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Disney Speaker:

Jay Rasulo

Senior Executive Vice President and
Chief Financial Officer

PRESENTATION

Spencer Wang – *Analyst, Credit Suisse*

Good afternoon everybody. And it's my pleasure to introduce our next keynote speaker for the next session: Jay Rasulo, recently appointed CFO of Disney, although I guess it's not so recent anymore.

So good morning, Jay. Thank you very much for joining us today.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Pleasure.

Spencer Wang – *Analyst, Credit Suisse*

So at your analyst day recently, you and Bob reiterated the three-prong strategy of the company which is to focus on content and franchises, leveraging new technology and

expanding internationally. So if we start big picture first. And just on the technology side, Disney has been very open-minded about new technology distribution. You're an investor in Hulu, you have ESPN3, multiple arrangements with Apple and most recently a commercial deal with Netflix. So maybe you could just start with what's the kind of common underlying theme under all these different types of deals and strategies that the management team is employing.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Sure. That's - I'll try to be brief. It's a long question that could take up our whole session, but basically the fundamentals of our strategy at Disney is to create high-quality content that is branded, that has the potential to become a franchise and to do those under the five major brands that we manage: Disney, Pixar, Marvel now, ESPN and ABC.

And investment – we have found that investment with that principle in mind gives us higher returns than our peer group. And that is due to the fact that the ecosystem of our company, if you will, requires great content input, particularly content input that can span all of our business units. And when we invest behind the franchise, it enables that ecosystem to basically create returns across all the varied businesses we are in from theme parks to consumer products, digital games, television, obviously the theatrical and all its subsidiary windows.

And we invest heavily behind that strategy in franchises and intend to continue to do so. Part and parcel of that investment strategy and that ecosystem is the use of technology to make our products' distribution as broad as possible. And in a world where consumers clearly now have the means, technology has allowed them the means to express their need for instant gratification for media, whether it's portability, whether it's device agnostic, whether it's when they want, priced when they want, how they want and when they want to consume that media.

You need to look at that underlying infrastructure that is building up in a consistent way such that a) first and foremost you meet that consumer demand; but of course from our side that you do that in a way that creates incremental revenue and doesn't cannibalize the revenue from your existing ecosystem that is user-friendly, that meets the needs of the timeliness that people want – consumers, consumers want that product. It helps you on the piracy front because the major reason we've found in research for piracy is that people can't get access to content when they want it. And when we look across all those, whether it's our own owned self distributed ESPN3, ABC.com, ABC on the iPad or whether it's using the vehicles that you described, Hulu, Netflix et cetera, we want to be out early; we want to be out right now because of the turbulence in that space. We want to be out fundamentally in short-term deals. We want to create incremental revenue and we are anxious to use that technology in a way that both gets us access to new streams of viewing and makes consumers happy.

Spencer Wang – *Analyst, Credit Suisse*

All right. So just to sum up, Jay, it sounds like almost the common theme is relevance, right, staying relevant to your core customer base is a key part of the technology strategy.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Absolutely. As a content provider, whether we are talking about content in games, whether we are talking about content in more traditional video content, you've got to be where consumers want to consume your product.

Spencer Wang – *Analyst, Credit Suisse*

Right.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

We moved into the social gaming space because that's where people are moving and they want to see the Disney brand there. We are fortunate that people look for our brand in whatever means of distribution is out there and we try to be out there in a smart way. I'm not sure we have any clearer crystal ball than anyone else about what's going to emerge as the leading technology. So we tend to do a lot and we tend to do it early.

Spencer Wang – *Analyst, Credit Suisse*

That's great. We'll then let's shift gears and talk about the second prong of the strategy, which is international. If we benchmark most of the media companies and look at international as a percent of total revenue, the dollars have grown, but so has the U.S business. So that percentage hasn't changed a whole lot over the years. Recognizing that there are different rules and regulations country-to-country, what are you and the team doing to accelerate the growth of international and maybe if you could touch on which markets are most appealing to you, that'd be great.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Sure. Well, let me state as a fact that we are increasing as a whole the share of our company's revenue that comes from outside the U.S. We do have some big U.S.-based – fundamentally U.S.-based businesses, like ESPN and ABC, which of course if you take those out of the picture the share of our business overseas is growing much more rapidly than if you include those in the whole.

But we have, like a lot of companies, taken a number of hard looks over the years at how to both organize and think about the international markets and we've come back with the following conclusions: first and foremost that we have to replicate the fundamentally successful ecosystem that we have at Disney here in the U.S. in each region around the world. So we've now organized such that each region is kind of run like The Walt Disney Company Europe as opposed to The Walt Disney Company in Europe.

So it means that there is a full-blown management leadership that manages all of the lines of business in the ecosystem just as if it were the whole of The Walt Disney Company. And that has proven to be quite successful in accelerating our growth. Needless to say, as you mentioned every market particularly as it relates to our fundamental core brand, the Disney brand, is at a different level of experience and has regulations. If we look for instance at China where you all know that we are anxious to get the final approval for a major theme park project in Shanghai, probably something that could someday rival Disney World in its size and breadth.

But on the flip side we don't have a Disney Channel in China because the media space is quite regulated by control. We have thousands of Disney outlets for consumer products. We have a quickly growing English language learning business called Disney English language learning in Shanghai, Beijing, and I think Chongqing now. And we are continuing to try to – we have programming on television. We have a Disney block on TV, but we don't have the Disney Channel; someday we would love to have the Disney Channel in that market.

If you flip to other parts of the world, most parts of the world we have a Disney channel. It is a real franchise engine for us; it is the launch pad for our franchises, in combination with, increasingly, the Disney Store, which is a real franchise launch pad for us as well.

We continue to try to seek out opportunities in each market that sort of suit where that market is relative to their understanding, knowledge and affinity to Disney and what regulations allow. I would say that in terms of our emphasis, most people will come in – I guess come in and talk about international, not necessarily at this conference, and talk about the BRICK, BRICK with a K. And, “oh, that's where the big growth is.”

The truth is if you look at highly developed markets for Disney like Europe and Japan and Latin America, our penetration there still is far less than in the U.S and small increases in share because they are big markets, have big yields for us. So we are equally focusing on continuing to develop the depth of our penetration in established markets and of course doing what we can in those fast growing markets where India and China alone have 600 million kids. Huge – China is adding 30 million people to the middle class every year. So these are clearly markets that we see a long-term future in, but we are not going to kind of look at it as the city on the hill out there someday. We are also trying to grow our international presence in markets where we already have very good penetration.

Spencer Wang – *Analyst, Credit Suisse*

So it sounds like it's going to be a pretty broad-based, holistic strategy that will be focused on driving penetration in mature international territories, but obviously focused on emerging markets as well. And it also sounds like it will differ based on the business type as well, given the regulation.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Both regulation and the penetration. So if you look at India for instance we are very anxious to see 3G and 4G, that they are going to skip to in telephony because those are vehicles that can carry media; very hard to carry media terrestrially in India, very hard - anybody who has worked there to get homes cabled and so and so forth. But the jump to 3G and 4G will give us incredible access, a very specific market dynamic there.

Spencer Wang – *Analyst, Credit Suisse*

That's great. Before we dive into some of the business segments, Jay, just bigger pictures as we think about Disney's capital allocation, you are in a bit of a capex reinvestment cycle right now. You do have a recurring dividend, a rather large repurchase authorization. But you've also been active in the M&A over the last 18 months or so with Marvel as well as Playdom to a smaller extent. So maybe you just over the next 12 to 24 months, if you could prioritize organic growth versus returning capital to shareholders versus M&A, that would be great.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well, I think first and foremost we like to invest in our existing, known businesses. I think if you look at our major investment in parks and resorts in the coming 12 to 24 months, the new cruise ship that we just launched. If you can get a stateroom this summer it will be a miracle. I couldn't. We like businesses that we are good at, we know consumers love, have high margins and great returns. So we are going to continue first and foremost to seek those within our existing businesses and continue to do that.

And most of the capex cycle that you described has been earmarked for those things that we know well and we know will have great returns for us. If you take the next step and you think about organic growth kind of in new spaces, white spaces which could either be fulfilled internally or through M&A, if you look at our history we've done a lot of both.

Spencer Wang – *Analyst, Credit Suisse*

Right.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

I think that we look to M&A as a vehicle for growth that is evaluated in essentially the same manner as we look at internal organic opportunities. Got to have the right returns, got to be strategic, got to fit within the ecosystem, franchisable. And if you look at some of the things we've done most recently like Playdom and Marvel, clearly they had a strategic backing to them - Playdom in the case of adding to our ecosystem, bringing us into the social gaming space. Yes, we could have done it organically, but we wanted to, saw an opportunity to accelerate that entry.

In the case of Marvel the purchase of great IP that we thought was under-exploited without our incredible international reach, without all of the elements that make up Disney, and made that acquisition kind of, yes we do develop new franchises internally, we invest in them, but this was an opportunity to purchase great ones. So in that sense I would say that if you look at the history, about two-thirds of our capital goes into capital and spending. And when I say spending I mean including buying sports rights, including making films, which is not capex from an accounting perspective, but is spending that we do. Two-thirds of it goes into the cared feeding of the existing ecosystem; about half of what's left is returned to shareholders to keep our yield where it needs to be, to continue to return capital to shareholders; and the other half we've used in M&A and in white space investment.

Spencer Wang – *Analyst, Credit Suisse*

That's great. Well maybe let's turn our attention now to the theme park business, which I'm sure, is very close to your heart given your years there. So given the current economic outlook is unemployment dips back below 9% hopefully on a sustainable basis and some of the other consumer trends, it does seem like you are starting to hit the sweet spot in the cycle for theme parks. So I guess I have two questions here. The first would be is there anything on the horizon that you see that could potentially derail the recovery? And specifically with oil now north of $100, if you could just provide some context for the audience in terms of how impactful oil prices have been we can start there? And then I'll ask the follow-up.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Sure. Well I would say that the trends that you've seen in the economy and reflected in our last couple of quarters in terms of what's happened to our theme parks, we are on a determined path to reduce the additional promotional pricing that we did during the downturn to bring ourselves back to what I would call a more normalized level of pricing, which seasonally always includes some promotional pricing, but more back to normal. And that has, as of what we've said in our last Q1 earnings report, that has continued to happen and we continue to be on that path. I don't want to talk too much about the trajectory, but we continue on that path. Could something derail that? Yeah, catastrophic events in the world could. If we are talking

specifically about oil prices, historically, we have not seen that as in and of itself as separate from the downturn it might cause.

Spencer Wang – *Analyst, Credit Suisse*

Right.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

In and of itself, oil prices have not dampened visitation or interest in visitation in our theme parks. When you think about it, and I used to be the Chairman of the U.S. Travel Association, and even in other trips, non-Disney trips, the price of gasoline plays such a small role in the overall cost of even a dry vacation that it tends not to derail somebody's vacation plans. They don't say, "wow gas is $4.20 of gallon, I'm not going on that vacation."

Spencer Wang – *Analyst, Credit Suisse*

Right.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

That tends not to be a driver, has not historically tended to be a driver and we don't – it's too soon to see if it has any impact now, but based on history I expect it won't.

Spencer Wang – *Analyst, Credit Suisse*

Great, thanks. So the second part of the question as we think about theme parks, Jay, obviously this is a business with huge fixed costs and tons of operating leverage. The good news now is that with the things back on the upswing the margin should hopefully start to come back. So maybe – I know you guys don't give specific guidance, but maybe you could just talk about some of the swing factors we should consider as we think about: a) can you get back to peak margins; and b) how long or what the trajectory of that slope may look like?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Okay. Let me say this, and in the context of the fact that we don't give guidance. We don't see anything structural that would keep us from returning to pre-recession margins. And of course you talked about the top-line, what's going on there. I mentioned that we are getting better pricing behind our product. On the expense side we can – about in the second quarter of 2009 we did a big restructuring of our back of house operation that was really targeted at, “hey, when things start to improve, we want to come back a little more quickly by managing the cost side while we manage the revenue side.” But if you look at the short-term and I mean sort of

the coming quarters, I've talked about these things before. We've got a pension expense, big pension expense increase for the company as a whole. And because 70% of our labor force is in parks and resorts, parks and resorts get the big hit.

Spencer Wang – *Analyst, Credit Suisse*

From that...

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

From that at least to the tune of $50 million this year. And we've also got, I mentioned how successful our cruise ship has been launched. But you have to remember that there are pre-opening costs, pre-ramp up costs. We are also looking at our resort in Hawaii that opens at the end of this coming summer and it is – we are kind of heavily spending behind its launch. So those will have some short-term effects, they are not structural changes, but they will have some short-term effects on the coming quarters. And I said those back in our Q1 earnings, but I thought I'd reiterate them in the context of our margins.

Spencer Wang – *Analyst, Credit Suisse*

We appreciate the reminder. Maybe last question on parks before we jump over to cable networks. You mentioned the Shanghai park awaiting central government approval. Assuming that at some point that goes through, at the analyst day you talked about that being potentially open within about five years or so; maybe you could just talk about the experiences that you've had in Paris and in Hong Kong and what are some of the learnings you got from that and how would you apply that to the Shanghai park potentially?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yeah, well the first, interestingly on the plus side of the ledger - and there are learnings on both sides from those projects. On the plus side of the ledger, one of our biggest fears was always our people in very different markets accustomed to, both culturally and experientially, accustomed to a very different kind of service. Is our friendly high-quality service going to resonate in new markets? And we found, whether it was Tokyo, Paris, now Hong Kong that it does resonate.

And along with that particularly in Hong Kong there was great concern that we would be able to recruit and retain the kind of cast – I mean part of our strategy is to retain people to kind of keep increasing their knowledge of the Disney culture and therefore they have great interactions with people. And when we got to Hong Kong I remember so distinctly we were told as we were ramping up, "hey people here will walk across the street for a dime more pay."

And it just hasn't happened. That has not been our experience, it has not been our experience anywhere in the world.

We are a sought after employer, we get the pick of the labor market. So in what is in fact the most important part of our service, our product which is service delivery, we've done well. On the flip side I think - I hope - we've learned a lesson, I think we've learned the lesson, Spencer, that you have to work within the existing travel industry structure.

Spencer Wang – *Analyst, Credit Suisse*

Right.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

You can't impose a market that is highly, even highly profitable in the U.S where you go directly to consumers in markets where people are used to buying through travel agents.

Spencer Wang – *Analyst, Credit Suisse*

Right.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

You just can't change people's behaviors that quickly. And we made that mistake elsewhere. I think we've learned our lesson and part of it has to do with increasing the number of local hires you have in your management team not only in your operating team, and bring in the local knowledge of the market. You've also, you can never anticipate with a project like that exactly how it's going to be received. So you have to build it and structure the operation, so that it has the flexibility to change on a dime when something you ultimately had to guess about – even though they did a lot of research, you visited a lot of competitor parks, you've been to a lot – there are things when people get within the Disney Parks they just behave differently.

Spencer Wang – *Analyst, Credit Suisse*

Right.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

But you have to be ready to spin on a dime. In the past that has been a hard lesson for us to learn because we, way back when, when we first started the international business, we said, "ah, they'll figure it out, they will change." That doesn't work. They generally don't change, you

need to change when you're in the service business. And I think that we have really, really baked those lessons in.

Spencer Wang – *Analyst, Credit Suisse*

Great, well that's great to hear. Moving on to ESPN, obviously another major value driver for the company. The two main revenue streams: advertising had shown really strong growth over the last couple of quarters, and then you've also re-negotiated many of your affiliate agreements over the last several quarters. So I guess at this stage, Jay, the biggest risk to us seems to be around sports rights. And there seems to be a near-term potential risk and potentially a longer-term cost pressure as well.

So first in the near-term there is obviously very well publicized potential labor issues at the NFL and potentially at the NBA as well. So maybe if you could just talk about if we did lose games or hopefully not a season, how would this impact ESPN?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well I don't want to get into the details of essentially private arrangements between us and the different MVPDs. But I will say this since it's out there in the public space due to the negotiation that's going on between the players and the owners, that we will pay our affiliate fees, we will pay our rights fees to the leagues. Not clear yet what the judges decide will happen to those fees if there is in fact a lock out.

But let me hasten to say that that is not an OI or an ultimate value. There is value recoup built into our deals. So it's not an ultimate value of our deals with the sports leagues nor is it an OI issue, it's a cash flow issue, and one that we certainly hope for the sake primarily of our fans that that doesn't last a long time and then – well doesn't happen at all in the first place, so if it does, doesn't last a long time.

Spencer Wang – *Analyst, Credit Suisse*

And it seems like in the - if there was an unfortunate situation where you did lose games, it just seems like ESPN has a huge amount of tonnage of sports programming. So just is it safe to say that we shouldn't expect any sort of disruption from a programming standpoint.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

No, we certainly do have plenty of, as you say, tonnage. And frankly we are not that – in our dual stream model we're not that concerned on either side of it.

Either the affiliate fee side or frankly the fact that if advertisers want to reach the demographic that the NFL is reaching, especially in an economy that is on its way back, especially in an economy that's being – advertising being highly driven by autos, they are going to find means. And it's going to be sports and those sports are going to be carried by ESPN. So we're kind of – look, we hope it doesn't happen, we don't think it will be catastrophic.

Spencer Wang – *Analyst, Credit Suisse*

Great. So shifting longer-term as the ripple effects of the labor situation plays out over time, obviously the current rights deals have expiration dates. Should we be worried that, just, given how popular sports have become in an increasingly fragmented environment that the costs of sports from a rights perspective just will escalate to the point where it starts to impact your longer-term margins? How do you think about that, Jay?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well obviously we – sports has been a competitive arena for – it's not new. It's been a competitive arena from a rights purchasing perspective for a long time. And we have a long history at ESPN of looking at the whole and managing that whole, whether it is managing it from a content perspective, such that we continue to be the leading brand for sports, satisfying our fans, bringing them new programming, doing great stuff with whatever we buy.

People talk about the NFL. Well it’s 17 games, yeah, but we have NFL programming on every day.

Spencer Wang – *Analyst, Credit Suisse*

Right.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

And because we create great programming from the rights that we purchase. And it clearly – not all the deals mature at the same time and sometimes there is a little lumpiness, but over the long-haul we feel very confident that we can manage that package both from a content perspective and from a cost perspective to continue to have ESPN be the kind of value generator that it is for the company.

Spencer Wang – *Analyst, Credit Suisse*

Great. Moving on to the studio business, really two questions here, Jay. First you're enjoying a nice rebound at the box office and a nice improvement in earnings at the studio over the last 12

months or so. And then in fact you are actually from an absolute dollar basis now approaching peak earnings at the studio. So one of the questions we're asked often is, what is the margin outlook for the studio? And it feels like behind the scenes you and the rest of the team have reorganized the management structure and also tried to take out a lot of costs from within the studio business.

So maybe you could just talk about some of the specific initiatives that you've done there and then how maybe it could translate into margins over time?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well, let me take two, and there are many other minor things, but let me take two major things - one on the top-line and one on the execution side. On the top-line we have clearly come to the realization over time that focus within our franchises, certainly within our brand, but mostly on films that have franchise potential, has the longest long-term value for us as a studio.

So if you look at our slate this year the vast majority of that slate of films that we've produced – two Marvel films, a Pixar, Disney films – those are the kinds of films that have the profile of returns to the slate that we like, both within the theatrical windows, but more importantly within the entire ecosystem. So Rich has really hunkered down in the studio and gotten the focus not on the many things we used to do under the Hollywood label, the Touchstone label, the Miramax label, but really under Disney, Disney-Pixar and Marvel and just keep hammering that as the core of what our studio is going to produce.

So that is, on the revenue side, something that I think is probably the biggest step that we've taken to increase our returns in that business. On the delivery side and the distribution side we used to have, to make a long story short, different teams that basically took each window that a film went through after its theatrical release. So, there was a team that marketed it and distributed it theatrically, then it was turned over to a home video, home entertainment team. Then it turned over to the TV windows and so on and so forth.

Now there is one marketing team and one distribution team that takes the product from its birth to its ultimate resting place. And the simple fact is that when you had different teams, ironically it wasn't unusual for the home video team to not like the marketing strategy for the theatrical window, and it wasn't unusual for the TV guys to hate the first two.

Spencer Wang – *Analyst, Credit Suisse*

Right.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Now we've got one team that thinks about it from the beginning to the end, develops a plan and executes that plan. And from the sublime to the ridiculous: not printing different one-sheets, not – has greatly reduced not only the headcount involved in the process but the actual cost of executing those plans. So that's true in marketing and it's now true in distribution. You've met Bob Chapek many times, he now runs that around the world for pictures from the beginning to end.

So those fundamental – two fundamental strategies I think have put us on a very different long-term trajectory vis-à-vis the studio.

Spencer Wang – *Analyst, Credit Suisse*

That's great. Now I guess the last question on the studio side is always the controversial topic which I feel like comes up every session, which is Netflix and the Starz relationship. Greg Maffei was here yesterday, he was asked about the Starz Netflix relationship and the pending renewal. And he said something that was interesting to me which is there are different factors that go into a negotiation, the window, SD versus HD, exclusivity. But another important consideration is how his content partners feel i.e., you and Sony predominantly. So I was wondering if you could just speak about how you feel about the current Starz Netflix relationship. Do you feel like you are getting appropriate value for your content? And then how do you see that relationship evolving between those two parties?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well I won't comment on the second. I don't like to talk about how two other parties will ultimately wind up in their relationship. But I will comment on the first half of your question, which is that, when we looked out and looked at the landscape and looked into the renewal of our Starz deal, we thought that going forward with the renewal of that deal to 2015, along with giving them the rights through their streaming deal to stream with Netflix, was the best possible outcome for us at the time. It's out to 2015. If streaming becomes an extremely popular piece of that, if the volume's high, we do enjoy some upside from that.

We did sort of, if you will, protect ourselves in a bit of an unknown environment, in that way. And given the landscape we were very happy at that time to do the deal we did. And what will – in 2015, who knows what the landscape will look like. So I don't even want to begin to hypothesize about, will you renew that, who knows. We'll look at it as carefully as we did this time around.

Spencer Wang – *Analyst, Credit Suisse*

Great. Couple more questions before we open it up to the audience.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Sure.

Spencer Wang – *Analyst, Credit Suisse*

Looking at the broadcasting business over the years, there has been chatter, perhaps speculation that ABC may be non-core for Disney. So from your perspective, Jay, we'd just love your current thoughts on this subject matter. Does the fact that you are now getting paid for retrans make it a better business and perhaps more core?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Definitely. Okay, the second question first: definitely dual revenue stream makes it a more attractive business, no question about that. But I also – I know there has been a lot of talk about the sort of non, as you've described, non-core, non-strategic fit with the company. But we look at ABC primarily as a content creator.

Spencer Wang – *Analyst, Credit Suisse*
Right.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

ABC can create great franchises. We've seen them. No one could argue that *Grey's* is not a great franchise, that *Desperate* wasn't a great franchise, and so on and so forth. And owning the network happens to give you the first window of distribution and somewhat frankly of an advantage in getting product launched through that first window of distribution when you control it. But make no mistake, we view ABC as a content engine.

The ABC Studio focuses on creating the same kind of franchisable material in their own space and for their own audiences that the rest of the company focuses on and not so much as a distribution outlet. So for us, that is where the fit lives.

Spencer Wang – *Analyst, Credit Suisse*

Great. And then speaking of retrans, as you finally secure cash for retrans, how much of that will be – do you think is ultimately plowed back into reinvestment and programming versus just going to the bottom line.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well obviously we want to take as much of it to the bottom line as we possibly can. But let's face it, being successful in the television business is about creating great shows. And we want to invest enough money to create great shows. For us there is no reason to believe that because there is an additional revenue source, that that process should by its nature eat up more money just because there is more.

Spencer Wang – *Analyst, Credit Suisse*

Right. Great, well last question before we open up to the audience. I'd be remiss in not asking you just how you feel about the current ad market, all the trends seem they are very robust both locally, across broadcasts, across cable. And I think you indicated some of your pacing numbers on your last call. Any sort of perhaps change in tone that you're seeing?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

We are really not big on updating between quarterly calls and I'd really like to stick with that. But I'll simply say that, to use your words, has there been change in tone? No, there has not been a change in tone.

Spencer Wang – *Analyst, Credit Suisse*

Great, that answers the question then.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Great.

Spencer Wang – *Analyst, Credit Suisse*

So with that let me see if there are any questions from the audience. Nicole if you could pass the mic over to Chad please.

Q&A

Unidentified Audience Member

You talked about Netflix Starz and that it being – seeming to be the right timing, the right thing to do to continue to allow them to have the streaming rights and actually the redistribution rights of those streaming rights.

Yet on the film and television licensing, both from Buena Vista Television and on the film side, you are not including streaming rights with your television licenses and television windows, as a general policy rule. When do you think that will start happening so that as cable networks are buying off-network series and movies from the studio that they can include those in their TV-everywhere packages?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well you know that we did a television deal with Netflix. It was a fairly short-term deal. And we viewed it, studied it carefully, thought it was truly incremental revenue to us. And one of the criteria that I mentioned early, in one of Spencer's earlier questions about how we look at the whole landscape, we want to be quite sure that when we do a deal like the Netflix TV deal for Disney Channel and ABC that it is truly incremental and it's not sort of eating a down-the-road stream, a stream of payments to us. We're kind of taking things as they come. I think that, I don't want to give too much guidance into what our next step will be vis-à-vis overall television, movies and television product, but that's what's out there today and we're pretty happy to have done that deal.

Spencer Wang – *Analyst, Credit Suisse*

Great. I think there is a question in the back.

Unidentified Audience Member

Jay, couple of quick ones in the park area. One, the cruise ships, when this business started, I would describe the attitude in Burbank as sheer terror at the capital involved and the problems with the shipyard. And as it's evolved, I suspect that it's a business that is just over-earning and phenomenal consumer response. And you have three of these ships and maybe if you had done things differently you'd have six or seven of them right now. Could you discuss the cruise ship business in terms of what you've learned from it and how the attitudes and planning and attempting to grow this business have changed over time?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Sure. I don't remember the sheer terror, but – and I was around. But let me give you our – what our experience has been. First of all, I guess we deserve a little credit for taking a leap in the belief that we could deliver a Disney experience at sea when there were no rides and attractions.

I mean, theretofore, we've been in the hotel business, we knew how to deliver an essential hotel experience and entertainment experience. But it was always anchored in the core assets of the theme parks, which was for all of us in the management team a legacy success, not one that we created; I hope one that we continue to enhance. But I think that what we learned with those first two ships, and I will tell you that Disney Cruise Line has among, if not the highest guest ratings, of all of the activities that we engage in at Disney, that clearly we are delivering to our demanding Disney audience, a very high-quality Disney experience that they recognize as uniquely Disney.

And with two ships of course occupied a very premium niche, soon to be four ships, still I would describe as a premium niche with a little more capacity. I think that we initially thought quite interestingly, since you brought up history, that when we put our ships out on three and four day itineraries that they would fundamentally be an add-on to a Walt Disney World vacation, that people would come essentially to Florida for eight days as they've done since 1972 and they'd spend three days or four days at Walt Disney World and the rest 60 miles away, get on a ship in Port Canaveral and off they go. And it was kind of an enhancement and inducement to get guests to return to Walt Disney World.

And what in fact happened is that the business is so attractive in its own right that that is a very rare phenomenon that people book those things together. They said, "Wait, I want to go to Walt Disney World. I want to have a Walt Disney World vacation." And then in six months, "I want to go on the cruise ship and have a cruise vacation." And that was a pretty big learning to us that allowed us to develop longer itineraries, now we have seven-day itineraries in the Mediterranean, we have 10 and 11-day itineraries out here – out here, out West we have seven-day itineraries to Alaska and Mexico – and really allowed us to see that business as its own separate experience from what the theme park experience was.

So, I think that we look - it has turned out as you mentioned, to be a very high margin business for us, a very high return in the privilege niche that we're in. We are the only truly family-oriented cruise ship. And whether it's in terms of our load factors or the rate premiums we get for the industry, or the fact that you just can't get on one most days you call, tells us that we have – that we really have secured that family market in the cruise.

Unidentified Audience Member

The second question in the park area. If you could look at the cash flow statement of the Vacation Clubs over time, what would that look like? Would it be very good and then very bad? Has this been a good investment? And how much capital is involved in Hawaii total?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Okay, I won't answer that last question you snuck in. But I will tell you that our experience in Vacation Club has been an extremely consistent one, it has not been lumpy through – I think we've been through two maybe three downturns, two significant ones in Vacation Club. And it has been a business that has been far more resilient than I think any of us internally would have thought.

The velocity of – it's not really capital, it's more of an inventory – spending on inventory, but the velocity of capital in that business is extremely high. We have a very good sell-out pace of the units that we open. We tend not to do long lead pre-sales like other companies in the sector. We basically like people to be able to use their unit as soon as they buy in for the Vacation Club.

So, our experience overall has been a very positive one and not – to your point – not lumpy, not lumpy at all, pretty consistent.

Spencer Wang – *Analyst, Credit Suisse*

Great. And with that, I think we're out of time. So Jay, I want to thank you for joining us today.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Thank you, Spencer, pleasure.

Spencer Wang – *Analyst, Credit Suisse*

Thank you very much.

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Forward-Looking Statements:
Management believes certain statements in this call may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are made on the basis of management's views and assumptions regarding future events and business performance as of the time the statements are made. Management does not undertake any obligation to update these statements. Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments or asset acquisitions or dispositions), as well as from developments beyond the Company's control, including:

- adverse weather conditions or natural disasters;
- health concerns;
- international, political, or military developments;
- technological developments; and
- changes in domestic and global economic conditions, competitive conditions and consumer preferences.

Such developments may affect travel and leisure businesses generally and may, among other things, affect:

- the performance of the Company's theatrical and home entertainment releases;
- the advertising market for broadcast and cable television programming;
- expenses of providing medical and pension benefits;
- demand for our products; and
- performance of some or all company businesses either directly or through their impact on those who distribute our products.

Additional factors are set forth in the Company's Annual Report on Form 10-K for the year ended October 2, 2010 and in subsequent reports on Form 10-Q under Item 1A, "Risk Factors".

Reconciliations of non-GAAP measures to closest equivalent GAAP measures can be found at www.disney.com/investors.