The Walt Disney Company
Q2 FY12 Earnings Conference Call

MAY 8, 2012

Disney Speakers:

Bob Iger

Chairman and Chief Executive Officer

Jay Rasulo

Senior Executive Vice President and Chief Financial Officer

Moderated by,

Lowell Singer

Senior Vice President, Investor Relations

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second quarter 2012 Walt Disney Company earnings conference call. My name is Melanie, and I will be your coordinator today. At this time, all participants are in a listen-only mode. We will accept your questions at the end of the conference. (Operator instructions). As a reminder, today's meeting will be recorded.

I would now like to turn the call over to Mr. Lowell Singer, Senior Vice President of Investor Relations. Please proceed.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Ok. Thanks, and good afternoon everyone, and welcome to The Walt Disney Company's second quarter 2012 earnings call. Our press release was issued 45 minutes ago. It's now available on our website at www.disney.com/investors. Today's call is also being webcast and that webcast along with the transcript will also be available on the website after the call.

Joining me in Burbank today are Bob Iger, Disney's Chairman and Chief Executive Officer; and Jay Rasulo, Senior Executive Vice President and Chief Financial Officer. Bob is going to lead off, followed by Jay. And then, of course, we will be happy to take your questions. So with that, I will turn it over to Bob and we'll get started.

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

Thank you very much, Lowell. Good afternoon. We're very pleased with the company's strong performance in the second quarter, with earnings per share up 18% over last year, when adjusted for comparability. Growth in advertising and affiliate fees in Media Networks as well as greater attendance and guest spending in our Parks and Resorts primarily drove our performance.

There are many exciting things happening across our businesses, starting with *The Avengers*, which as all of you know shattered industry box office records, achieving the biggest domestic opening weekend of all time, with $207.1 million. The movie set new opening weekend records in several other countries as well, bringing its worldwide box office gross to more than $700 million to date.

It's a fantastic movie, and we're obviously thrilled that audiences around the world share that opinion. It's also a great illustration of why we liked Marvel so much: great characters, great story telling, and the wonderful ability for them to bring their characters and stories to the big screen so effectively.

Iron Man, *Thor*, and *Captain America* initially brought those compelling characters to millions of people, leading to the tremendous success we're now seeing with *The Avengers*. We'll continue to build on this incredible franchise with the release of *Iron Man 3* and *Thor 2* next year, followed by *Captain America 2* in 2014. And, since I'm sure I will be asked…yes, we are in development on a sequel to *Avengers*.

There are obviously numerous benefits to creating such a valuable franchise, and one of them is in our Consumer Products business, where our combined Disney Marvel licensing team is hard

at work bringing those characters to market in multiple ways, significantly growing our retail presence around the world. And based on early figures, the demand for *Avengers* merchandise is very strong.

We actually have a lot of other great new movies on the way, starting with Disney-Pixar's *Brave*, a brilliant action-adventure featuring Pixar's first female hero. And then later this year, we're looking forward to *Frankenweenie*, Tim Burton's heartwarming twist on the classic monster movie, as well as Disney Animation's *Wreck-It-Ralph*, which takes viewers into the world of classic video arcade games. And, next year, we've got *Oz The Great and Powerful*, as well as Johnny Depp as Tonto in *The Lone Ranger*, and a *Monsters, Inc.* prequel from Disney-Pixar.

We've also got plenty to be excited about in our other businesses.

Our Media Networks - ESPN, Disney Channels, ABC and ABC Family – plus our equity stakes in A&E, History, and Lifetime, represent an incredibly valuable, growth driving segment for us, with multiple revenue streams supported by strong, high quality creative content leveraged across territories and on many new digital platforms.

It's almost a cliché to mention ESPN as the strongest brand in media, but it continues to strengthen and to grow. In 2011 more adults 18-49 watched ESPN than any other 24-hour cable network, and fans are spending more time with ESPN-branded media – on TV, online, and on a variety of mobile devices – than any other sports brand. ESPN delivers tremendous value to distributors with an unparalleled content array that helps to drive broadband subscriptions, local ad sales, and HD upgrades. With numerous sports rights agreements in place into the next decade including the NFL, the ACC, the SEC, the PAC 12 and Wimbledon, and long-term agreements in place with two of the largest multichannel providers, ESPN is obviously quite well positioned to remain the preeminent sports brand. It's also worthy of noting that as of today, Comcast subscribers can download the WatchESPN App, that brings the total number of subscribers that can now access ESPN's channels on mobile devices to 40 million.

While we have mentioned the Disney Channel on these calls on numerous occasions, we thought it's time to put its accomplishments into perspective. With 103 channels in 167 countries right now, Disney Channel is our biggest and most effective global brand builder and content engine, taking Disney into hundreds of millions of homes every day, and the list of markets we are in continues to expand, sometimes in pretty dramatic ways. An example of this is Russia, where we launched a free to air channel in January, to excellent ratings, and it's just the beginning.

Here in the U.S., Disney Channel is a top destination for kids and tweens, and for the last three months, it has been the number one network among kids 2-11, supported by three of the top ten shows among that essential audience.

Original programming is also driving the success of Disney Junior, where we've got the top preschooler shows, including *Jake and the Never Land Pirates* and our newest animated hit, *Doc McStuffins*.

And after achieving record ratings again last year, Disney XD's core audience continues to grow, drawn by the exciting programming that defines that brand.

So when you think about this collection of Disney branded channels, consider their strength in terms of program quality, program success, reach, brand building effectiveness, and financial growth.

And rounding out our cable portfolio, ABC Family continues to build on its eight consecutive years of growth, with an ambitious slate of original programming. The channel is not only popular with millennials, it's currently the number three cable network in all key female demos. And, the same high-quality, original content that draws audiences to ABC Family here in the U.S., is now being sold into several hundred markets around the world.

On the network side, we're a week away from the ABC Upfront, where we'll introduce our shows for next season. We're anticipating a strong upfront marketplace, and we're very impressed by the quality of our pilots, particularly those from the ABC Studios. We're building on the strength of our current schedule, with ABC- owned *Grey's Anatomy*, the number one drama, and *Once Upon a Time*, the number one new drama , as well as television's number one comedy, *Modern Family*, and *Revenge*, one of this season's top new series.

With strong demand for our content around the world, we're currently selling ABC programming into more than 225 international markets, and our success has allowed us to pre-sell our new series globally before they air on the network. Our ABC Studios business is meaningful. Revenue from domestic and international syndication and digital sales will reach an all-time high this year, and has grown 25% per year over the past decade.

As we've articulated on numerous occasions, global expansion remains a key part of our strategy, and China is a top priority for us. During my recent visit to China, I met with Vice President Xi Jinping about our current initiatives and future opportunities, and I was very encouraged by his support and enthusiasm for our plans – especially Shanghai Disney Resort, which is a critical investment for our long-term growth there.

The Shanghai Disney Resort site is fully cleared, and the land has been prepared for construction, and visiting the site the week before last gave us a visual validation of how vast and how significant this project is for us.

We have several investments in our parks and resorts now coming online or near completion, all of which we are very optimistic about. Our expansion of Hong Kong Disneyland is also proceeding nicely, and features three new themed areas, including the hugely popular Toy

Story Land which we opened in 2011 as well as Grizzly Gulch, which comes online later this year. We're happy with the progress at Hong Kong Disneyland, as well with the fact that it just had another great quarter.

At California Adventure, we're looking forward to the June 15th opening of Cars Land, an incredible 12-acre addition that transports guests right into the world of Radiator Springs. With three new attractions and themed restaurants, Cars Land is the culmination of the expansion we started with Toy Story Mania, Little Mermaid and the spectacular World of Color. I believe the completion will result in a park that will both stand on its own, but also serve as an important and worthy neighbor to Disneyland, and finally enable the two to become the destination resort we once envisioned.

And lastly, on the cruise ship front, we recently launched the Disney Fantasy, the sister ship to the Dream, which set sail in 2011, and the two new ships have proven to be extremely popular with strong bookings. A few of us had the chance to sail on the Fantasy's maiden voyage with over 3,000 other guests, and the ship is visually stunning and the sailing experience truly wonderful. It's impossible to fully explain just how magnificent this ship really is – the quality, the service, and the attention to the very smallest details create the kind of extraordinary family vacation that only Disney can provide. And by the way, a lot of the people on that first maiden voyage reserved future trips.

So as you can see, in Parks & Resorts, many of our long-term investments are now coming to fruition, driving increased performance and positioning us for future growth.

Our commitment to creative excellence is also evident on Broadway. *The Lion King* is now the top grossing Broadway production of all time, and our two newest productions, *Newsies* and *Peter and the Starcatcher*, just earned an impressive 17 Tony nominations.

I also want to mention our Disney Interactive team, who are also leveraging creative content from our lines of businesses to generate games and other interactive content. *Marvel: Avengers Alliance* is the first social media game ever based on the Marvel brand and it already has nearly 1.5 million daily players. *Animal Kingdom Explorers* is a popular game based on Disney's Animal Kingdom Park, and builds on the hidden objects game success of *Gardens of Time*,which is now available on mobile platforms. We just relaunched Disney Channel.com, a new highly interactive, consumer friendly site for kids and family, and in a few weeks, we will introduce our Disney Video product, which includes a Disney-YouTube family friendly destination, and later this year we will launch an all new Disney.com.

In closing, we are obviously pleased with the results in the quarter, and thrilled with the reaction to *Avengers*, but we remain extremely excited about the future for all of our businesses.

We're seeing revenue increases in Media Networks driven by the quality of our content and the consumer demand for it. We are welcoming more guests to our Parks & Resorts as a result of our expansions and enhanced experiences, and we are very optimistic about what is being developed and constructed for the years ahead. And we're using characters and creativity from Disney, Pixar and Marvel to deliver extraordinary entertainment and drive franchises across our entire company.

We're expanding the reach of our content, and consumer access to it, on a variety of new platforms, while we're dramatically expanding our international presence in the traditional and emerging markets around the world.

Here's Jay for the details about the quarter and some comments about current business trends. Jay?

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

Thanks, Bob, and good afternoon everyone. We delivered strong financial performance during the second fiscal quarter with operating income up 10% on revenue growth of 6%. Earnings per share, excluding certain non-comparable items, were up 18%. These results continue to demonstrate the success of our strategy, the strength of our company's assets, their unique competitive position and our ability to generate attractive returns on investment over the long-term. I am going to spend a few minutes discussing the second quarter in more detail and then highlight some factors that may influence our upcoming performance.

In the second quarter, Media Networks was the largest contributor to our performance. Operating income growth for the segment was primarily driven by growth in Cable Networks, with ESPN and the domestic Disney Channels being the main drivers.

ESPN's growth was due to higher affiliate and advertising revenues, as well as lower affiliate revenue deferrals compared to the prior year. The growth in affiliate revenue were due to contractual rate increases. ESPN deferred 72 million dollars less in revenue during the second quarter compared to last year. And I'll remind you that this change in ESPN's revenue recognition is related to Comcast affiliate revenue and has no impact on full-year results.

ESPN's Q2 advertising revenue was up 14% compared to prior year, and up an estimated 6% when adjusted for the timing of the *Rose* and *Fiesta Bowls* and the impact of the NBA lock-out. If you recall, the *Rose* and *Fiesta Bowls* aired during our second quarter this year, but those games fell in our first quarter last year. As I mentioned last quarter, despite the NBA lock-out, ESPN aired the same number of regular season NBA games as last year, however the number of games per quarter was different. We aired 9 more games during Q2 compared to prior year and aired 20 additional NBA games during the third quarter compared to prior year. So far this quarter, ESPN ad sales are pacing up high-single digits.

Growth at the domestic Disney Channels was driven by higher affiliate revenue due to contractual rate increases and higher sales of Disney Channel programming. At ABC Family, the decision to further invest in original programming during the quarter is paying off as the network continues to resonate with viewers and advertisers. For the quarter, ABC Family primetime ratings were up 7% among adults 18-49. ABC [Family] also had 3 of the Top 5 basic cable scripted original series among Females 12-34: *Pretty Little Liars*, which was #1, *Switched at Birth* and *The Lying Game*. ABC Family ad revenue was up 12% in the quarter, and that follows the 10% growth delivered last quarter. So far during the third quarter, ABC Family ad sales are pacing up 10%.

Reported Cable margins, excluding our equity investments, were down 100 basis points in the quarter. However, this decline was due to a net negative impact of 170 basis points resulting from several non-comparable factors. On the positive side, we had the benefit of the change in the Comcast revenue deferral. On the negative side, there was the impact of the timing of the *Rose* and *Fiesta Bowls*, the NBA schedule changes, and incremental expenses we incurred for ABC Family programming and to launch our Japan broadcast satellite channel. On balance, the negative factors outweighed the positive factor, thus driving the net negative impact of 170 basis points.

At Broadcasting, the increase in operating income was the result of higher advertising revenue as well as lower programming and production costs. The increase in ad revenue was due to higher rates at the ABC Network, partially offset by lower ad revenue at our owned stations. Ad revenue at the ABC Network was up 6% during the quarter. Ad revenue at the Stations was down 8% in the quarter. Excluding the Flint and Toledo stations, which we sold in Q3 last year, ad revenue at the Stations was down 5%. Quarter-to-date scatter pricing at the ABC Network is running over 20% above upfront levels. Q3 TV station ad sales are pacing down low single digits. On the cost side, lower programming and production costs reflect the absence of *The Oprah Winfrey Show* at our owned stations, as well as lower daytime and news production costs at the Network.

Our Parks and Resorts segment delivered another strong quarter with revenues up 10% and operating income up an impressive 53%. Operating income was higher at our domestic resorts, Tokyo Disney Resort, and Hong Kong Disneyland Resort, partially offset by a decrease at Disneyland Paris. We saw continued improvement in segment margins during the quarter, up more than 200 basis points compared to last year.

At our domestic parks, the increase in operating income was due to increased guest spending and attendance, partially offset by increased costs. For the quarter, attendance at our domestic parks was up 7% and per capita spending was up 5% on higher ticket prices and food and beverage spending.

Average per room spending at our domestic hotels was up 7%, while occupancy increased almost two percentage points to a little over 82%. The increase in per room spending was driven by higher average daily rates.

The results at our domestic parks and resorts confirm that our strategy of restoring pricing to normalized levels continues to pay off. During the quarter, we enjoyed growth in pricing and volume both at our domestic parks and at our domestic resorts, with Disneyland setting a new Q2 attendance record, reflecting the success of our continued expansion of Disney California Adventure.

So far this quarter, domestic resort reservations are pacing up 1%, while booked rates are up low-single digits. Q3 bookings at the Disney Cruise Line are 30% higher than prior year, with occupancy for the entire fleet now over 90%.

At our international parks and resorts, better results from the Tokyo Disney Resort reflect the negative impact of the Tokyo earthquake during Q2 last year and the related business interruption insurance proceeds we received in Q2 this year. We continued to enjoy strong performance at Hong Kong Disneyland with the park achieving Q2 records in revenue and attendance. The growth in operating income during the second quarter was due to increased guest spending and higher attendance. At Disneyland Paris, operating income was lower due to lower attendance and higher labor costs.

At Studio Entertainment, operating income declined in the quarter due to the performance of *John Carter* compared to prior year titles, which included *Tangled* and *Mars Needs Moms*, as well as higher film impairments in the quarter driven by *John Carter*.

At Consumer Products, operating income was up for the quarter due to an increase in merchandise licensing, partially offset by lower results in our retail business. Growth in licensing was due to higher recognition of guaranteed shortfall revenue as well as higher merchandise sales. On a comparable basis, earned licensing revenue was up 3%.

At the Interactive Media segment, operating losses were lower compared to prior year due to improved results in our games business. Social Games results benefited from the lower impact of acquisition accounting for Playdom, as well as improved performance driven by higher revenue from *Gardens of Time*. The improvement at console games in the quarter was due to lower product development expenses, as we continue to focus on developing fewer console games and more social games.

Turning to the third quarter, there are a number of items that will impact year over year comparisons. At ESPN, net deferred revenue recognition for Q3 will be $140 million dollars lower than the prior year since we no longer defer revenues from Comcast as part of our new deal. ESPN will also incur about $35 million dollars in additional costs due to the 20 extra NBA games in the quarter compared to last year.

During the second quarter, NBCUniversal exercised an option that requires A&E Television Networks to purchase a substantial portion of NBC Universal's 15.8% equity interest. The transaction is expected to close following determination of the value of NBCUniversal's equity interest, and will result in an increase in our equity interest in A&E, which at the end of the second quarter stood at approximately 42%. We expect to continue to account for our interest in AETN as an equity method investment.

We continued to repurchase our stock during the second quarter by buying back 21.4 million shares for about $870 million dollars, which is consistent with the pace during the second quarter last year. Fiscal year to date, we have repurchased 51 million shares for $1.9 billion dollars.

We are pleased with our Q2 result and our current business momentum, and the ongoing progress of our growth initiatives and the competitive position of our media networks. That, coupled with the strongest balance sheet in the industry, gives us great confidence that our strategy of managing the company for long-term success will continue to deliver returns for our shareholders.

With that, I'll now turn the call over to Lowell for questions.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Ok, thanks, Jay. Operator, we are ready for the first question.

Q&A

Operator

Ben Swinburne, Morgan Stanley.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you. Good afternoon. Starting with *Avengers*, I'm wondering if you could talk a little bit about how we should think about the consumer products benefit. And in particular, the change in relationship -- sorry, that's a Sony comment -- but just the timing of when you would recognize merchandising revenues for that film? And how you're thinking about sort of the plan to monetize that particular title on the licensing front?

And then, Jay, could I just ask a follow-up? Was the insurance settlement a meaningful contributor to margin in the parks this quarter? I just wondered -- you called that out and that was one thing I didn't know.

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

Okay. Let me start, Ben, with the insurance question. So, there's -- there are a lot of moving parts for our Tokyo results and, ultimately, their impact on the overall Parks and Resorts margins for the quarter. But the -- it was a driver.

First of all, we had the comparison between last year when Tokyo Disney Resort was closed for three weeks in the quarter, versus the current week. Secondly, we had a business interruption payment this year that we received relative to that quarter. And finally, the performance of Tokyo Disney Resort actually improved over the comparable operating weeks compared to the prior year. So, the aggregate benefit of all of these effects was about $50 million in Q2.

Ben Swinburne – *Analyst, Morgan Stanley*

Could you quantify the one-time insurance piece of that just for our benefit?

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

Yes, I'm not sure it's frankly relevant compared to the fact that the park was closed in prior year, but roughly it's $15 million.

Ben Swinburne – *Analyst, Morgan Stanley*

Okay, thank you.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

I'll try to give you some perspective both on the licensing side of *Avengers* and on *Avengers* in general. First of all, there was a substantial amount of interest in the film among, I'll call it, the consumer products industry. More interest than some of its predecessor films -- *Thor* and *Captain America*. But the interest was not commensurate with what we've already seen, in terms of the success of the movie and the interest in the movie among audiences around the world.

So, what you basically have is, you have extraordinary demand for the products that are on the shelves, and in many cases, product that's already been sold out. So, our global licensing team is hard at work working with licensees and retailers around the world to stock the shelves as

fast as possible. We expect, given the interest in this film, that demand for its product is going to continue to be strong, pretty much throughout the year; but given the plan that we have for this film and the characters, it's our complete or full intent to make sure that demand for consumer products continues.

So, as I mentioned in my calls, in 2013, you're going to see a sequel to *Thor 2*, and you're going to see *Iron Man 3*. In 2014 you're going to see a sequel to *Captain America*, and then eventually, a date to be determined, you'll see a sequel to *Avengers* and so on.

The other thing that we're seeing is an interest in other characters, like the *Hulk*, for instance, is also strong. That had always been a decent merchandise product for Marvel in the past, but the presence of the character in this film and the performance of the actor, the popularity has actually grown significantly. So there's real demand for *Hulk* product in the marketplace right now.

So I think what you're essentially seeing here is a true franchise, not necessarily in the making, but having been made and launched. And the box office is only one part of it. There are multiple opportunities to continue to mine this great set of characters. And while it all started with a set of really good movies, we fully intend to continue to fuel the marketplace with Marvel's *Avengers*-related stories and characters, so that the momentum continues.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you very much.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Operator, next question, please.

Operator

Spencer Wang, Credit Suisse.

Spencer Wang – *Analyst, Credit Suisse*

Thanks. Good afternoon. Bob, maybe just a follow-up question on Marvel and consumer products in two parts. The first is, if you look at Marvel holistically, in terms of the licensing opportunity, I think one of the big synergy opportunities from the acquisition that you've talked about in the past, is driving higher penetration abroad for the Marvel licensing and the characters.

So I was wondering if you could just update us on where is that today? I think back pre-acquisition 40% of Marvel's licensing revenue was international. Where is that today? And then, secondly, as you look at the portfolio of characters, would you consider buying back the film rights to some of the other characters, say, like *X-Men* from Fox? Thanks.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

I'll answer the second part of the question first. Marvel has got a slew of great characters to mine and we'll continue to do that. They've got development in the works for a number of unnamed characters that are going to give us and Marvel the ability to make numerous films over the years ahead. So I don't think you'll see necessarily a need to buy back characters or all that much opportunity.

On the licensing front, we're fully integrated internationally. Marvel used to use third parties frequently to represent them on the licensing side. We had a global licensing organization that we fully integrated with some really talented Marvel folks. And that, we believe, will not only -- has not only reduced costs -- because we were paying basically third-party representatives to handle licensing on behalf of Marvel -- but we believe that the combined entity has a much more effective ability to gain access to the marketplace, and increase our presence at retail.

And with the quality of the films that Marvel is making and the interest in them, that obviously increases that much more. No specifics, though, in terms of the percentage represented by international sales. Clearly, the box office side is really significant and should continue to be. This, we believe, will be the most successful Marvel film internationally, and that, obviously, will give us some great opportunities on the licensing front too.

Spencer Wang – *Analyst, Credit Suisse*

Great. Thank you.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Spencer. Operator, next question, please.

Operator

Jessica Reif Cohen, Bank of America Merrill Lynch.

Jessica Reif Cohen – *Analyst, Bank of America Merrill Lynch*

Thank you. I have one more Marvel question and then a separate question. Can you talk about plans, if you have any, for integrating Marvel characters into the theme parks? Any attractions that you plan?

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

I won't be specific. We do have plans. As we noted when we announced the acquisition, there are some encumbrances, notably in Florida, where an old deal that Marvel had in place with Universal precludes us from creating the presence in Orlando. But we have a number of other opportunities, unencumbered situations, at our other parks, notably California and Europe and in Asia. I guess that pretty much covers the rest of the world.

And our Imagineering group has been working over the last year, we've actually ramped it up more recently, to create more opportunities for Marvel in the parks.

I will note, by the way, I got a note from Tom Staggs earlier that all the Marvel product that we've been selling in our parks is pretty much off the shelves. So we're hard at work there. We control our pipeline product a little bit more. So we're hard at work replenishing the stuff on our shelves. But interest is clearly keen wherever our Marvel characters are touching the public.

Jessica Reif Cohen – *Analyst, Bank of America Merrill Lynch*

And then I just wondered if Cars Land -- I mean, it sounds pretty exciting and should -- I mean, if it works as you guys are laying it out, it should increase the length of stay in Anaheim. Are there plans to build future hotels?

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

We're opening Cars Land the middle of June. We've been specific about it and it's 12 acres. It is three attractions. I think I mentioned that. And it is the culmination of both the improvements and the expansion of California Adventure.

We've also done a great job of creating an entirely new entry sequence. And it comes on top of some attractions that have been very popular already -- *Toy Story Mania*, or *Midway Mania*, and *World of Color*, and *Little Mermaid*.

We believe, Jessica, that this will give us an opportunity to increase length of stay. It also gives us some leverage on the ticket pricing side, which we hope to take advantage of. We just redid the Disneyland Hotel there. We did some expansion on the hotel that was built when we opened California Adventure -- the Grand Californian -- but mostly on the vacation front side.

We've not announced any plans to increase our hotel inventory there, but we do have the ability to do so, either by expanding one of the existing hotels or building a new hotel. And I think what we'll do is we'll take a wait-and-see approach to see how the park performs, even though we have a lot of confidence in it; test the marketplace, and if we have an opportunity, we certainly will take advantage of it.

Jessica Reif Cohen – *Analyst, Bank of America Merrill Lynch*

Thank you.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Jessica. Operator, next question, please.

Operator

Alexia Quadrani, JP Morgan.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you. Could you give us a bit more color on the impressive attendance trends at the parks in the quarter? I guess is there a makeup of international, local and regular sort of domestic visitors?

And then second question, if you could just update us, your thinking about use of cash, given the expected pickup in free cash flow in the back half of this year and into 2013.

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

Sure, I'll be happy to, Alexia. Let me start out with the attendance origin question.

So, the quarter was pretty strong on international attendance. We are now -- I've always talked about the sort of 18% to 22% range of international attendance at Walt Disney World. And in fact, we are at the very high end of that range in the previous quarter. We've seen a lot of visitation from Brazil, in particular, which is not a new market for us but it increasingly becomes an increasingly important market.

Canada always stays an important market out here at Disneyland. We're also in the range there pretty high, approaching 10% of international visitation, lots of it from Asia.

On the domestic side, domestic visitors outside of the state of Florida and outside of the state of California, we were relatively flat on the quarter versus prior-year. And, of course, because of all the new stuff we're doing, we're seeing a lot of -- a big pickup in resident attendance, and a lot of demand on the Annual Pass programs, particularly out here on the West Coast.

So, we're very happy about what we're seeing. It gives us, particularly at Disney's California Adventure, a very good feeling about what's to come when we finally drop the rope on that in mid-June.

Your second question was about cash -- I presume that you are asking about returns to shareholders, which we, of course, always talk about aggressively as part of our overall strategy. And, as I said in my prepared remarks, we are pacing at the same level with now about $2 billion worth of buybacks in the first half of the fiscal year.

You'll remember last year, we ended up buying back about $5 billion in the year. And that's not to be predictive, but we are always out there opportunistically looking to make good investment in our own stock. And we will continue to do so as part of our fundamental strategy. I don't need to remind you that we increased our dividend significantly last year, or the Board did. And, of course, we will -- they will look at that again as we near the end of this year. Our goal being to stay in the pack, in terms of the yield that we pay against our stock. We're quite conscious of that, and had fallen behind and don't want to fall behind again.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you very much.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Alexia. Operator, next question, please.

Operator

Doug Mitchelson, Deutsche Bank.

Doug Mitchelson – *Analyst, Deutsche Bank*

Thanks so much. Bob, if you take a step back and look at the last few years, it's been a pretty heavy investment cycle, right? So, Marvel, Parks CapEx, Disney Channel International, more sports at the ESPN, plenty of others. When you look forward, would you say the company is shifting to more of a harvesting stage at this point? Or do you see or want to undertake another

round of investment? Obviously, I'm thinking outside the Shanghai Park, which we're all well aware of. Thanks.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

I think you're likely to see relatively prudent behavior over the next number of years. We'll obviously continue to look opportunistically. We do have some commitments that will continue to reflect an increased capital spending. The one that is most notable is Shanghai Disneyland and the completion of the Fantasyland redo or buildout in Florida. But I think you're likely to see a fairly prudent period for the company. Not to suggest that we won't take advantage of what we think is a great opportunity, but I'll leave it at that.

Doug Mitchelson – *Analyst, Deutsche Bank*

All right, great. Thank you.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Doug. Operator, next question, please.

Operator

Anthony DiClemente, Barclays.

Anthony DiClemente – *Analyst, Barclays Capital*

I have one for Jay and one for Bob. Jay, you've been clear that, through affiliate fee growth and advertising growth, that ESPN will more than cover the increase in costs from your NFL rights increases. I guess the question is, as you look out on the progression of that, is it appropriate to think that, because of the nature of the step-up in the fees in 2014, that ESPN margins could, at least temporarily, compress because of the step-up nature of those fees, at least until the curbs on affiliate fee and advertising revenue catch up with those fees?

And then my question for Bob, I think you guys mentioned in your prepared remarks on social games, your strategy is to develop more social games than console games. And so I'm wondering if you can give us an update on that strategy? I mean, we've seen these games like *Draw Something* on the iPhone pop up so quickly and resonate with kids and time spent. I mean, that's your bread and butter on your target demographic. I'm just wondering what the strategy at Disney mobile is in terms of attacking that market? Thank you, guys.

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

Let me start, Anthony. This is Jay. I don't want to be predictive. You know, we've made a practice of not being predictive on margins and looking too far down the road. But let me take the opportunity to talk a little bit about what happened in this current quarter in terms of affiliate revenue growth.

So, on a reported basis, cable revenue growth grew at over 10% and ESPN grew almost at 12% in terms of affiliate fees. Of course, you have to adjust for the things I spoke about in my prepared remarks. You know the covenant-related Comcast deal, the other puts and takes that I mentioned. And if you do that, ESPN affiliate revenue was up high-single digits in the quarter, which was comparable to the growth that we achieved in the first quarter. So, that gives you some sense of where we are, even though, obviously, we are seeing some of the escalation in the sports deals we have in place already in our numbers.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

And on the games front, as you know our stated goal was to turn our digital media business into a profitable business in 2013. And it is reflected in this quarter and will be reflected in 2012, where we continue on the path to deliver that.

One way to do that was to decrease our investment in console games and increase our investment or diversify our investment to social and to mobile games. And I don't think that it would be fair to conclude that we've given social a priority, even though we purchased Playdom to enable us to get more into that business.

We've actually spent a fair amount of time and investment on mobile games, and have had some considerable success, notably, *Where's My Water?* which, for a period of time, was the number one downloaded mobile game on the iTunes platform, ahead of another very popular game that involved birds.

So we think that you're right, that we see a dramatic increase in the time and money spent, particularly among our core demographic on mobile platforms. We actually think that they are going to continue to penetrate the market more profoundly, particularly outside the United States, and our presence on those platforms is very, very important.

The other thing to note is that the development costs for both the social games and the basically the production costs of the social and the mobile games are relatively inexpensive. So, in order for us to get to profitability, we have to reduce expenses. And one way to do that is to de-emphasize console and emphasize the other. And I think that actually is timed right to the market, because you're seeing such a dramatic increase in time and money spent on those other platforms.

Anthony DiClemente – *Analyst, Barclays Capital*

Okay, thanks a lot.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Anthony, thank you. Operator, next question, please.

Operator

Alan Gould, Evercore.

Alan Gould – *Analyst, Evercore Partners*

Thank you. At the analyst meeting last year, you had a slide showing *Cars* merchandise -- *Cars* 1 merchandise revenue, consistently over $200 million -- say, $215 million to $240 million a year for a number of years. Are we talking *The Avenger*s having the ability to be as high as a *Cars* type of numbers?

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

Cars was pretty extraordinary because it obviously took great advantage of a very, very distinct play pattern among boys all over the world. And those die cast cars as well as all kinds of other cars were extraordinarily popular -- both when we put out *Cars 1* and *Cars 2* -- I think, actually, our number one consumer products franchise of all time. It would be premature for me to predict that Marvel's *Avengers* is going to get to that level, but we're obviously bullish about where it can get to. And I think I'll just leave it at that.

Alan Gould – *Analyst, Evercore Partners*

Okay, and if I can just have a follow-up with Jay. Jay, the last public numbers on A&E networks was EBITDA of about $800 million in '09. Then EBITDA increased about $1.1 billion and is that entity still basically unlevered?

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

Well, I'm not going to comment on the future profitability of A&E. And in terms of its leverage, it is relatively unlevered, yes.

Alan Gould – *Analyst, Evercore Partners*

Can you tell us what last year -- what 2011, the historic, the latest year was?

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

No, sorry. We don't break that out, Alan.

Alan Gould – *Analyst, Evercore Partners*

Okay. Thank you.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay, operator, next question, please.

Operator

Barton Crockett, Lazard.

Barton Crockett – *Analyst, Lazard Capital Markets*

Thank you for taking the question. I was interested in the discussion of news network launch with Univision, and in particular, how should we think about the materiality of that for the cable network segment over the next couple of years? And how should we think about the expense impact on broadcast? Because I assume there's an opportunity to share costs between this new network and ABC.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

Well, look, we're excited about the opportunity, particularly given the dramatic increase in the size of the Hispanic market in the United States. And we think it's a good opportunity for ABC News to expand its presence beyond the ABC network. But the investment in this is relatively modest and so, its impact on the overall business is going to be relatively small.

Barton Crockett – *Analyst, Lazard Capital Markets*

Okay, great. Thank you.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Barton. Operator, next question, please.

Operator

John Janedis, UBS.

John Janedis – *Analyst, UBS*

Thank you. Bob, with the proliferation of tablets, I would think there is going to be a fair amount of kids viewing on them. Can you give us maybe an update on the timing around a measurement standard, and to what extent you see this as an opportunity for you?

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

Yes, I agree with you. I think you're going to see continued consumption of particularly filmed entertainment on tablets around the world. And that's great for us. We are hard at work at creating a set of apps to enable subscribers of multi-channel services to watch these channels on these mobile tablet devices, as well as smartphones.

I mentioned in my call we launched ESPN today to Comcast subscribers, and we're going to be launching apps for subscribers of the Disney Channel in June. And that's a big deal, because suddenly you'll be able to watch all this programming, both streamed live but also on an on-demand basis on these devices, provided you're a subscriber.

What that does is it pays us incremental money in terms of the money that we're being paid by the multi-channel providers. It also helps protect the value of that product to the distributors, and increases the value of the product to the subscribers. And it does give us additional opportunities to either upsell other product or to sell advertising in certain cases.

I can't, at this point, give you an estimate on just what the upside could be, but we clearly believe that we're going to increase engagement with our programming on multiple fronts -- ESPN, all the Disney Channel programming, ABC, and ABC Family. And by increasing that engagement, there are all kinds of opportunities to monetize.

John Janedis – *Analyst, UBS*

Okay, thanks. And Jay, just to clarify, on the high-single digit pacings at ESPN, did that include the nine extra NBA games? And if so, was there maybe an adjusted number you can give us?

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

No. That backs those numbers to those games out. (multiple speakers)

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

It's an actual pacing.

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

Oh, the pacing number. I'm sorry. I thought you were talking about the affiliate revenue. Yes, the pacing number has those games in it.

John Janedis – *Analyst, UBS*

Is there a way to get a cleaner number off that? Would it still be positive, do you think or --?

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

No. We don't have that on the pacing. Sorry.

John Janedis – *Analyst, UBS*

All right, thank you.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, John. Operator, next question, please.

Operator

David Miller, Caris & Company.

David Miller – *Analyst, Caris and Company*

Yea, hi. I have two for Bob. Bob, are you still prognosticating making money in the interactive business in fiscal '13? And the second one is, with Rich Ross's departure, as you assess perhaps filling in that position or what-have-you, does any scenario go through your mind whereupon you can imagine just not having any Chairman of the Studio at all?

And the reason I say that is because it seems like the Marvel unit is kind of somewhat self-contained. They kind of run themselves, although there's obviously a lot of cooperation and symbiosis with your other businesses. Pixar is obviously run by John Lasseter. You maybe clearly need somebody to run sort of the Walt Disney Pictures label, but do you really need a Chairman of the Studio? It just seems like it's too many layers. And I'm wondering if you can comment on that? Thank you.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

As I said a few minutes ago, David, our target goal is for DIMG to be profitable in 2013 and we're taking a step in that direction -- a dramatic step, actually, in 2012. And we're not abandoning that as a goal.

As for the Studio, I really have little to say about where we're headed in terms of management, except to remind everybody, really, that it is a big, complex global business that involves multiple entities, multiple moving parts, that all need to be coordinated very, very carefully and very, very aggressively.

You mentioned the multiple entities but the Studio markets and distributes those multiple entities, and gets involved with many issues related to both the making of the movies at those individual units, and distribution and management of those movies, as well as the library and all the other aspects of the Studio that exist -- like the live entertainment business, our Broadway plays and the music business. Maybe that's a way of my saying that this is a business that probably requires someone to run it and I'm not going to get any more specific than that.

David Miller – *Analyst, Caris and Company*

Okay, thank you very much.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thank you, David. Operator, next question, please.

Operator

Todd Juenger, Sanford Bernstein.

Todd Juenger – *Analyst, Sanford C. Bernstein & Company*

Thanks for taking the call. So, picking up a little bit on John's question, I think it'd be remiss if we didn't get your comment to sort of wrap up the last couple of weeks on what's going on with Kids TV. And specifically, the relationships, sort of what's going on the traditional linear delivery, how that relates in your view of the situation with what's going on at Netflix. And how that thinking impacts you as you approach the renewal decision you have with Netflix in Q4, as well as the various “TV Everywhere” deals that you're also talking about. Those sort of all three things -- do they all exist together? Or how do those all play out in your view? Thank you.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

Okay, well I'll start with the fact that the Disney Channel's ratings are probably the highest they've ever been, meaning, at least from a competitive perspective, they're enjoying great success. I believe that great success is solely the result of great programming. And there are a number of programs that are delivering those great ratings.

We have been aggressive as a company at being present on new platforms because we believe that, by and large, they create incremental revenue opportunities and they, by increasing engagement, they increase viewer interest in our programs and relevance. We also have managed our presence in these platforms very carefully, because the digital media business is still nascent and certainly dynamic. It's changing right before our eyes.

What we believe we've done is to strike a pretty good balance between protecting the core or the traditional business and platforms, and taking advantage of new opportunities on new digital platforms, which also happens to give viewers more access to these programs, both from a time perspective and a place perspective, than they've ever had before.

We have not seen any negative impact from the presence of Disney Channel shows on these new platforms. Most of them, by the way, are not available until after a season ends. And I think on the Netflix deal, it's only four that are. And what we've found is that the product that is available on the linear channel through the multi-channel provider is simply much richer, much more diverse, and much more attractive to the consumer than what's available on the other platforms. Not that the other platforms, the new ones, aren't good -- they are; but they pale in comparison in terms of how attractive they are to the consumer.

So that's a long way of my saying that we feel good about the balance that we've struck. We're going to continue to look and watch very carefully. We believe it would be wrong for us to remove our product from these new media platforms, particularly as they grow -- just as it would be wrong for us to be cavalier or reckless about the traditional business, which is delivering so much value to our company and our distributors. And that's why the “Watch” apps were created. It creates an unbelievable balance as far as we're concerned, between protecting an old business and being aggressive about going after new opportunities.

But again, going back to the Disney Channel, when you have great programming, you get great ratings. And you're just not that susceptible to the presence of those shows on other platforms.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay, thanks, Todd. Operator, we have time for one more question.

Operator

Jason Bazinet, Citi.

Jason Bazinet – *Analyst, Citigroup*

I just have a question for Mr. Iger. You've made some comments about your expansion in the Disney Channel globally. I was just wondering if you could summarize for us where ESPN is today in terms of your global aspirations and where do you think it might go? Thank you.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

ESPN's international business has never been particularly large, nor has it been a huge priority for the company. They have managed to take advantage of certain opportunities, notably through the partnership in Asia with News Corp., in Latin America, and selectively in Europe, particularly the UK.

They're going to continue to look at those opportunities with an eye toward determining whether they have the ability to grow, or in some cases, become profitable; or if not, potentially exit those markets. That's not to say that we're going to get out of international, but I think ESPN is likely to be selective about their presence there.

It's tough going for them, because they're frequently competing with local or locally owned and controlled platform owners that are going after sports almost as loss leaders, to drive subscriptions to their platforms. And the absence of us owning true or traditional distribution in these markets, it's kind of tough to be as aggressive buying live sports.

So the opportunities for ESPN internationally I think are somewhat limited. That's not to say that they don't exist, but it's never going to be a big part of ESPN's business.

Jason Bazinet – *Analyst, Citigroup*

Thank you very much.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thank you, Jason. And thanks again, everyone, for joining us today.

Note that a reconciliation of non-GAAP measures that were referred to on this call to equivalent GAAP measures can be found on our Investor Relations website.

Let me also remind you that certain statements on this call may constitute forward-looking statements under the securities laws. And we make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them, and we do not undertake any obligation to update these statements.

Forward-looking statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results expressed or implied in light of a variety of factors, including factors contained in our Annual Report on Form 10-K and our other filings with the Securities and Exchange Commission.

This concludes today's call. Thanks again, everyone, for joining us. Bye.

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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.