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Disney Speaker:

Jay Rasulo

Senior Executive Vice President and
Chief Financial Officer

PRESENTATION

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you. Let's see, good morning everybody. Thank you for joining us. Just a quick side note. Note that important disclosure including my personal holdings disclosures and Morgan Stanley disclosures all appear as a handout available in the registration area and on the Morgan Stanley public website. I'm thrilled to have with me Jay Rasulo, Senior Vice President and CFO of The Walt Disney Company. Jay oversees the company's worldwide finance organization and corporate strategy, other functions. He began his role in January 2010. As many of you probably know, Jay, before that, was Chairman of Walt Disney Parks and Resorts.

Jay, thank you so much for joining us today.

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

Pleasure, Ben. Hello everybody.

Ben Swinburne – *Analyst, Morgan Stanley*

I want to have our conversation structured in sort of three broad areas. First, starting on the consumer and how Disney is thinking about changes in consumer habits. Second, how the company is investing for long-term growth, and then last, how Disney is leveraging technology to try to drive competitive advantage.

So let's start on the consumer and I want to start on the media front, in television. By all the data we look at, TV viewing is growing but if you sort of cut the numbers, live linear TV viewing is probably declining and time-shifted viewing is growing, and Nielsen has estimated about 5% of broadband homes in the U.S. are strictly now watching TV quote-unquote online. What's the Disney company perspective on all this on the media, television front? How do you position the company to navigate and maybe benefit from these trends?

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

Well, I think that you've stated the situation in television quite well, Ben. The reality is that with the availability of enabled devices, consumers are clearly looking for choice about where, when, and what they want to watch on their own schedule as opposed to formerly appointment television. I would say the one area where that's still not true is live sports. Live sports is still 99% viewed live for obvious reasons. It's impossible to keep yourself from knowing the outcome of live sports events. So if you don't watch them live, you don't watch them the same way.

And obviously, this opens up a huge opportunity for a content company. At the bottom of it all, if we had to describe Disney in a single word it would be as a content company. And we see these capabilities and the ability to enhance the traditional television product as an incredible opportunity for us. Something we've talked about, we've been talking about at ESPN for many, many years and now talk about broadly in our television business, is following the strategy called best available screen. We'd like to provide our product on the best available screen that a consumer has at any moment in time. Obviously, that could be everything from a smartphone all the way up to these 88 inch 3D televisions at home and everything in between, notably tablets. And as the penetration of tablets and smart devices increases so does the demand for best available screen and timely available screen.

And so from that perspective, strategically we look at getting products to market at the right time and the right price. We have been for all the years that this subject has been discussed really focused on being paid for both the convenience and access to our product. We were holding out when a lot of people in the industry believed that this was simply going to be a necessity to keep people on cable, a necessity to keep people on television and off non-linear streaming. But we were determined that we should be paid for this, and in fact kind of held to our guns and in a series of deals that have subsequently come out with the MVPD players, first

with Time Warner Cable, Bright House, and Verizon where we made available a product called Watch ESPN. As I mentioned, sports being the most highly demanded live content, very important that people could watch that on portable devices. And then ultimately on the Comcast deal, which was much broader and much deeper, brought that Watch authenticated tablet mentality to the Disney Channel for the first time ever. Brought it eventually, and the suite of Disney Products, Disney XD, Disney Junior, eventually ABC and ABC Family.

So our response has been to be aggressive, to grab the bull by the horns. I think we've been on the forefront of making product available all the way back, when we first made ABC products available on iTunes and people thought the sky was going to fall around the network. And I think we're well positioned and most importantly a great source of monetization for us. So we like to think about this as product that continues to support the ecosystem, the MVPD ecosystem, that is of course so valuable to The Walt Disney Company. But at the same time, seeing that ultimate consumer need of wanting that best available screen on a timely basis.

Ben Swinburne – *Analyst, Morgan Stanley*

Jay, I'm curious, I don't know if you have any statistics that you'd share, I know it's early. But what's been the consumer response to a lot of these traditional services whether it's Watch ESPN, or some of the other authenticated product that you've already deployed?

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

Well, by virtue of our Comcast deal there will be 40 million American households that will have the availability of Watch ESPN. Obviously, when the Watch ESPN app showed up as a possible download, millions and millions of people downloaded it. They didn't know what it was, but they downloaded it because it said ESPN and it said "Watch" and they said I'm there. And what they found out was, hey, unless they were Time Warner at that time when it first became available, a Time Warner Cable customer and Bright House, and then eventually Verizon, of course they couldn't watch the programming. But now with such a big deal, with so many households involved with Comcast, we clearly see the demand for that product to be enormous as we follow it up with Watch Disney Channel, Watch Disney XD, Watch Disney Junior. People are handing the iPad to their kids in the back of the car, we just see this as kind of getting on fire. But we've had many, many, many millions of downloads, which whether or not you're authenticated to use it, it shows that there is great interest in this.

Ben Swinburne – *Analyst, Morgan Stanley*

That's great. Michael Angelakis was here earlier and mentioned that deal as being a landmark deal for the industry. And for yourself, is there anything else you'd want to add beyond what you've mentioned before about why that was an important transaction or agreement for The [Walt] Disney Company?

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

I guess if I use a shorthand to describe that deal, it is the breadth and depth of it that makes it sort of such a benchmark as Michael sounds like he mentioned. There are 70 separate services, Disney services, that are going to be offered to Comcast subscribers as a result of this deal. As I mentioned, it brings Watch Disney Channel out there for the first time. Watch Disney Channel did not end up being part of the Time Warner deal, just Watch ESPN. Not that we didn't offer it, but, I don't want to beat this drum over and over again, but we expected to be paid for it and we didn't come to a conclusion with Time Warner Cable. But now with Comcast being the first one out there with it, I think that the world—the world being other MVPDs, as well as consumers—are going to see the power of this.

It also has all kinds of bells and whistles, as I said, 70 services that I'm not going, luckily for all of you, tick off each and every one of them. But we're pretty proud of it. I think it validated our long-held view that consumers value these services, that they're willing to pay for portability, for access on best available device, and we're very happy about how the whole thing turned out.

Ben Swinburne – *Analyst, Morgan Stanley*

Great. I know that you haven't given any numbers on these deals, but it was clear on the earnings call, sort of Bob's commentary, that these are nice revenue-enhancing services that you're adding. I want to ask you about the new entrants in this space, or new distribution platforms like Netflix, who we're going to hear from next. Starz and Netflix deal expires very soon. You have an agreement with and you're an owner of Hulu. When you look across all those platforms, do you view those as all consistent with Disney's brand positioning, the product positioning? And also, do you view that as incremental revenue, or at a minimum accretive? And I'm asking that a little bit in the context today of the Nickelodeon/Viacom question, we're also struggling to figure out as well.

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

Well, we have seen these kinds of services as kind of additive and enhancing to the overall MVPD infrastructure, and let me tell you why I say that. I think that there's nothing better to sort of propel your partners and yourself to continue to enhance your product, to continue to offer better and new technology, than new entrants to the market who are satisfying what clearly is a customer need if you look at the acceptance of those different, all of those three things that you mentioned. And it kind of keeps you on your game and in many ways forces you into a new way of thinking.

And the way we approached all this from the very start was with a couple of principles. Number one, and I'm going to repeat it again, we wanted to be paid for services that we provide. Number two, that these deals because of the dynamism of this marketplace, were going to be relatively short-term, unlike the longstanding deals that are classically part of the MVPD system, these were going to be short-term because they were moving quickly, they were new to us, we didn't want to find ourselves on our heels with a change in the system. Thirdly, they were going to be non-exclusive, and we very much have held to that and it has paid back very well for us. And fourthly, we didn't want to give up our own access to consumers. So we didn't want even to exclude ourselves from the possibility of going direct to consumer with these kinds of services and products.

So what we found, for us it has been accretive because we are seeing content that is really getting a second life beyond what we thought was its life cycle in terms of monetization. And suddenly there were players that need tonnage, need to have a list of programming, need to be in that non-linear space with a lot of choice, and obviously are eager to buy a product. And for us very much we see it as something accretive.

Ben Swinburne – *Analyst, Morgan Stanley*

I think certainly the investment community has gotten comfortable and excited about the opportunity to enhance television earnings as a result of all these trends. Perhaps a business a little bit less obvious as to whether this is all good or bad would be in the film business. So I wanted to ask you about that, the studio front. From my perspective the major trends we're seeing are more rental, less sell through, and in the case of theatrical success more international, less domestic as a mix, anyway. How are you viewing the future of your film studio and the industry, and how do you navigate those two trends that you're seeing on the consumer front to drive profit growth?

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

Well, obviously the melting ice cube, whether it's in the form of rental as opposed to sell through or just total sales of units, the melting ice cube of the DVD business has caused or should cause everybody in the motion picture business to look at the business through a different lens. And what we have done is strategically come to the conclusion that where we are best suited, and have the highest likely returns in the studio business, is to invest behind our franchises. And pretty much to do that exclusively. And that of course means Disney Animation, Disney Pixar Animation, Marvel Live Action, some Disney Live Action. And really kind of bring our slate way down.

Now, I don't think we're looking with that to bringing our investment in film way down. We're looking for bigger four quadrant hits that really are inputs to what we see as our unique infrastructure, and our unique ecosystem. If a movie is franchise-building or franchise-creating for us, the number of outlets that the company has as part of its portfolio to monetize those,

takes you out of the pure economics of the film business and brings you into the economics of a lot of other businesses that have extremely high returns to great content. So investing behind those franchises and those brands is very consistent with inputting new IP into the Disney ecosystem.

Part and parcel of bringing down the number of films—and now we're talking about 10 to 12 films per year as opposed to the 20 to 25 that we used to do—two pieces as part of the fundamental economics is that you clearly have to right-size yourself on the cost side, on the distribution base that you are having full-time, no matter how many films that you put out, and we're very carefully looking at how to right size ourselves behind this strategy of sort of tent pole and franchise films; and secondly, we've taken on distribution of DreamWorks live action films to the tune of four to six a year, that's beyond the 10 to 12, which helps us with holding onto a great distribution system, a distribution infrastructure, when our films hit the market.

So that's where we are right now. I think that it is a strategy from which we can see pretty good returns and obviously continue to feed what makes Disney different and Disney great.

Ben Swinburne – *Analyst, Morgan Stanley*

I would assume that the cost structure within the Studio has come down over the past several years. I know you've rationalized a lot of your distribution groups. What inning are we in on that front? Is there more to do on the cost side around overhead and distribution?

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

Well, you know, it's like any time that you have a fundamental shift in your strategy, and in this case a fundamental shift in the amount of output, I think there is some shifting and some experimenting with how far you can go down on the cost curve. I would say we're on the journey, I can't tell you—when we're done, I'll know how far along we were as of today, but I'd say we're still on the path and still trying to figure it out and rationalize it. You know we have new management at our studio and I think that Rich Ross's slate under his tutelage will probably start to hit the market in 2013. And we'll look at costs appropriately with that as he fully has the reins on his own slate.

Ben Swinburne – *Analyst, Morgan Stanley*

Great. Let's shift over to our second topic around investment. Disney, at least our numbers, will spend about $4 billion in CapEx in '12, about $9 billion in television content and sports rights, and another $2 plus billion in film content. So obviously, big dollars. This is part of a big planning and strategic outlook for the company and I want to take you back to your roots in the parks business and start there. Where are you guys spending your money today and how do you look at the return on capital across a lot of different projects, including the big ones being

the new ships—which I know one is breaking the champagne in New York later this week—and then also Shanghai, which is obviously a big project for you guys.

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

Right. Well, we look at, starting with Parks and Resorts, we look at investment in that portfolio under sort of a number of strategic thrusts. The first one is on the installed base and the sort of more mature part of the business. You constantly look for two things: one is novelty, and novelty is part of that business; and secondly is the use of technologies and things that weren't available 5, 10, 15, 20 years ago to enhance the experience for guests and to bring that forward in a way that their experience gets better and better, and we maintain that competitive advantage above anybody else who's in this space.

Second is expanding our geographic footprint. We have found that the parks are an incredible brand ambassador wherever we put them. The amount of interest, excitement, publicity, advertising, and obviously the visits of people for that deep franchise experience, is incredibly rich for us and obviously we invest with the belief that those are going to have returns in their own right.

And lastly, heavily investing in businesses where there's still growing opportunity, and cruise is a perfect example of that. We put two new cruise ships out. The second one, as you said, being christened on Thursday, and the basic reason was we were highly over demanded with our two ships. There was clearly the opportunity to fill up two more ships that are bigger, are better, have a better guest experience, have 80% veranda rooms as opposed to 30% that you can price behind. We continue to have, with the first ship in the market and now the second ship already booking, continue to hold our yields, continue to hold our load factors above the industry. So this was clearly something that was something to lean into.

From a financial perspective, we look at them through two lenses. One, is the investment going to have, in our estimation, its own return, is it going to meet pretty stringent hurdle requirements. But because there's a lot of things—so if we put a new attraction into Walt Disney World with its installed base, because it's not separately priced, we don't charge it, it's very hard to disseminate or disaggregate its economics versus the overall of Walt Disney World's economics. So we also look not only from a project-up basis in approving capital spending, but from a business-down basis. We want to be sure that the ROIC of the business in aggregate is going to make investors happy, is going to make us happy. So we look at what the possible potential flows from the business could be over time and how much capital we're going to invest in that business over a long period of time. Unfortunately in that business, capital is kind of lumpy. It comes in very big pieces. For the last two years we've been talking at length about those stacking up, and independent projects that each had their own strategy, whether it was Disney's California Adventure, which was kind a fix, and a continued growth of that destination, Hong Kong Disneyland's expansion and its natural course, the cruise because the business could grow, Walt Disney World enhancement because we hadn't added anything

to our most popular park in the world in 20 plus years. So it happened each of those were independent decisions, but they happened to stack up to one big lump. So you can't look on an annual return on investment. You've got to look at it more over time. But believe me, we expect those businesses to—that business to return beyond our hurdle rate and look pretty closely that it does that as we continue to invest.

Ben Swinburne – *Analyst, Morgan Stanley*

On the cruise business, now that you've had one of the new ships in the water for a while, are you able to look at that and say that the returns are at expectation or maybe even above your ROIC for the broader parks business?

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

I would say that the *Disney Dream* definitely booked up and ramped up much more quickly than we expected. You know, we expected it to come into the market and sort of have some kind of selling curve in which it would ultimately be up to the sort of overall system economics. It blew out, booked up at high rates, people couldn't get on it, it is our most highly booked cruise ship in the system and we're very bullish about the overall economics of that business. The second ship, the *Fantasy*, which isn't sailing yet, is booking equally well. So, other than a slight wrinkle that a lot of cruise companies have experienced in Mexico and a change of itineraries that that has forced, we're full speed ahead. Still very much a boutique relative to large cruise companies, but that boutique positioning allows us to have incredible load factor and yields.

Ben Swinburne – *Analyst, Morgan Stanley*

You mentioned before California Adventure. I wanted to ask, it's difficult I'm sure to measure the returns of those incremental investments. But one question I often get from investors is: when Disney goes into a theme park or an attraction, if it doesn't work well there's really only one option, which is to try to fix it rather than walking away. So how does that impact your capital allocation plan thinking about returns?

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

Well, we have, I'll tell you we have a very good test case for that hypothesis with Disney's California Adventure. You know, when it opened in 2001, it did not end up being a park of the quality that we needed to continue to build our brand. And, not to get too far into the weeds, the dynamics of that park were such that it didn't pull enough people at the whole resort for a long enough time during the day. So what we ended up experiencing is that the demand that that new park experienced basically wound up at Disneyland for most of the day. So Disneyland

actually reached its capacity. So we made the strategic decision to go back in with a very sizable investment to both fix that park and bring it to ultimately what we had hoped it would deliver.

We were pretty careful about being sure that we could get return on that initial investment. Even though we knew we had a brand fix to take care of, we wanted to be sure that we were going to be happy with the return on that additional capital that we put into it. And what's happened so far, it kind of opened in stages: the World of Color, and then Little Mermaid, and by this summer the whole thing will be open with Cars Land and a new entry sequence. But it's way ahead of its pro forma against what we expected. It is keeping people late at night because of World of Color. It is drawing more people and keeping them longer in the day because of the enhancements that we've done, and that is allowing us to backfill a demand that was there for Disneyland but we were actually getting rejection because it was overcrowded.

So the ultimate goal there is to continue to grow that destination and we couldn't do it without fixing Disney's California Adventure. So that was an investment that actually was big enough in size that it allows us to look at: okay, what did the economics look like before, and the drivers in terms of attendance and per capita spending, and what are they going to look like after, and therefore calculate what the return will be on that.

Ben Swinburne – *Analyst, Morgan Stanley*

Sounds good. So it sounds like the margin-up at Parks this year, your guidance?

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

Yeah, you know, we've been pretty determined. In the middle of the downturn we hit an inflection point where we had been originally discounting to maintain the enormous amount of volume and goodwill that we built up around the world with families, and midway through the downturn we hit an inflection point where we said, hey, now we'll be willing to sacrifice some of that volume to get back to our price. We did not want to sort of lose the basic pricing trend that we accomplished over the previous decade and we're very, very strongly on the path back to reaching—in fact, we didn't lose any volume; in fact, we've increased both volume and price and continue on that curve pretty strongly up through Q1, as we announced in February. And feeling pretty good about the trajectory for that business, feeling pretty good about the fundamentals being there to get back to the kinds of margins that we experienced before the downturn, which after the allocation of compensation and so on is sort of in the high teens to 20% range. And nothing fundamental is there to keep us, I believe, from getting there.

Ben Swinburne – *Analyst, Morgan Stanley*

Great. I was going to ask, you sort of answered the question, but how would you grade the consumer health right now when you look at your parks businesses as a proxy?

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

You know, the booking window is still a little shorter than it was historically. I think we're at about 14 weeks out now. I'm thinking that may be a permanent reality with the advent of internet bookings, with the advent of so many sites that allow you to sort of determine or judge whether pricing will get better if you wait, or whether pricing, you ought to book today. And I think the availability of information and tools has probably fundamentally reduced the booking window.

So I don't think that's a great indicator, not as good as it used to be, and I think the consumer is still in a somewhat 'wait and see' mode. But when it comes to our theme parks there's this sort of ticking clock in people's heads. My children are—I wanted to go when my kids were five and three and now they're six and four and I'm not sure I want to wait until they're eight and they're not talking to me anymore. So the bottom line is that you have that, we see as soon as we see any hit to our volume, we see a measure that we do statistically called "intent to visit" start to go up because people are delaying those visits and they're intention to visit in the next 12 months is starting to go up. And eventually they say, "you know what, I don't care what's going on, I've got to do this because I don't want to go when my family is of a certain composition."

So I know people like to look at this as a bellwether of consumer health, but I'm not sure that we're the best because of this sort of imperative that people feel to consume our product.

Ben Swinburne – *Analyst, Morgan Stanley*

Got it. Great. Let's shift back over to the media side of the equation, let's talk about ABC. Retransmission fees are changing the broadcast TV business for the better, including ABC. But you've made some significant management changes at that business over the last few years. You're investing in more primetime programming, but you've also made some cuts in daytime and news. So, just stepping back, how do you look at the profit potential, particularly on how you can grow this business over the next few years given the sort of counterbalancing factors of ratings pressure, but the advent of retransmission fees and…

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

Yea. Well, first on the retransmission front, we've been saying for a while that we believe that we're looking at $400 to $500 million of incremental revenue to the company by 2015 for the retransmission. The good news is that for us, on the other side of the equation in terms of investing in programming, we don't see the need to reinvest those retransmission fees into our programming. We already aggressively program and spend aggressively behind our programming at ABC to fundamentally be successful. And if you look at, you know, the cycle, I

guess a lot of networks have seen cycles and shows, we had a great cycle in 2004/2005 with *Desperate Housewives* and *Grey's* and other things that you all know. And I think and hope that we are starting to see that again with shows like *Revenge*, O*nce Upon a Time*, with *Castle* going into syndication, are starting to see what drives the television business, which is great programming. It's the same thing, by the way, microcosm of what drives The Walt Disney Company. If you look at ESPN, it's investment in great sports rights and it's investments in the technology and programming skills, studio shows to support that, which makes ESPN the most valuable cable network out there.

ABC is the same story. It's simply a matter of when you see so many additional outlets for television product potentially, it's all about creating great content. So Paul Lee, this is his—he kind of started midstride last season, he's now in full stride and looking at pilots and starting to strategize about it. If you look at ABC Family, ABC Family is a network that for eight consecutive years has seen ratings increases. We're getting more and more hits out of it for that millennial and tween market. If you look at investment in the Disney Channel, which is multifaceted but purely on the programming side, you've got a franchise creation engine creating things like *Phineas and Ferb* and *Jake and the Never Land Pirates*. You've got Disney Channel for the first time being the number one year long cable network for kids 6 to 11. Very strong response to ratings. Very strong for affiliates.

So fundamentally, ABC like the rest of the television businesses, is about investing consistently in great programming and creating stuff that we can, less for ABC, but in general potentially use in the Disney infrastructure.

Ben Swinburne – *Analyst, Morgan Stanley*

So it sounds like your outlook for expense growth, or programming investment growth in ABC, is fairly muted in terms of…

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

Yes, you know, I think on the programming side we are where we need to be. We've done a lot of work on the News front in reducing cost there, in how we gather news, how we process it. We've done that joint venture with Yahoo! in terms of news gathering. And continue to push through to, on the one hand, have a great news brand and make that something we're proud of and is in addition to the brand portfolio of the company. But at the same time, carefully monitor the costs for that news collection and the presentation of the great shows.

Daytime, obviously the switch out from Soaps, which probably have run their course, to more lifestyle programming has been on net very positive for us. If you look at our TV stations the change from what's gone on there with the *Oprah* show and what's replaced it, that's been accretive to our earnings.

So overall, I feel like we're doing all the right things and we're just thrilled that technology is allowing us more access to get that programming out there.

Ben Swinburne – *Analyst, Morgan Stanley*

Great. That's a good segue to my next question and I'll after this open it up to the audience to see if they've got any questions, and please wait for a microphone, which is leveraging technology. So the big areas when I think about The Walt Disney Company on the technology front that I'd like you to touch on if you would, is at the theme parks what I think has been referred to as the Next Generation Experience, or NGE. I think Tom talked about it a little bit at investor day.

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

He did.

Ben Swinburne – *Analyst, Morgan Stanley*

I would love to hear how that is going to impact the consumer or the tourist at Disney. And also, second, on the acquisition and investment front you made an acquisition last year in Playdom on the social network gaming front. So I'd love to maybe have you touch on those two.

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

Sure. Well, I mentioned, one of the directions of our investment in Parks and Resorts is to continue to enhance the guest experience. And of course, in a world of personalization, this means that you can't be, to use words from another business, you can't be a broadcaster in any business in the broadest sense of the word, which is: assume everyone is the same, send them all the same signal, send them all the same experience, and assume that they're all the nuclear family of four of 1955 when they arrive at the parks.

We know that's not true. As individuals, we seek ways to use technology in our lives to make things more personal, more pertinent, more relevant, more interesting to us as individuals. And we, what Tom talked about in February is bringing, through the use of technology, that same personalization to the theme park experience, where you're pre-planning itineraries, where your experience can be really tailor made by use of addressability, by use of basic technologies that I don't want to go into great length on, to basically convert that experience from a broadcast to an addressable experience.

And we're very bullish on the impact that that is going to have, and as I said, continue to keep us way ahead of the curve in terms of what a theme park experience could be like.

Playdom, very briefly, obviously we bought that company for the single purpose of launching ourselves into the social space. In brief, we know our customers in the social base. We are 260 or 270 million likes and counting on Facebook for things Disney. We know our consumers are there. We know they're interested. We did not want to organically make our way into a space that's on fire. We wanted to jump into it.

The beauty of it is, not only does it bring you all the technical expertise, business analytics, monetization models that Playdom was very, very good at in that social space, but as you continue—when we bought it, it was all about the social space. Now, we're moving into the apps ecosystem and the apps being places, just another media outlet to build our brand, to extend our brand, to have people experience our brand in new and unique ways. And these are things that I think we've shown a history for 80 years of being forward leading in the use of new technology to get our stories out there. And I don't think we see any change in that in the future, and I think those are all examples of that.

Ben Swinburne – *Analyst, Morgan Stanley*

And I think you guys reiterated on the earnings call that you expect that segment where the social network gaming business resides to be profitable I think in fiscal '13? Is that correct?

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

That is our game plan.

Ben Swinburne – *Analyst, Morgan Stanley*

All right. Okay, well, why don't we see if we have any questions in the audience for Jay before I move onto another topic. Got one up here. I don't know if there’s microphone.

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

One second just so everybody can hear your question. Thank you.

Unidentified Audience Member

Jay, how do you interpret the imperative, you mentioned about the imperative families feel to bring the gang over to Disneyland, particularly divorced parents at this age. It's not the '50s anymore. How do you translate that into ABC and ESPN? Because most of those kids 18 to 34 demo that's watching ESPN sports, they've been to Disneyland and they understand that quality. How do you link those and do you want to?

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

Well, we have not aggressively linked ESPN and the Disney brand, and we have not aggressively linked ABC and the Disney brand. I think each of those three brands have their own core following, have their own attitude, have their own style of presentation and storytelling. If we take ESPN, for instance: yes, it's all about buying the right portfolio of sports rights. We've been very disciplined about it, but for 30 years we've wound up with a hand of sports rights that makes people want to watch it, makes advertisers love it, makes affiliates love ESPN, and making it the most valuable cable network out there.

But it has its own attitude and when we create those studio shows and you know the names of all of them. They have an attitude. They have a look and feel that is not Disney. It's purely ESPN. It works great in that space with that audience and it doesn't commingle with Disney. ABC, very similar. ABC, the kinds of shows that I mentioned before, *Grey's Anatomy*, *Private Practice*, *Desperate Housewives*, *Castle*. Those are not Disney equities and we don't want to confuse either the ABC brand or the Disney brand by trying to commingle them in our presentation to consumers.

However, on the inside of the house where you're looking at production technology, broadcast technology, all of the ways that you could potentially share know-how, even if at the end the consumer interface looks quite different, there's lots of back-of-house stuff in terms of how we strategize, how we think about investments, how we think about great storytelling, that our media networks include, both Disney Channel, Disney Junior, XD, ABC Family, and ABC. These are people who know each other, talk together, work together, strategize about great storytelling, how to use talent. And just because at the end of the day that doesn't look the same to consumers, doesn't mean that there isn't some value on the inside of the company in how that stuff ends up being on screens.

Ben Swinburne – *Analyst, Morgan Stanley*

Jay, how do you look at digital ownership in the movie business? There's been some movement on UltraViolet and I think today there was an announcement of something called Project Phoenix. Kevin Tsujihara from Warner is going to present tomorrow to talk about sort of his perspective on that, but what's the Disney view on getting consumers excited about owning films in the cloud? And you have a library, to put it mildly, to take advantage of that.

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

Look, I think the answer is simple and clear because it's so based in human nature. People are going to buy digital assets when they have the confidence that they're going to be interoperable, be able to play them on any device, and no matter who they've bought that from, they're going to be there forever for them to access. There have been limitations to the

sale of digital movies, films. Storage limitations. There has been interoperability limitations. There has been, you know, the question do I invest behind this infrastructure, whatever, call it iOS infrastructure, or Disney Key Chest infrastructure, or UltraViolet, or whomever. Who's going to win the race and how much do I want to invest behind a technology?

Ultimately, I think all that issue is going to go away and I think that the advent of easily accessible and sort of guaranteeable cloud infrastructure, where you know when you pull up your tablet screen, a great menu is going to come up. I think that brands will play a huge role in that. There will be suite products with recognizable brands. We invest so heavily in our brand in this complicated marketplace because at the end of the day it's an unbelievable navigation tool for consumers to find us. And when they see our brand, they know what's behind it. But I think it's just a matter of time. You know that we've been talking about Key Chest for a long time. The technology moves very quickly but the goals there are obviously what I just mentioned, interoperability to guarantee that your product is going to be there this year, next year, five years from now, ten years from now, and then that you're going to be able to access it on an easy navigation tool. I think the key to success in the digital space anyway.

Ben Swinburne – *Analyst, Morgan Stanley*

Are you optimistic the consumer will see these platforms and be excited about them in 2012 or do you think it's going to take longer?

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

You know, unclear. I think we're pushing a little bit down the road. Somebody is going to introduce a product that people say, wow, this really works. There will be an avalanche of others and the consumer will get an enormous amount of confidence. I'm not a historian but I'd venture to say if you look back at the VHS, sort of, I'm old enough to remember Betamax versus VHS, if you look at all the disc products that initially came out—there's always a bit of hesitancy before those get broadly adopted because people are waiting to see who's going to win and whose going to be the easily operatable system. I think in this case interoperability—because we'll never have a single provider—interoperability will be key. And once that code is cracked, just like Watch ESPN with authentication, once the code is cracked, people run to them.

Ben Swinburne – *Analyst, Morgan Stanley*

Great. Thank you so much, Jay. Thank you for yourt time.

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

Thank you.

Ben Swinburne – *Analyst, Morgan Stanley*

Thanks, everybody.

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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 1, 2011 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.