



The Walt Disney Company Q2 FY10
Conference Call

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Disney Speakers:

Bob Iger

President 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. Welcome to the Q2 2010 Walt Disney earnings conference call. My name is Ematee and I'll be your operator for today. [Operator Instructions] I would now like to turn the conference over to your host for today, Mr. Lowell Singer, Senior Vice President, Investor Relations. Please proceed.



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

Okay, thanks Ematee. Good afternoon everyone. Welcome to The Walt Disney Company's Q2 2010 earnings call. Our press release was issued a few minutes ago. It's now available on our website at www.Disney.com/investors. Today's call is also being webcast and that webcast will also be available on our website. And after the call a replay and transcript will be available there as well. Joining me in Burbank for today's call are Bob Iger, Disney's President and Chief Executive Officer, and Jay Rasulo, Senior Executive Vice President and Chief Financial Officer. Bob's going to lead off, followed by Jay and then we will be happy to take your questions. So with that let me turn the call over to Bob and we'll get started.

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

Thank you very much, Lowell. And good Afternoon.

Let me start off by saying how thrilled we are with the global success of *Iron Man 2*, which to date, has grossed \$334 million in global box office. It makes me even more enthusiastic about the great things Marvel and Disney can do together to build the value of the Marvel brand, its array of great characters and about our upcoming Marvel movies, *Thor* and *Captain America*.

Our strong second quarter performance was driven in part by *Disney's Alice In Wonderland*. This visually stunning and highly entertaining motion picture has to date grossed over \$962 million in global box office, making it Disney's second-highest performing film ever, both U.S. and worldwide, and the number 7 movie of all time. And we're excited too about our upcoming summer slate, which includes *Prince of Persia*, *Toy Story 3* and *Sorcerer's Apprentice*.

Under the new studio leadership, a focus on franchise films, such as *Toy Story 3*, is an important part of our growth strategy. And as we've discussed before, when a franchise film is successful at Disney, many of our businesses benefit, driving superior returns. With sequels of *Cars*, *Pirates* and *Monsters Inc.* arriving over the next two fiscal years, the opportunities to create additional value from these properties are tremendous.

At our Media Networks, we're continuing to build on our strengths. ESPN has invested in the world's most exciting sports events and presents them in an integrated and engaging way. The *NBA Finals* are a great example of how ESPN weaves live sports, great reporting and up-to-the-minute stats into a compelling cross-platform package that serves both consumers and advertisers. We are planning the same for the upcoming *FIFA World Cup* in South Africa.

ESPN's innovation and emphasis on quality continue to drive strong ratings and I am particularly proud of the work ESPN has done in digital media.



We are just a week away from the announcement of ABC's fall primetime schedule. I'm confident in the team's long-term track record and its ability to develop great new shows - like the current Wednesday night comedy block - and to generate new excitement around long-standing series such as *Dancing with the Stars*, *Grey's Anatomy* and *The Bachelor*. With the scatter market strong, we are anticipating a very good upfront market.

We are also pleased with the creative strengths of Disney Channel and ABC Family, which continue to perform exceptionally well with great original programming. Disney Channel has new hits in *Phineas and Ferb* and *Good Luck Charlie*, while Disney XD is building share among its target audience of boys. Both are forging a broad international presence that's bringing the Disney brand into people's homes throughout the world. We are also developing a Marvel block of programs for our XD channel. For its part, ABC Family is doing an excellent job of winning over millennials, a particularly sought-after demographic.

At our Parks and Resorts over the next two years, a magnificent new resort will open in Hawaii, two new Disney cruise ships will set sail and expansion of the Disneyland Resort and Hong Kong Disneyland are coming along nicely. The rollout of our additions and improvements to Disney's California Adventure begins next month with *World of Color*, an exciting nighttime spectacular. The Disney Dream, the first of our new ships, will embark on its maiden voyage in the early part of calendar 2011.

Together, these investments and our continuing emphasis on providing guests distinctive, high-quality experiences should serve Disney well as the economy improves, allowing a return to more normal pricing. Jay will elaborate later.

Our strategy is to create the best in branded entertainment, to use technology both to make that entertainment more compelling and to reach more people and to expand Disney's presence in promising global markets. But we have also taken steps to improve our operational agility and to challenge long-standing business models in order to better serve consumers. The creation of exciting new devices like the iPad, the growth of social media platforms and the choice demanded by consumers in how and when they enjoy their entertainment, offers incredible opportunities for companies like Disney, with strong brands, quality creative content and a willingness to be innovative and aggressive in the way content is created, marketed and distributed.

As the economy improves, I'm pleased the approach we've taken seems to be paying off. We were resilient during the downturn and laid the groundwork for future growth through our acquisition of Marvel and our continued investments in media and at our parks and resorts. Success rests on our continued ability to create quality content, to manage costs carefully and to be disciplined in our strategy and nimble in our execution.

And with that, I'd like to turn things over to Jay.



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

Thanks, Bob and good afternoon everyone.

We delivered solid Q2 results with growth in revenue, operating income and earnings per share. The economy continues to improve and this is benefitting our businesses to varying degrees.

Studio Entertainment was the largest driver of our year-over-year increase in operating income in Q2. Our theatrical releases, particularly *Alice in Wonderland*, strongly outperformed last year's slate, contributing to higher results. In addition to *Iron Man 2*, as Bob mentioned, our summer releases including *Prince of Persia*, *Toy Story 3* and *The Sorcerer's Apprentice*, will obviously be key drivers of our performance for the remainder of the year.

Results at Media Networks came in flat to last year's Q2. At Cable Networks, higher affiliate and advertising revenue at ESPN more than offset an increase in costs coming primarily from sports rights for Premier League football in the UK, college basketball and the NBA. ESPN's ad revenues were up by mid single-digit percentage points in the quarter. Due to a shift in our fiscal calendar, 12 college bowl games that were in Q2 last year moved to Q1 this year. We estimate that if these college bowl games had aired in Q2 this year, ESPN's ad revenue would have been a few percentage points higher.

At ESPN, recognition of a portion of our affiliate revenue is dependent on when we deliver a certain quantity of sports programming. You may recall that last year, we achieved some of these programming commitments during our fourth fiscal quarter. This year, we expect to reach more programming commitments in the third quarter. As a result, we currently expect we'll have a year-over-year increase in net affiliate revenue recognition of at least \$155 million in Q3.

At Broadcasting, softer primetime ratings and higher programming costs at the ABC network impacted Q2 results. We also incurred higher production cost amortization related to sales of ABC shows. Scatter pricing came in more than 35% above upfront levels. Ad revenue at our owned TV stations came in 20% above prior Q2, led by increases primarily in automotive, political and retail categories.

Thus far in Q3, scatter pricing for the ABC network is running 30% above upfront levels. Ad sales at both ESPN and our TV stations are pacing up by double digits vs. prior year.

At Parks and Resorts, operating income came in 12% below prior Q2. Since the beginning of the fiscal year, we have been reducing the depth of our promotional offers. We have done this with the expectation that we will make near-term tradeoffs between rate and volume. In Q2, we saw an improvement in both guest and per room spending, but a decline in occupied rooms.



Attendance at our domestic parks came in 4% lower than prior year levels, with Walt Disney World down 6% and Disneyland flat. As we mentioned previously, Q2 had shifts in two holiday weeks in the fiscal year: New Year's week moved from Q2 to Q1 and one week of the Easter Holiday moved into Q2 from Q3. We estimate that without these calendar shifts, combined attendance was nearly flat to the prior year. Per capita guest spending was up by 5%.

Occupancy at our Orlando hotels came in 8 percentage points lower than prior year levels at 81%, while Anaheim occupancy was down by 2 percentage points at 67%. Per room spending at our hotels came in 8% above prior year levels, with an increase at Walt Disney World and a decline at our Disneyland resorts.

Results at our cruise line were affected by increased fuel costs and higher promotional activities. For the segment as a whole, savings from lower volume-related expenses and cost mitigation activities helped to partially offset higher expenses from inflation and pension, post retirement medical costs.

Q3 hotel reservations on the books are pacing 10% behind prior year. Again, we are not surprised by this since we are beginning to return to more normalized pricing levels. During fiscal 2011, we expect to no longer widely offer the deep discounts we have had in the market over the last 18 months.

At Consumer Products, the increase in operating income was driven by higher results at licensing, publishing and the Disney stores. Licensing revenue benefitted from strong retailer response to *Toy Story* merchandise. Marvel properties added to segment licensing revenue, but this gain was largely offset by costs of sales and amortization of intangible assets related to Marvel. Earned licensing revenue grew by 4% on a comparable basis. The increase at Publishing reflects growth from Marvel properties. At Disney Stores North America, we saw an improvement in comparable store sales.

Given our strong balance sheet and cash flow, we remain committed to buying back the shares we issued for the Marvel acquisition by the end of fiscal 2010. So far this fiscal year, we've repurchased over 11 million shares for roughly \$370 million.

We're pleased with the results we delivered in the first half of the year. They reflect not only the financial discipline we've maintained through the downturn, but also the steps we've taken to become more efficient and position our businesses for long-term growth. More importantly, we have done this while maintaining our focus on creating high quality branded entertainment and investing in key growth initiatives that we believe will position us to continue to deliver shareholder value.

With that, I'll turn the call back over to Lowell.



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

Thanks, Jay. Ematee, we are ready to start the Q&A.

Q&A

Operator

[Operator Instructions] Your first question comes from the line of Jessica Reif Cohen with Banc of America [Merrill Lynch]. Please proceed.

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

I have two questions. One, you haven't said anything about the Shanghai park. I was wondering if there's anything holding that up, does it have anything to do with you starting up a Disney Channel in China. And then secondly, could you talk about the cost curve for ESPN over the next few years?

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

There's no news on the Shanghai Park, Jessica. Since we announced that we had reached a frame work agreement with the government and received the necessary approval from Beijing, our next task was to negotiate a basically detailed agreement with the Shanghai government and that process is under way and we are not making predictions as to when it will conclude except to say that it's moving along on a timely basis, and there's no direct tie to a channel in China.

As for the cost structure of ESPN, we don't specify just how that will grow, in part because there are contracts that expire over the next few years with certain sports organizations and until those are negotiated or until it's determined just whether we will negotiate extensions of those deals, we really can't predict just what the cost structure will be. The big deals were the NFL, the NBA, Major League Baseball and NASCAR all run through 2013-2016 and you can expect that there are increases in all of those contracts. But again, we really don't specify just what those are, and there are a number of other agreements that we have that will expire during that period of time.

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

Thank you.



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

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

Operator

Your next question comes from the line of Spencer Wang with Credit Suisse. Please proceed.

Spencer Wang – *Analyst, Credit Suisse*

Thanks. Good afternoon. Just to follow-up on the question about ESPN costs. Jay, could you perhaps quantify for us how large the costs were for the new channel in the UK within the quarter, and then secondly for Bob, with some of the recent chatter about CNN and CBS News perhaps doing something jointly, could you just share with us your thoughts on where you can take costs out on the news side or what you would do strategically there, thanks.

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

Thank you, Spencer. Obviously, we're very much in start-up mode in the UK with English Premier League Football and Rugby and FA League Football. I'm not going to specify the specific costs of that operation but we are in ramp up, the rights that we had were for about 46 Premier League games this year, about 23 next year. But FA adds a number of games and we'll be at 48 the following year and then we've picked up Rugby. So we're building our brand there. Obviously we're investing to do so, and feel that in the long run, the number of subscribers and the revenue on the top line will more than compensate for that strategy.

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

On the news front, ABC News has just gone through a rather exhaustive analysis and extensive process to address their cost issues as well as to focus more on the strategy of gathering and presenting news in a world that has changed a lot both in terms of how people access that news but also how technology has enabled us to cover the world differently. And with that they've taken substantial costs out, Spencer, in a variety of different ways including a substantial reduction in people.

The chatter that you referred to about CNN is interesting in that we explored with CNN a few years ago a joint venture. We were unable to conclude an agreement with them. We are not in discussions with them now about something similar. To the question you asked about costs, we are not looking to outsource news at the ABC Television Network, or to outsource news



gathering although we do rely on certain third parties throughout the world to provide certain, basically up-to-the-minute, or late breaking news on our behalf.

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

Thanks, Spencer. Operator, next question please?

Operator

Your next question comes from the line of Doug Mitchelson with Deutsche Bank. Please proceed.

Doug Mitchelson – *Analyst, Deutsche Bank*

Thanks so much. I guess also two questions. Both for Jay. Jay, you said you aren't surprised by the 10% below last year bookings at park hotels because you're weaning yourself off discounting. Does that mean your pricing is up 10% and this is a revenue neutral strategy, or if not, given you've been managing the parks attendance through the recession why shouldn't we be concerned about a 10% drop now that we're in a recovery. That's the first question.

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

Well, Doug, I think that the situation we're in right now, and remember when I gave this number out last quarter I said we were 10% down, we wound up the quarter 6% down, and so consumers are still out there waiting for bargains. Quite honestly I think we're in a bit of a "waiting for each other to blink" [situation] and we are, as I mentioned last quarter, and I'll repeat, we are determined and confident that we can take our pricing back to its normalized levels.

So at this point, I'm not surprised that we're where we are in terms of bookings. I told you in the second quarter we've seen signs of our reduction in pricing both in terms of per capita spending and spending per room, both of which were up I think 5% and 8% are the numbers that go with that, and so we feel pretty confident that we're on the right path and that in 2011 we will be back to our, sort of, normalized level of pricing; which by the way, always includes for some weeks of the year some discounting and has for time in memorial.



Doug Mitchelson – Analyst, Deutsche Bank

And just to be clear on this point, so to the extent that there might be a short period of time that's disruptive to attendance, it's important to get back to normal pricing and you're willing to go through that stretch, right?

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

You know what? We play the rate and volume and lever that on a daily basis. I don't want to go into how yield management works. It's extremely complicated. We offer different rates every single day of the year and, of course, try to maximize revenue along the way. But what we're talking about here is the longer run to getting back to normalized prices and I'm pretty confident that that can happen.

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

Also I think, Doug, you're inferring something that isn't necessarily going on right now and that is that we've made a decision to reduce the size of the discount. In doing so, we were pretty certain short-term that was going to reduce volume but we have increased revenue in the process and actually in the very very recent period, our bookings have actually increased nicely.

Now we're not making predictions as to whether that pattern will hold or what will happen through the summer but we thought after seeing an extremely strong week of bookings which we did this past week, with the discount being less than it was, that that is a good sign and perhaps a sign that 1) people are planning to vacation more this summer than they did last; 2) the closer you get to the summer the more the urgency to book to make sure you have the right hotel at the right time, etc , and that it's possible that we're starting to see signs the consumer is starting to look past, in effect, the smaller discount in order to take the vacation that they want when they want to take it.

Doug Mitchelson – Analyst, Deutsche Bank

That's helpful. I'll just stay with the one question. I've taken up enough time. Thanks.

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

Thank you, Doug. Operator, next question please.



Operator

Your next question comes from the line of Ben Swinburne. Please proceed.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you, good afternoon guys. I guess I have one for Jay and one for Bob. Bob, now that the Marvel deal has closed and you got *Iron Man* out and I'm sure you've been looking at how you can exploit that asset across, or the Marvel properties across all your different businesses, can you sort of update us on the things you talked about when you announced the transaction? I think you mentioned licensing, particularly international was a huge opportunity in terms of synergies, I think there has been some debate about what you can and can't do at the theme parks with the Marvel property. Anything on the video games or on domestic cable like Disney XD would be very helpful now that we're sort of into the acquisition. And I also have one follow-up.

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

There's an awful lot of activity going on and it's all good. On the theme parks front though, we said when we acquired Marvel that there were encumbrances in the United States and in Japan, notably between Marvel and Universal, deals that were done a long time ago. And so Marvel presence in our parks at least in the short term is likely to be somewhat limited in nature. However, in all of the other businesses there's quite a lot of activity. On the games front and in digital media in general, there's been a fair amount of development and discussion and in fact as you know we've gone into the self-publishing business at least on the console side of that business and we are starting to develop some Marvel properties that will be published by us. We're looking for other opportunities on the games front as well. It's obviously a much more diverse business than just a console business. We're also discussing with Marvel a variety of other digital media strategies including social networking opportunities as well as things like mobile apps and, in fact, Marvel launched a great app for the iPad just last month.

Licensing is probably where most of the activity is coming. Marvel had a very successful global licensing operation as do we. There's been a significant amount of integration going on not just in the U.S. but in markets all around the world: Marvel working with Disney teams in places like India and China, looking for opportunities in Japan, looking at how to both reduce costs and grow licensing revenue in Europe and Latin America - so I'd say that's where the most activity and where the most opportunity is.

There's also an opportunity to sell Marvel goods on Disney platforms. You can go to Disney.com, to the store, and you'll see that we're selling *Iron Man* merchandise there. We're looking also for the opportunity to potentially sell Marvel merchandise at our parks. I mentioned in my remarks we're developing a Marvel block of television programming for



Disney XD and we have two series in production and/or development and we hope that that will expand significantly over the next few years, so we think we have a big opportunity in terms of television. And then of course once the Paramount distribution deal is fulfilled, it's our intention for the Disney Studio to step in and become the global distributor of Marvel's motion pictures and videos. Great opportunity as we cited when we announced the acquisition. I've said a number of times that we're impressed with the Marvel team and if anything since the acquisition, I think our enthusiasm has increased because of the quality of their people and the quality of the product and the opportunity to take that product particularly in a world where technology is more friend than foe and distribute it more readily and in more compelling ways is pretty exciting.

Ben Swinburne – Analyst, Morgan Stanley

That's helpful and just Jay, back on the ESPN front, the way we calculate if we back out the equity affiliate income, your OpEx at ESPN went up I think 6% in the December quarter to up about 15% in the March quarter. Is that acceleration in cost growth primarily or even entirely related to the UK launch or did something else accelerate in the quarter? Any comment there would be appreciated.

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

Yeah, there was, you're right. There are some rights fees and there are additional production expenses for some additional events that took place in the course of the year. As I mentioned in my comments, the rights fees were associated with the UK soccer and college basketball and sort of the next year of the NBA, and that pretty much covers it.

Ben Swinburne – Analyst, Morgan Stanley

Gotcha, thanks a lot.

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

Okay, thanks. Operator next question please?

Operator

Your next question comes from the line of Imran Khan with J.P. Morgan. Please proceed.



Imran Khan – *Analyst, JP Morgan*

Yes, hi, thank you very much for taking my questions. Two questions. One about ESPN and the other about ABC. ESPN, it seems like looking at some of your competitors in the cable networks they are experiencing pretty strong growth in the international market. Can you give us color, how you think about ESPN international revenue opportunity and also can you get to the U.S. level margins in ESPN in the long term or do you think that international is a lower margin business? And with regards to ABC, how should I think about the costs for ABC next season? Does NBC's return to scripted programming impact programming cost for you? Any color would be helpful, thank you.

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

We didn't notice any uptick in expenses at ABC, at least through the development season, that were due to NBC developing more aggressively in the scripted side. Until we choose the programs for the fall and determine how many will be bought, it's difficult to predict what ABC's expense line will be. But there doesn't seem to be any real forces in the marketplace that would suggest that the costs are going to go up.

On the ESPN front as we've said in the past, international growth while continuing is still relatively difficult to achieve mostly because, in order to really grow a sports platform or channel in these international markets, you have to spend very very heavily on the most popular sports in each market. And in most cases, in the big markets, you have an embedded platform owner, Sky in the UK is a great example of this, that is going after the same rights in order to grow subscriptions to their overall platform. Since we do not own a distribution platform, we actually enter the sports rights market at a relative disadvantage to those that own platforms, so while we're pleased with the growth of ESPN internationally from what had been basically a losing business some five to ten years ago to a profitable business, we do not believe that international growth for ESPN can rival that of other US based cable program services that either can leverage the programming that they buy in the United States globally or buy programs under less competitive circumstances in international Markets.

Imran Khan – *Analyst, JP Morgan*

Got it. Thank you very much.

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

Thanks, operator next question please?



Operator

Your next question comes from the line of Anthony DiClemente with Barclays Capital. Please proceed.

Anthony DiClemente – *Analyst, Barclays Capital*

Hi, thank you very much. I have one for Jay and one for Bob. Jay, I just thought with some of the currency swings that we've seen out there recently in the marketplace, I thought it would be worth asking: what is Disney's exposure to the Euro and the Pound and are those currencies hedged and how do you think about your currency exposure abroad? And I have one for Bob, thanks.

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

Yeah, you know, we don't have a huge percentage of revenue for our Company in Europe and we are hedged in those currencies from time to time, we're in and out of hedging. I don't see a huge exposure to either of those currencies. As it relates to our business, we find that the business that people always ask about directly related to currency is our Parks and Resorts business which tends to follow more of the strength of the economies around the world than it does changes in currency.

Anthony DiClemente – *Analyst, Barclays Capital*

Okay, thank you. And I guess to follow up a little bit on Doug's question about the Parks. Most of us on this call aren't leisure and lodging analysts but it certainly seems like in some other pockets of leisure like for Starwood or Marriott that they're starting to see revenue growth and EBITDA growth. And what I hear from some investors is that that's a business customer and Disney's customers primarily a leisure consumer. I'm just wondering in your research have you noticed a tie between the business customer and your consumer at the parks, and is there any way that we as analysts can assume a rebound in attendance for your clientele can in any way predict a rebound that we actually are seeing in other pockets for the business consumer? Thanks.

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

Well, a couple of things. First of all, the leisure traveler usually has a much longer booking cycle than the business traveler, so when you feel good enough to take a vacation, good enough I mean economically, to take a vacation then you've got to decide, okay, where am I going and when am I going. And quite often for us of course, that aligns itself with school schedules and peoples available time. And so we would at the very least be a lagger to business travel, which



is usually more close and immediate in terms of the booking. Of course, we do run a sizeable group business, group and convention business, that has a lot of business meetings and we have seen a lift in that business in the second quarter, unmistakable relative to last year. So to that extent, and of course we see the Starwood and others numbers as well as you do, but we don't share a huge customer base. Most of those chains you see reporting are primarily business traveler focused and I don't think there is a link, but of course they need leisure travelers for a lot of their weekend business, so as their results improve quite often you see ours improving as well but I don't think there's a huge link there.

Anthony DiClemente – *Analyst, Barclays Capital*

Great. Thanks for answering my questions.

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

Thanks, operator next question please?

Operator

Your next question comes from the line of Doug Creutz with Cowen & Co. Please proceed.

Doug Creutz – *Analyst, Cowen & Co.*

Thanks. When I think back to things Pixar said about their pipeline six or seven years ago they were asked about sequels, and one of the things they said is they are focused on working whatever the best ideas were in their pipeline. You guys announced *Monsters 2* recently and then Bob I'm just wondering, has the shift all of a sudden now to have three sequels in three years, is that a reflection of kind of organically what's coming out of their pipeline, is it a reflection of Disney strategic priorities, and has there been any change in how Pixar is thinking about their production process, thanks.

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

Well first of all, we're increasing capacity at Pixar. In fact we're building a new structure there as we speak and the goal all along was to essentially ramp up output, but do so very carefully. I can't speak for where Pixar was before the acquisition, but since the acquisition we've talked about a blend of both original movies and sequels, or movies derived from movies that have already been made. We are not forcing sequels though into the system unless we've got directors and storytellers that have good ideas for those sequels because we feel they will do more damage to the franchise or to our business if we just put sequels out there for the sake of



making sequels. I think you'll see when *Toy Story 3* comes out exactly what we mean. We had a director and a group of storytellers that had a great story to tell and a real passion for telling it and therefore we put it into production. The same thing is true with *Cars 2* and the same thing with *Monsters*. We didn't mandate a sequel to any of those. We just obviously said we were open to it and certainly encouraged it but only when there was a good idea. So other than the fact that there's a slight ramp up in capacity, there's been really no change in philosophy since the acquisition was announced, and again, you'll see a blend over the next certainly five years of sequels and original films.

Doug Creutz – *Analyst, Cowen*

Great. Thanks.

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

Thanks, Doug. Operator next question please?

Operator

We have a question from the line of Richard Greenfield with BTIG. Please proceed.

Rich Greenfield – *Analyst, BTIG*

Hi. A couple of questions. One, Jay, I think you said that theme parks went from down 10% on the last call tracking to actually down 6%, but I thought you said at the beginning that the actual domestic in total was down 4% so I want to make sure the spread was 10 to 4 between last call and this call, and then I was curious on your comment about 10% looking forward. How much does Easter, or losing an Easter week versus last year, how much does that impact that down 10? And then just a quick housekeeping question. There's a note in the release about film finance package ending early and a tax charge. Just wondering if those are actually excluded in the \$0.48 or whether that's an additional add back we should be making an adjustment for. Thanks.

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

Okay. Let me start with your first question on the theme park numbers. So the 10% to 6% was rooms on the books in the second quarter at the time of our earning call and rooms on the books finally when we got there. The 4% had to do with attendance, okay? So those are clearly apples and oranges. They are related but there's no spread between those numbers. They are different numbers.



Rich Greenfield – Analyst, BTIG

Got it, okay.

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

Is that clear? And in terms of your second question, the buyout of the film financing is an interest issue and it's about \$20 million, round numbers, that will be down in Q2.

Rich Greenfield – Analyst, BTIG

And then how much of theme parks was due to the switch in the calendar year related to holidays in terms of the 10% going forward?

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

Well last quarter I told you that the week that we lost was about \$60 million to us, and the week that we gained is \$20 million. So, I'll let you work it from there.

Rich Greenfield – Analyst, BTIG

Thanks.

Operator

Your next question comes from the line of Tuna Amobi with Standard and Poor's Equity Group. Please proceed.

Tuna Amobi – Analyst, Standards & Poor's

Thank you very much. So the first question I have is on Disney XD rebranding. If you can perhaps provide more color on the timing of some of those programming blocks that Bob alluded to. And over time, where do you see the upside from this channel, how you're going to position it for this upfront? Do you see mostly advertising affiliate upside or how do you think that kind of shakes out over time? And separately, with regard to *Alice*, Bob, I was wondering how the performance of this film has shaped your overall 3D philosophy, kind of, specifically any titles that you've already announced in the near term that you might actually be producing in 3D and any comment as well on the DVD strategy for *Alice* would be helpful in terms of the timing, BluRay, etc., that would be helpful.



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

Wow, okay. A multi-question question.

First of all, 3D. I've almost lost track of what we announced was in 3D and what isn't, but you can assume that there's a lot under consideration.

What we've announced is *Toy Story 3* which is just coming up, *Step Up* which is a Touchstone film, *Tangled*, which is the re-titled *Rapunzel*, *Tron* at the end of the year, *Mars Needs Moms* and *Cars 2* will all be in 3D. We've not made announcements about other future live action films but we're in discussions on a number of them.

Our overall feeling about 3D is that it's obviously a valuable technology both for the movie industry and for the viewer, it's one that we've taken advantage of for a long time and one that we really believe in. But we don't believe every film should be in 3D and when applied we think 3D should be applied well, and not done in a last minute sort of pasted-on kind of approach, because we think that if we make films in 3D that don't really benefit from them being in 3D, that's not necessarily good, and if 3D is used badly, either by us or the industry, that's not good.

We obviously have something good going here, particularly when you look at the premium that the industry is getting from a ticket price perspective, and if we go to the well too often or in the wrong ways we're going to kill the goose that laid the golden egg.

On the *Alice* front, we're very excited about the film overall and about its prospects in home video. As you know, we worked out arrangements on a global basis to bring this into the marketplace some 12-13 weeks after release. So that enables us to put the DVD out on June 1 instead of having to either wait until the middle of the summer, which wouldn't have been optimal, or to put it out when the market in fact recovers after the summer, and that would have been in September when we felt it would have been old. So we now go into the marketplace, one, at a good time to sell DVDs, the first week in June, two, with a title that feels very very fresh, and we think that that bodes really well for this title. And we know that this was kind of a hard fought victory of sorts, but it's one that I think the industry will benefit from significantly and obviously we'll benefit from that.

Lastly, Disney XD. We rebranded a channel in the U.S. It was called Jetix and we're in the process of rebranding a number of channels globally that were either Jetix channels or the former Fox Kids channels we bought way back with the Fox Family acquisition.

So far the programming results, meaning the effect on ratings, have been quite good for the overall channel and we feel that that not only bodes well for advertising but it bodes well for our ability to increase rates down the road with a channel that's just viewed as more viable and more attractive to distributors and to consumers.



The only programming that I mentioned in the call was that we are working to create a Marvel block of programming on this channel. We are already licensing Marvel product for the channel and we're stepping up that activity both as a means of growing ratings for the channel, and thus growing advertising and distribution, but also as a means of helping to use the channel to strengthen the Marvel brand and to put a real spotlight on it.

Tuna Amobi – *Analyst, Standards & Poor's*

That's helpful. And just a quick clarification or follow-up.

On the Miramax charges of \$71 million, is that just about all of the charges that are expected there or is anything else on the radar for the rest of this fiscal year?

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

I haven't laid out anything on the Miramax charges.

Tuna Amobi – *Analyst, Standards & Poor's*

Well the \$71 million was presumably...

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

That's not a Miramax charge. It is the closure of the IMD production facility and a few other things.

Tuna Amobi – *Analyst, Standards & Poor's*

Oh, okay, thank you very much. Thanks a lot.

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

Thanks, Tuna.

Operator next question please?

Operator

Your next question comes from the line of Jason Helfstein with Oppenheimer. Please proceed.



Jason Helfstein – Analyst, Oppenheimer & Co.

Thanks. Two questions, one on ad trends and effects on ESPN360. So on ad trends if I listen to what you said, you said scatter was 35% over the upfront but is now pacing 30% in the second quarter or in the third quarter, and then stations were up %20 but are now pacing double digits.

Is that reflective of a slowdown in the ad market or more of the March quarter was the bottom and kind of so the comparison become more difficult and then--

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

Let me answer your first question. Those are two different things. The first measure is a price measure. It's percentage of the price, the CPMs over what was sold in the upfronts. Those are the larger numbers that you mentioned.

The other numbers are ad pacings for ad sales so those are revenue numbers. So that's the difference there.

Jason Helfstein – Analyst, Oppenheimer & Co.

No, no, no, I wasn't comparing, just saying so in this quarter, I think you said your stations were up 20%, correct, in revenue?

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

Yes.

Jason Helfstein – Analyst, Oppenheimer & Co.

Right, and you said the pacings are double digits?

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

Yes. We're using double digits, we aren't being specific about the numbers there. We're going to leave it there as its perspective.



Jason Helfstein – Analyst, Oppenheimer & Co.

Okay, and then on ESPN360, I mean we've read about pretty high consumer comments on this and a lot of demand and can you talk about when you think we might see this more widely deployed and perhaps has this come up in the Time Warner renewal, thanks.

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

Well we've grown the ESPN 3, we've now rebranded it ESPN 3. We've grown it very nicely and in fact we're now up above 52 million subscribers and it's a dual revenue stream business for us. We're getting subscription fees and we're selling advertising and we feel very good about its prospects, so we're continuing to work on the rollout.

I don't want to comment about any aspect of the Time Warner negotiation but wherever we can, whether we're in negotiation for an omnibus deal or we're in separate negotiations just to increase ESPN 3, we're working to basically grow it because we think it's a good service and a good business.

Jason Helfstein – Analyst, Oppenheimer & Co.

Thank you.

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

Thanks, Jason. Operator next question please?

Operator

Your next question comes from the line of David Miller with Caris & Company. Please proceed.

Dave Miller – Analyst, Caris & Company

Yeah, hi. Two questions, one for Bob, one for Jay. Jay, I'm actually kind of surprised to hear you talk about fuel costs at the cruise line.

I was under the impression that you guys had a fuel hedge on the cruise line so if you can set the record straight on that, that would be great. And then Bob, just given the global success, or I should say instant global success of *Iron Man 2*, what is your taste if any for perhaps buying Viacom out of the distribution arrangement that they will I guess enjoy for the next four Marvel films. Thanks very much.



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

Okay, quite simply on the fuel costs. We were hedged in the prior year second quarter. We are not hedged in the current year second quarter.

Dave Miller – *Analyst, Caris & Company*

Got it.

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

So we've experienced a relatively modest - but it was the primary driver of change for the Disney Cruise Line – increase in costs.

Dave Miller – *Analyst, Caris & Company*

Right.

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

And I have really no real comment on the second question, Dave. I mentioned in my remarks that it's our intention to distribute Marvel's films once the Paramount deal is fulfilled and I can't make any other further comment on that.

Dave Miller – *Analyst, Caris & Company*

Okay, thank you.

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

Thanks, David. Operator, next question please.

Operator

The next question comes from the line of David Bank with RBC. Please proceed.



David Bank – *Analyst, RBC Capital*

Thanks, let me ask one question, a question I think you've been asked about four or five times before and I'm going to try to take one last pass at it, which is, the operating leverage at ESPN, was sort of materially below what we've typically seen.

I think you guys did a good job of explaining what the costs were in the quarter.

They were soccer, NBA, basketball stuff, but can you help us put some perspective on what the normalized margins are, even for the balance of the year, like, was there a mismatch in delivery of programming versus revenue?

Is this kind of the sustainable operating leverage for the next couple of quarters? Thanks.

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

First of all you have lower margins in the early quarters because as we've explained we have revenue recognition issues as it relates to program covenants that we have with the distributors and the rates they pay us for ESPN, and Jay in fact talked about how some of that revenue is going to move from the fourth quarter to the third, when you compare those quarters to last year. So, operating leverage actually improves as we recognize more revenue as we fulfill the program covenants.

I think ESPN is a business that's kind of difficult to compare on a quarter-to-quarter basis because, first of all, there are timing issues that are at stake in terms of what Jay talked about, ball games shifting out of a quarter.

Sometimes they are apples-to-oranges comparisons just in terms of how far certain series go whether they go four games or whether they go seven games, you'll see some fluctuation there, particularly in the basketball season.

What we say about ESPN, which is pretty clear, is that we continue to grow its subscription revenues and we're entering into some negotiations that are critical in that regard and that ad pacings at ESPN have generally been quite strong and in fact they feel extremely bullish about their upfront that's coming up. They are seeing extraordinary growth in a robust marketplace with automotives and consumer electronics and men's grooming products and they feel really good about that product.

They are continuing to invest in their digital platforms and to some extent internationally, so there are costs associated with that this last quarter. And by the way on the digital front, their digital revenue was up 30% over where it was a year ago which is pretty remarkable, and they are getting real demand for things like iPad apps and for homepages in the ESPN.com world,



and so I think again, we don't really look at ESPN on a quarter-to-quarter basis, it's just not how we manage it. Particularly when you are given all of the timing issues and the fact that there are a variety of different ins and outs in terms of how revenue is recognized, how sports events are scheduled, and their outcome.

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

I have two quick things I'd like to add to that. First of all, I've said again, in Europe we're in ramp up. A lot of the costs we talked about are related to that, so there's some deleverage when you're in ramp up in building a business.

Secondly, I want to clarify something that's out there relative to ad sales. What we report is basically revenue and revenue includes both what a lot of other people report which is cash sales and also whatever make goods there are in the course of the quarter or the year, so sometimes some of the numbers we see out there, and you guys and ladies see out there are, are not apples-to-apples across differing companies.

David Bank – *Analyst, RBC Capital*

Okay, thank you.

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

Operator next question please?

Operator

Your next question comes from the line of Alan Gould with Soleil Securities.

Alan Gould – *Analyst, Soleil*

Thank you. Bob, in terms of the ESPN affiliate fees going forward, can you give us some sense as to how much is contractually built in over the next few years versus how much we may see some variance, some upside if contracts get renegotiated?

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

We haven't and won't disclose when all of our carrier agreements expire. Obviously they all at some point over the next years have expiration and at that time they get renegotiated and we



can't give you too much guidance on what the trajectory is and, of course, what's going to happen when we sit down and renegotiate those.

Alan Gould – *Analyst, Soleil*

Jay, can you give us what percentage get renegotiated over the next three years or so?

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

I can't.

Alan Gould – *Analyst, Soleil*

Okay, thank you.

Operator

Your next question comes from the line of John Janedis with Wells Fargo securities. Please proceed.

John Janedis – *Analyst, Wells Fargo*

Hi, thank you. Jay, you touched a bit on this but can you expand more on how the weakening in the Euro has impacted bookings during the fiscal third quarter and to what extent the fluctuation impacts the class of hotel and spending at the domestic parks from European visitors?

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

I will tell you this, that international attendance was not a major driver for Parks and Resorts in terms of movement in Q2 of this year. And historically, we haven't found, as I mentioned, changes in exchange rates to be a huge driver over long periods of time. It really is more related to the economic strength of the origin countries than anything else.

You know, we are, in this past quarter, Walt Disney World saw relatively flat international attendance. Disneyland international attendance was up but it wasn't from currency fluctuation countries, so I really don't think that that is something you can look to for a driver for this quarter.

I didn't catch the second half of your question, I'm sorry?



John Janedis – Analyst, Wells Fargo

Does the exchange rate at all impact the class of hotel or the spend once the visitors get to the parks?

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

You know, typically it doesn't but I will also hasten to add that at Walt Disney World where we see most of our European attendance, many of the folks stay off property, so they stay in the vast number of vacation homes in Orlando. They usually stay for a two-week period of time, two-week plus, so we wouldn't probably pick that up at our resort anyway even if there was an impact, but I don't think there is to be honest with you.

John Janedis – Analyst, Wells Fargo

Thanks that's helpful. And maybe just one quickie; would it be fair to say that the current discount at Walt Disney World is maybe in the 20-30% range versus two years ago?

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

I mentioned on our last call and I'll repeat it, you know, a year ago, we had our entire property on a promotional program that was basically 'Buy Four Nights and Get Three Free.'

Last year, this current year, we did a tiered program where only the deluxe hotels were 'Buy Four, Get Three Free' and the rest of the property was 'Buy Five, Get [Two] Free' so we lowered the discount.

I'll let you do the math on what four plus three and five plus [two] look like in terms of percentages but the numbers you threw out are relatively high compared to what we are looking at right now.

John Janedis – Analyst, Wells Fargo

Thank you.

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

Sure.



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

Operator, we have time for one more question.

Operator

Your final question comes from the line of Tony Wible with Janney. Please proceed.

Tony Wible – *Analyst, Janney Montgomery*

Hi. I was hoping you can comment on your willingness to push ahead with ESPN 3D, if we start to see more CE companies pushing these chipsets that do 2D to 3D conversion. And also in that same vein, do you anticipate the leagues at some point fragmenting out the 3D rights apart from the 2D rights? Thank you.

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

We're in development with using 3D technology for ESPN.

I think we announced a deal with Sony some months ago to help jump start that and in fact the World Cup is going to be offered in 3D. There are a lot of issues that are related to this.

Obviously, you're looking at a world where there are very few 3D sets out there and the ability to transmit still has some limitations, although it can be done. And so we think that as the case with any technology that makes the experience better, that it's worth spending money to develop and ultimately will create value. But this is slow going and we're just looking at the beginning.

I don't anticipate sports rights being broken out 3D versus 2D, and certainly something that we wouldn't tolerate.

If anything, it's possible that 3D channels will be offered to consumers on a separate or an add-on basis, but I don't anticipate rights being sold to us that are essentially segregated between 2D and 3D.

Tony Wible – *Analyst, Janney Montgomery*

Great. Thank you.



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

Thanks, Tony

Thanks again everyone for joining us today. 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.

Lets me also remind you that certain statements on this call may constitute forward-looking statements under the Securities laws. 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 in our other filings with the Securities and Exchange Commission. This concludes today's second quarter call. Thanks everyone for joining us.

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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 3, 2009 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.