68 million was principal. To the extent that tax revenues exceed the debt service payments in subsequent periods, the Company would be reimbursed for any previously funded shortfalls. To date, tax revenues have exceeded the debt service payments for these bonds.

Long-Term Receivables and the Allowance for Credit Losses

The Company has accounts receivable with original maturities greater than one year related to the sale of television program rights 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 $0.8 billion as of December 27, 2014. The activity in the current period related to the allowance for credit losses was not material.

The Company estimates the allowance for credit losses related to receivables from sales of its vacation ownership units based primarily on historical collection experience. Estimates of uncollectible amounts also consider the economic environment and the age of receivables. The balance of mortgage receivables recorded in other non-current assets, net of a related allowance for credit losses of approximately 4%, was approximately $0.7 billion as of December 27, 2014. The activity in the current period related to the allowance for credit losses was not material.

Income Taxes

During the quarter ended December 27, 2014, the Company increased its gross unrecognized tax benefits by $19 million to $822 million with a resulting $15 million increase to income tax expense.

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In the next twelve months, it is reasonably possible that our unrecognized tax benefits could change due to resolutions of open tax matters. These resolutions would reduce our unrecognized tax benefits by approximately $141 million, of which $132 million would reduce our income tax expense and effective tax rate if recognized.

Venezuela operations

The Company has operations in Venezuela, including film and television distribution and merchandise licensing and has approximately 1.7 billion of Venezuelan bolivar (BsF) denominated net monetary assets, which primarily consist of cash. At December 27, 2014, the Venezuelan government (Government) has foreign currency exchange controls, which centralize the purchase and sale of all foreign currency at a Government determined official rate or through rates determined by Government-run exchange mechanisms (SICAD 1 or SICAD 2 rates). The Company translates its BsF denominated net monetary assets at the SICAD 2 rate, which was 50.0 BsF per U.S. dollar at December 27, 2014.

11. Fair Value Measurements

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

Level 1 - Quoted prices for identical instruments in active markets

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

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

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

	Fair Value Measurement at December 27, 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	$84	$—	$—	$84
Derivatives				
Interest rate	—	110	—	110
Foreign exchange	—	909	—	909
Liabilities				
Derivatives				
Interest rate	—	(62)	—	(62)
Foreign exchange	—	(133)	—	(133)
Other	—	(27)	—	(27)
Other	—	—	(198)	(198)
Total recorded at fair value	$84	$797	$(198)	$683
Fair value of borrowings	$—	$16,259	$846	$17,105

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	Fair Value Measurement at September 27, 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	$100	$—	$—	$100
Derivatives				
Interest rate	—	117	—	117
Foreign exchange	—	621	—	621
Liabilities				
Derivatives				
Interest rate	—	(75)	—	(75)
Foreign exchange	—	(121)	—	(121)
Other	—	—	(198)	(198)
Total recorded at fair value	$100	$542	$(198)	$444
Fair value of borrowings	$—	$14,374	$901	$15,275

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.

The fair value of the Level 3 other liabilities represents the fair value of the contingent consideration for Maker and is determined by a probability weighting of potential payouts.

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 accounts payable. The carrying values of these financial instruments approximate the fair values.

12. Derivative Instruments

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

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

	As of December 27, 2014			
	Current Assets	Other Assets	Other Accrued Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	$423	$253	$(79)	$(6)
Interest rate	—	110	(62)	—
Other	—	—	(20)	(7)
Derivatives not designated as hedges				
Foreign exchange	149	84	(48)	—
Gross fair value of derivatives	572	447	(209)	(13)
Counterparty netting	(172)	(17)	179	10
Cash collateral (received)/posted	(213)	(174)	—	—

Net derivative positions	$187	$256	$(30)	$(3)

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	As of September 27, 2014			
	Current Assets	Other Assets	Other Accrued Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	$251	$160	$(54)	$(8)
Interest rate	—	117	(75)	—
Derivatives not designated as hedges				
Foreign exchange	171	39	(59)	—
Gross fair value of derivatives	422	316	(188)	(8)
Counterparty netting	(144)	(18)	154	8
Cash collateral (received)/posted	(80)	(119)	—	—
Net derivative positions	$198	$179	$(34)	$—

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 December 27, 2014 and September 27, 2014, the total notional amount of the Company's pay-floating interest rate swaps was $5.8 billion and $6.8 billion, respectively. The following table summarizes adjustments related to fair value hedges included in Interest income/(expense), net in the Condensed Consolidated Statements of Income.

	Quarter Ended	
	December 27, 2014	December 28, 2013
Gain (loss) on interest rate swaps	$10	$(31)
Gain (loss) on hedged borrowings	(10)	31

In addition, the Company realized net benefits of $25 million and $22 million for the quarters ended December 27, 2014 and December 28, 2013, respectively, in Interest income/(expense), net 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 December 27, 2014 or at September 27, 2014 and gains and losses related to pay-fixed swaps recognized in earnings for the quarters ended December 27, 2014 and December 28, 2013 were not material.

Foreign Exchange Risk Management

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

The Company enters into option and forward contracts that change in value as foreign currency exchange rates change to protect the value of its existing foreign currency assets, liabilities, firm commitments and forecasted but not firmly committed foreign currency transactions. In accordance with policy, the Company hedges its forecasted foreign currency transactions for periods generally not to exceed four years within an established minimum and maximum range of annual exposure. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related forecasted transaction, asset,

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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 December 27, 2014 and September 27, 2014, the notional amounts of the Company's net foreign exchange cash flow hedges were $5.6 billion and $5.0 billion, respectively. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of the foreign currency transactions. Gains and losses recognized related to ineffectiveness for the quarters ended December 27, 2014 and December 28, 2013 were not material. Net deferred gains recorded in AOCI for contracts that will mature in the next twelve months totaled $354 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 December 27, 2014 and September 27, 2014 were $4.2 billion and $4.3 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 the quarters ended December 27, 2014 and December 28, 2013 by the corresponding line item in which they are recorded in the Condensed Consolidated Statements of Income.

	Costs and Expenses		Interest Income/(Expense), net	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
Net gains (losses) on foreign currency denominated assets and liabilities	$(215)	$9	$12	$12
Net gains (losses) on foreign exchange risk management contracts not designated as hedges	205	(22)	(12)	(10)
Net gains (losses)	$(10)	$(13)	$—	$2

Commodity Price Risk Management

The Company is subject to the volatility of commodities prices and the Company designates certain commodity forward contracts as cash flow hedges of forecasted commodity purchases. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of commodity purchases. The notional amount of these commodities contracts at December 27, 2014 and September 27, 2014 and related gains or losses recognized in earnings for the quarters ended December 27, 2014 and December 28, 2013 were not material.

Risk Management – Other Derivatives Not Designated as Hedges

The Company enters into certain other risk management contracts that are not designated as hedges and do not qualify for hedge accounting. These contracts, which include certain 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 December 27, 2014 and September 27, 2014 were not material. The related gains or losses recognized in earnings were not material for the quarters ended December 27, 2014 and December 28, 2013.

Contingent Features and Cash Collateral

The Company has master netting arrangements by counterparty with respect to certain derivative financial instrument contracts. The Company may be required to post collateral in the event that a net liability position with a counterparty exceeds limits defined by contract and that vary with the Company's credit rating. In addition, these contracts may require a counterparty to post collateral to the Company in the event that a net receivable position with a counterparty exceeds limits defined by contract and that vary with the counterparty's credit rating. If the Company's or the counterparty's credit ratings were to fall below investment grade, such counterparties or the Company would also have the right to terminate our derivative contracts, which could lead to a net payment to or from the Company for the

aggregate net value by counterparty of our derivative contracts. The aggregate fair values of derivative instruments with credit-risk-related contingent features in a net liability position by counterparty were $33 million and $34 million on December 27, 2014 and September 27, 2014, respectively.

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13. New Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board issued guidance that replaces the existing accounting standards for revenue recognition. The guidance requires a company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration it expects to be entitled to receive in exchange for those goods or services. The standard is effective beginning the first quarter of the Company's 2018 fiscal year (with early adoption not permitted) and may be adopted either by restating all years presented in the Company's financial statements or by recording the impact of adoption as an adjustment to retained earnings at the beginning of fiscal 2018. The Company is assessing the potential impact this guidance will have on its financial statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations

ORGANIZATION OF INFORMATION
Management’s Discussion and Analysis provides a narrative of the Company’s financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:
Consolidated Results and Non-segment Items
Seasonality
Business Segment Results
Corporate and Unallocated Shared Expenses
Significant Developments
Financial Condition
Commitments and Contingencies
Other Matters
Market Risk
CONSOLIDATED RESULTS AND NON-SEGMENT ITEMS
Our summary consolidated results are presented below:

(in millions, except per share data)	Quarter Ended December 27, 2014		December 28, 2013		% Change Better/ (Worse)	
Revenues:						
Services	$10,727		$9,857		9	%
Products	2,664		2,452		9	%
Total revenues	13,391		12,309		9	%
Costs and expenses:						
Cost of services (exclusive of depreciation and amortization)	(6,134	)	(5,614	)	(9)	%
Cost of products (exclusive of depreciation and amortization)	(1,522	)	(1,451	)	(5)	%
Selling, general, administrative and other	(1,935	)	(2,018	)	4	%
Depreciation and amortization	(592	)	(561	)	(6)	%
Total costs and expenses	(10,183	)	(9,644	)	(6)	%
Restructuring and impairment charges	—		(19	)	nm	
Other income, net	—		6		nm	
Interest income/(expense), net	(58	)	49		nm	
Equity in the income of investees	212		239		(11)	%
Income before income taxes	3,362		2,940		14	%
Income taxes	(1,118	)	(1,036	)	(8)	%
Net income	2,244		1,904		18	%
Less: Net income attributable to noncontrolling interests	(62	)	(64	)	3	%
Net income attributable to Disney	$2,182		$1,840		19	%
Diluted earnings per share attributable to Disney	$1.27		$1.03		23	%

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

Quarter Results
Revenues for the quarter increased 9%, or $1.1 billion, to $13.4 billion; net income attributable to Disney increased 19%, or $0.3 billion, to $2.2 billion; and diluted earnings per share attributable to Disney (EPS) for the quarter increased 23% from $1.03 to $1.27 due to improved operating performance, a decrease in the weighted average shares outstanding as a result of our share repurchase program and a lower effective income tax rate, partially offset by the absence of investment gains recognized in the prior-year quarter.
Revenues
Service revenues for the quarter increased 9%, or $0.9 billion, to $10.7 billion driven by higher contractual rates for fees from Multi-channel Video Distributors (MVPDs) (Affiliate Fees) at our Media Networks, higher volumes and average guest spending at our domestic parks and resorts, higher program sales and television and subscription video on demand (TV/SVOD) distribution revenues and an increase in merchandise licensing revenue driven by Frozen. These increases were partially offset by lower theatrical distribution revenue reflecting the strong performance of Frozen in the prior-year quarter.
Product revenues for the quarter increased 9%, or $0.2 billion, to $2.7 billion reflecting comparable store and online sales growth at our retail operations, higher volumes and average guest spending on food, beverage and merchandise at our parks and resorts operations and increased home entertainment volumes.
Costs and expenses
Cost of services for the quarter increased 9%, or $0.5 billion, to $6.1 billion due to higher programming and production costs, driven by sports programming, and higher costs at domestic parks and resorts driven by inflation and higher volumes.
Cost of products for the quarter increased 5%, or $71 million, to $1.5 billion driven by volume growth at our retail and domestic parks and resorts operations.
Selling, general, administrative and other costs decreased 4%, or $83 million, to $1.9 billion primarily due to lower theatrical marketing expenses driven by the timing of Marvel releases and the inclusion of two DreamWorks Studios releases in the prior-year quarter compared to none in the current quarter.
Depreciation and amortization costs increased 6%, or $31 million, to $0.6 billion driven by new attractions at our parks and resorts.
Interest Income/(Expense), net
Interest income/(expense), net is as follows:

(in millions)	December 27, 2014	December 28, 2013	% Change Better/(Worse)
Interest expense	$(69)	$(81)	15 %
Interest and investment income	11	130	(92)%
Interest income/(expense), net	$(58)	$49	nm

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