



# INTERSEGMENT CONTENT TRANSACTIONS

FINANCIAL REPORTING IMPLICATIONS

May 2020



The information herein is intended to provide additional detail regarding certain accounting matters and should be read in conjunction with our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and our other filings. The Company does not undertake any obligation to update these statements.

# OVERVIEW

- The broad categories of film and television content produced by our Media Networks and Studio Entertainment segments that will be used by our direct-to-consumer (DTC) streaming services are:
  - Originals: Content produced for first time viewing on our DTC services
  - Second/Pay 1 Window: Content made available for the first time on a DTC service following the initial theatrical and home entertainment window (Studio Entertainment) or initial linear network airing (Media Networks)
  - Library: Content in all other windows that follow the Second/Pay 1 Window
- The following pages present a high level overview of our framework for intersegment content transactions and the accounting treatment (revenue recognition and amortization) for the respective categories of content.
- When amortization at our Direct-to-Consumer & International (DTCI) segment differs from the timing of revenue recognized at Studio Entertainment or Media Networks, the difference results in an operating income impact in the eliminations segment, which nets to zero over the DTC amortization period.



# SCOPE OF FRAMEWORK

- The following guidelines are generally applicable to the majority of intersegment content transactions as of the date of publication of this document.
- The frameworks presented in this document generally contemplate U.S. transactions. International distribution methodologies may differ and are not discussed in detail here.
- Note that amortization schedules will be reviewed and updated periodically, consistent with changes or new information – including, with respect to DTCL, changes in viewership patterns.
- Examples of content given in this document are for illustrative purposes only.
- In addition, the Hulu content licensing agreement for current season linear network content is not included in the following discussion.

	Definition	Examples	Transfer Pricing <sup>2</sup>	License Term	Revenue Recognition at Content Producer	Amortization at Content Producer	Amortization at DTCl
STUDIO ENTERTAINMENT	Content produced by Studio Entertainment for first time viewing on a DTC service	<i>Lady &amp; the Tramp</i> (Disney+ Original)	Direct production cost plus a margin	Long term	Recognized upon availability to DTCl	All production costs are expensed upon availability to DTCl	Accelerated, with approximately 80% of the cost amortized over 4 years
MEDIA NETWORKS	Content produced by Media Networks for first time viewing on a DTC service	<i>High School Musical: The Musical: The Series</i> (Disney+ Original)  <i>Mrs. America Devs</i> (FX on Hulu Originals)	Share of direct production cost plus a margin			Share of production cost is expensed upfront upon availability to DTCl	

1. Framework generally applies to original content; however, in certain cases, production costs are directly recorded by DTCl with no associated intersegment licensing revenue recognition (e.g., *The Mandalorian*).

2. The intersegment transfer price referenced here has been established for purposes of segment financial reporting pursuant to FASB standard ASC 280 (Segment Reporting). Imputed title by title license fees may be established for other purposes.

# SECOND/PAY 1 WINDOW

	Definition	Examples	Transfer Pricing <sup>1</sup>	License Term	Revenue Recognition at Content Producer	Amortization at Content Producer <sup>2</sup>	Amortization at DTCI
STUDIO ENTERTAINMENT	Content made available for the first time on a DTC service following the initial theatrical and home entertainment window	<i>Avengers: Endgame</i> <i>Frozen II</i>	Based on comparable transactions	18 months	Recognized upon availability to DTCI	Recorded as a % of revenue based on ratio of total production cost to ultimate revenue	Accelerated over the license period
MEDIA NETWORKS	Content made available for the first time on a DTC service following the initial linear network airing	<i>Snowfall</i> <i>Stumptown</i>	Share of direct production cost plus a margin	Long term		Share of production cost is expensed upfront upon availability to DTCI	Straight line over the license period or ~4 years, whichever is shorter

1. The intersegment transfer price referenced here has been established for purposes of segment financial reporting pursuant to FASB standard ASC 280 (Segment Reporting). Imputed title by title license fees may be established for other purposes.

2. Relates to amortization at the content producer relevant to the second window

	Definition	Examples	Transfer Pricing <sup>1</sup>	License Term	Revenue Recognition at Content Producer	Amortization at Content Producer <sup>2</sup>	Amortization at DTCl
STUDIO ENTERTAINMENT	Content previously sold into TV/SVOD windows and made available to DTCl as prior license rights expire;  OR  Content made available to DTCl subsequent to the Second/Pay 1 window	<i>Black Panther</i>  Vault titles such as: <i>Snow White</i> <i>Bambi</i>	Based on analysis of comparable or other transactions	Generally up to 4 years	Recognized ratably as DTCl amortizes the content	Recorded ratably as revenue is recognized	Straight line over the license period or ~4 years, whichever is shorter
MEDIA NETWORKS		<i>Boston Legal</i> <i>Reba</i>		Generally up to 10 years			

1. The intersegment transfer price referenced here has been established for purposes of segment financial reporting pursuant to FASB standard ASC 280 (Segment Reporting). Imputed title by title license fees may be established for other purposes.

2. For some deep library titles, the production cost will have already been fully amortized before the start of the license term.