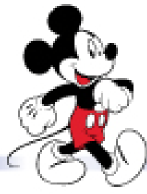

Disney's 2011 Investor Conference

FEBRUARY 17, 2011

Disney Speakers

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*
Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*
Rich Ross – *Chairman, The Walt Disney Studios*
Bob Chapek – *President, Distribution, The Walt Disney Studios*
Sean Bailey – *President, Production, Walt Disney Studios Motion Pictures*
Kevin Feige – *President, Production, Marvel Studios*
Jim Morris – *General Manager, Pixar Animation Studios*
Anne Sweeney – *Co–Chair, Disney Media Networks and President, Disney/ABC Television Group*
Kate Juergens – *Executive Vice President, Original Series Programming and Development, ABC Family*
Paul Lee – *President, ABC Entertainment Group*
Gary Marsh – *President of Entertainment and Chief Creative Officer, Disney Channels Worldwide*
Andy Mooney – *Chairman, Disney Consumer Products Worldwide*
Jimmy Pitaro – *Co-President, Disney Interactive Media Group*
John Pleasants – *Co-President, Disney Interactive Media Group and General Manager, Playdom*
Tom Staggs – *Chairman, Walt Disney Parks and Resorts*
George Bodenheimer – *President, ESPN and ABC Sports, Co-Chairman Disney Media Networks*
John Skipper – *Executive Vice President, Content, ESPN*

PRESENTATION

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

Good morning. I always have a great advantage because I get to follow videos like that. That video is actually a fitting way for us to begin today because, in so many ways, it captures the essence of who we are, a stunning collection of strong businesses that enter peoples' lives and touch their hearts all over the world.

And today, we want to provide you with greater insights into our businesses, into our brands, our direction and our people, and to illustrate how they all work together to form a whole and

to create greater value. In essence, we're going to be presenting a look at our assets, our strategy and our culture, and all three are essential components to our value-creating proposition.

Today, is also a good opportunity for me to reiterate what I've been saying for about five years now, and that is that Disney is different. How are we different?

We begin with great brand strength and focus. Our brand strength is unparalleled in the media and entertainment space, and we allocate our capital to either support brand-strengthening efforts, to leverage existing brand strength or to create or acquire new brands, Pixar and Marvel being two great examples.

We manage our assets in a coordinated and cohesive manner, and we're aligned about our priorities and how to best create value. This is true between our businesses and within our businesses and is evident at ESPN, Marvel, Pixar, at ABC and at every one of our Disney-branded businesses.

This carefully integrated approach lessens frictions between businesses, it reduces time to market and the cost of moving product to market, and it creates enormous advantages for us in terms of marketing and distribution.

You all know we have a talented, well-coordinated team that communicates with one another effectively and has incentives to deliver both business-centric results and system-wide value, and that's really unique.

Today, you're going to witness a lot of pride on the stage as well as a lot of optimism and enthusiasm from executives who appreciate the businesses they're in and also appreciate the company they work for.

Our people know all they need to know about their businesses, but the talent and intelligence they bring to their roles, whether managing day-to-day or planning the future, is really something that counts the most.

I know that we all agree that the world has changed a lot, but we also believe that we're going to witness a lot more profound change in the years ahead. It's going to happen pretty quickly too, particularly when it comes to consumer behavior related to media consumption. That is what, how, when, where and how much media is consumed.

Now, for us, the status quo is simply not an option, and we are aggressively focused on adapting our product and our business models to better position us to serve the evolving needs and expectations of consumers in this changing world. We view technology as more of an opportunity than a threat, and we believe that it's only going to become a threat if we fail to adopt it or if we try to will it away.

I'm going to return later today to describe more of our strategy and provide some perspective on critical marketplace conditions, but I'd like to reiterate to all of you our core set of strategic priorities and why they remain our strategic cornerstone.

First is creativity. You know that nothing generates more value for this company than great creativity, and this is where we invest most of our capital and where our executive team spends most of its time. Creating high-quality, branded content and experiences is our number one priority, and you're going to see that throughout the day today.

Next is technology. When I first established this as a priority, I was struck by the fact that most companies in the media and entertainment space were viewing technology as a threat rather than an opportunity, as I just mentioned a few moments ago.

We're intent on using technology and investing in it to make our product better and more compelling, to distribute more broadly and more effectively, to get closer to the consumer and allow the consumer to get closer to us, and to simply be more efficient as a company. This embrace of technology has single-handedly changed the culture of the company and has allowed for a lot more innovation, which we also believe is critical.

Lastly, international growth is an imperative for this company, and we have been delivering more of it and investing more in it. Now, this is going to continue a pace and the growth is going to come from both the developed world and emerging markets.

In developed markets like Europe and Japan, only small increases in market penetration have the potential to drive meaningful, near-term growth, and the complete management restructuring that we've accomplished in those markets is already starting to show results.

In emerging markets, we've made real progress adding talented teams of people in China, India, Russia and Latin America to go after an emerging middle class that has more spendable discretionary income and substantially more access to media.

The World Bank predicts that global middle class is going to grow from 430 million people today to 1.15 billion people in the year 2030, and 93% of this global middle class is going to be from today's emerging economies.

In fact, in India alone, the middle class is expected to grow from 50 million people today to 583 million people in the year 2030, and it will become the world's fifth largest economy. Today, there are more than 600 million children in China and India alone, and the potential to reach them with quality Disney-branded entertainment is huge.

In Latin America, we structured our business, and that has delivered solid 23% compounded growth over the last 5 years, and we're focused on delivering compelling growth in the multiple emerging markets that I mentioned earlier.

And we appreciate that each market has certain characteristics and no market is easy and simple to enter with speed and effectiveness, but what we have learned is that brands can really make a difference, and Disney certainly possesses them.

We're not specifically presenting an international update today, but today, if you collectively add up all of our international businesses they would be second only to ESPN in operating income. So, you can rest assured, growth internationally is a huge priority for this company.

And here today, but not presenting, is the Chairman of Disney International, Andy Bird, in the dark in the front row. You'll get a chance to say hello to him later.

Over the last number of years, we've often referenced how we manage franchises at our company and today, we're going to show you what we've achieved. For decades, we've created a portfolio of very valuable franchises.

But in the last 5 years, we've developed a more cohesive, structured and strategic approach to how we manage them and how we expect to grow them. And this is something I'm personally very proud of, because it's yet another characteristic that sets us apart from all the other media companies.

We all know that we have a full suite of platforms to optimally leverage creative success, but it's not just about platforms. It's about culture and strategy. We now have the ability to realize the full potential of a franchise, but we can also do so quickly and we have very effective tools to better allocate capital to franchise creativity and to realize higher returns.

And speaking of franchises, here's a few familiar faces to introduce the subject.

[VIDEO]

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

Thank you. In retrospect, I probably should have spent a little more money on that gift.

Good morning. I'm really glad that you're all here and happy to welcome you. And I hope that you find today's presentations informative.

As Bob just mentioned, creating and managing great franchises is critical to what we do at Disney. Rich Ross and Anne Sweeney are going to come up after me and talk about how we create great content, but I'm going to focus on the value of great franchises to The Walt Disney Company.

Creating and nurturing great franchises has been part of our company since its founding. The compelling business reason for us to focus on core franchises is clear. They drive higher returns for the company.

We have a number of important brands in the company that you all know: Disney, Pixar, Marvel, ESPN and ABC, but for the purposes of this presentation I'm going to focus on Disney, Pixar and Marvel.

Our focus on franchises has been very successful. Based on our internal assessment, we currently have five of the top six franchises based on 2010 global retail sales of merchandise, home video and other consumer categories. *Mickey*, clearly the largest franchise, followed by *Pooh*, *Princess*, *Toy Story*, Barbie, which is not ours of course, and *Cars*.

So, what is a franchise? There are several characteristics that we consider when deciding whether a property is a franchise or not. It must be multi-business - that is, having the ability to span our business units. It's got to have the ability to create value over a long period of time. And lastly, it's got to be multi-regional - that is, it has to appeal to our consumers around the globe.

Based on this definition, these are our most important franchises. When you look at them, I'd like you to notice that these franchises have originated throughout the company in different businesses. *Mickey* and *Pooh* have been part of the company, of course, for decades.

Consumer Products used classic IP to create the franchises we call *Princess* and *Fairies*. *Cars* and *Toy Story* were created by Pixar and introduced by the studio. *Pirates* was a theme park attraction long before it was a theatrical blockbuster.

Disney Channel created significant franchises with *High School Musical* and *Hannah Montana* and is on the way to doing the same thing *with Phineas and Ferb*. *The Avengers*, which we expect to be a big franchise, and *Spider-Man*, originated in Marvel comic books. And *Club Penguin*, which is emerging as a franchise for us, began as an online game.

Some franchises like *Mickey* and *Princess* are evergreen and they perform well year in and year out. We support these evergreen franchises with a lot of content.

Mickey's been bolstered in recent years by the *Mickey Mouse Clubhouse* on Disney Channel and the re-release of classic Mickey shorts on TV and online and in a new video game called *Epic Mickey* on the Wii. Princess is supported most recently with two successful theatrical releases, *Princess and the Frog* and *Tangled* last year.

Some of our franchises like *Pirates* are cyclical and tend to spike around theatrical releases. While evergreen franchises are more profitable and sustainable, both these cyclical and evergreen franchises create higher returns for us.

Revenues of our evergreen franchises have grown substantially over the past 4 years. In this chart, you see that *Mickey* is up 9% during that period on a compounded annual basis. *Princess* is up 7%, and *Fairies* is up 38% per year during that period.

Cars is down 24%, however the 2007 numbers include the revenue from the DVD that was released that year. Excluding home video, *Cars* revenue is flat over this time period, which is impressive given the franchise's strength in 2006 and 2007 due to the film's theatrical and home video releases.

Cars has become an important franchise for the company, and during the course of the day you're going to hear Rich talk about the upcoming sequel and Andy Mooney will discuss the value of *Cars* to Consumer Products.

Pooh, while still large, is down from 2007, which is one of the reasons we'll support this franchise with a new theatrical release and other programs this year.

Over the past seven years, we've grown our share of global retail spending on character franchise merchandise from 33% to 45%. During this time period, retail sales of our character franchise merchandise has grown 14%, on a compounded annual basis while the competitive set has grown by only 5%.

This speaks to the strength of our franchises and how we manage them. While our share is large, we think there's still meaningful opportunity to grow total spending on character franchises, something Andy Mooney will address in his presentation later this morning.

If you look at our fiscal 2010 studio slate, about 60% of production spend was on non-franchise properties while only 40% was on franchise properties, but that 40% invested in franchise films is expected to drive 60% of our ultimate revenue and an even more significant portion of contribution.

Our management team has spent a great deal of time focused on the value that franchises create for us. This is how we think about each business and we think about these franchises as a key driver of how we allocate capital to creative pursuits, as Bob mentioned.

You can see this franchise focus on our studio release slate. Moving forward, our slate will be much more focused on franchises. In fiscal 2011, we've already released *Tangled* with *Pirates 4*, *Cars 2* and *Winnie the Pooh* still to come along with *Thor* and *Captain America*.

These two films will introduce the characters who will help launch *The Avengers*, which we hope will be Marvel's next franchise. Each of the films you see here is either a franchise today or we believe has franchise potential.

If you look at just studio production spending, 80% of fiscal 2011 production spending will be directed towards franchise properties versus only 40% in 2010. We intend to continue this

higher percentage of our production spending on franchises than non-franchises in the coming year.

Our integrated business model drives what we've referred to, and you've heard Bob mention today, the "Disney Difference." This integrated ecosystem allows us to drive higher returns on great content than our peers.

The ability to integrate our businesses is unique. We call it franchise management. Bob chairs regular franchise meetings with all of the segment heads in order to ensure that we collaborate on these franchises. We think that Disney is uniquely positioned to execute against this strategy.

There are several ways that we attempt to drive higher returns. First, we fuel this ecosystem by creating and sometimes buying great IP, which we did in our Pixar, Marvel and Club Penguin acquisitions. Second, we attempt to strengthen each point of distribution in the ecosystem as well as expand the ecosystem itself by adding new points of distribution.

For example, we expanded the reach of our global parks business with Hong Kong Disneyland and hope to do it again in Shanghai. We also expanded the reach of our Interactive Media businesses with the acquisitions of Playdom and Club Penguin.

Let me show you how Disney benefits from this franchise management approach. Perhaps the best way for me to illustrate this is to compare two wildly successful films, the non-franchise film, *Alice in Wonderland*, and our franchise film, *Toy Story 3*.

I'm going to compare these two films in terms of ultimate retail sales, which obviously drives our revenue. Ultimate retail sales refers to the total retail sales generated across all of our businesses for the first ten years after the film's release.

So, let's start with *Alice*. *Alice* earned Disney's third biggest North American gross ever, $334 million in box office. The film's opening weekend box office of $116 million was the sixth largest opening in our history. This performance contributed $334 million, as you see, to the film's retail sales.

Alice was the fourth biggest international release in history, earning $690 million in box office internationally. The film opened number one in 55 territories.
The film's worldwide box office totaled more than $1 billion, making it the sixth highest grossing film ever. The box office ranked *Alice* as the third highest Disney film ever.

The *Alice* DVD was number one in family live action titles in 2010 in North America. We expect that the ultimate retail sales in Home Entertainment and TV platforms will drive about another $400 million in retail sales, which brings the total retail sales to $1.4 billion.

As a non-franchise, *Alice* provided limited opportunities for our Consumer Products business and Interactive businesses, but at any rate, Consumer Products revenue and sell-through was much stronger than past-event properties but still not that large overall.

Disney Consumer Products' *Alice* program was led in the beauty and fashion categories. In total, we expect these ancillary businesses to contribute about $190 million in retail sales.

Alice in Wonderland was an incredibly successful film, but not a franchise. The film will drive about $1.6 billion in ultimate retail sales, with almost all of that from the traditional film windows.

Now, let me turn to *Toy Story 3*. It demonstrates the incredible value that the entire company can derive from a successful franchise film. Let me review the origins of this franchise. *Toy Story* was released in 1995, and *Toy Story 2* was released in 1999.

Based on the success of these two films, *Toy Story* was clearly a franchise, and we started to exploit it across multiple geographies in multiple businesses.

Starting in 1998, we opened Buzz Lightyear attractions in all of our parks locations. In 2008, we opened *Toy Story: the Musical* exclusively on the Disney Wonder cruise ship.

The same year, we opened the wonderful *Toy Story Mania!* attraction in Orlando and Anaheim. I hope that some of you, or most of you, had the opportunity to experience that last night, what a great piece of creativity it is.

In 2009, our Interactive Group released the *Toy Story Mania!* game for the Wii, which was a successful title for us. *Toy Story Playland* opened at Walt Disney Studios Paris, and *Toy Story Land* will open in Hong Kong later this year.

So with the market primed, we released *Toy Story 3* in 2010. While we'd always planned to make *Toy Story 3*, our Pixar acquisition put this project back into the hands of Toy Story's original creators, who we knew would make a wonderful film.

Toy Story 3 delivered Disney's second biggest North American gross ever behind only *Pirates of the Caribbean - Dead Man's Chest*. The film's opening weekend of $110 million set a new Pixar record.

Its domestic box office totaled $415 million.

It became the eighth biggest international release in history, earning $650 million in box office. The film opened number one in 54 territories.

Toy Story 3 became the fifth highest grossing worldwide film of all time with almost $1.1 billion in box office. It's Disney's second highest grossing film of all time, and it's the highest grossing animated title ever.

The DVD was the number one animated and number one family title of 2010 in North America, the number one animated title of 2010 in Europe and the number one title in Latin America.

We expect ultimate retail sales of Home Entertainment and TV platforms will drive another $650 million in retail sales, which brings the retail sales total to about $1.7 billion, already more than *Alice in Wonderland's* total ultimate retail sales.

But as a franchise film, *Toy Story 3* is a much more powerful driver for our merchandise-licensing business. The film had unprecedented support and shelf space at major retailers. For example, Target allocated significant shelf space to and created a custom animation commercial for *Toy Story 3*, and Toys "R" Us gave it a feature wall over the next three months, whereas this is typically offered for about two weeks.

Sales have been strong across all categories. *Toy Story 3*'s impact on our merchandise licensing business has been significant, and we expect the film will drive $7.3 billion in ultimate retail sales, bringing the total retail sales to approximately $9 billion.

The books and magazines are sold in over 50 countries. The *Toy Story* Read-Along App was the number one book app in 45 countries. We expect the publishing business to drive about $250 million in retail sales.

This film is also driving sales at our Disney Stores. It's currently the number three franchise at Disney Store, growing to half the size of Disney Princess. We expect the franchise to drive $325 million in sales at the Disney Store. *Toy Story 3* was also the top selling Disney game of the year, and we expect about $220 million in ultimate retail interactive sales.

So, *Toy Story 3* was also a critical and commercial success at the box office for the Walt Disney Company. But since it's a franchise film, we estimate that it'll drive nearly $10 billion in ultimate retail sales through traditional film channels and all of the ancillary markets in which we participate.

As I mentioned earlier, we don't allocate Parks revenue in this franchise analysis, so you don't see the impact on our Parks business on this slide. But, we are confident that the film has greatly benefited our theme parks as well.

So, you see how much benefit we can generate from a successful franchise film relative to just a successful film. *Toy Story 3* is expected to drive six times the ultimate retail sales of *Alice in Wonderland*.

Now we've discussed retail sales, and it can be skewed a little bit, given the licensing royalty rates. But, even if you look at it as revenue to Disney, *Toy Story 3* is expected to generate over 2.5 times the revenue that *Alice in Wonderland* will generate to The Walt Disney Company.

Given that it is a franchise film, *Toy Story* will drive meaningfully higher returns to the Walt Disney Company than *Alice in Wonderland*. That's why our focus on franchises positions us to drive value for the long term for our shareholders.

So, how do we create these great franchises? Well, when it comes to developing and expanding franchises at Disney, Studio Entertainment is one of our most important creative engines.

Rich Ross, Chairman of the Walt Disney Studios, is no stranger to creating and managing franchises. Rich has been with the Company for almost 15 years. Prior to leading the Studio, Rich led the global Disney Channel business to great success.

He directed the development of highly successful original content like *Hannah Montana* and *High School Musical*, which helped define the Disney brand to a new generation. Today, Rich's team will discuss their approach to making and distributing films under our key brands Disney, Pixar and Marvel.

So, here to kick off the Studio presentations, my colleague, Rich Ross.

Rich Ross – *Chairman, The Walt Disney Studios*

Good morning. Thanks, Jay.

So, nothing is clearly more important for us at the Studio, at Walt Disney Studios, than our content, and we are focused on three major brands, Disney, which is our live action brand, Disney-Pixar, our animation brands and Marvel, our newest acquisition.

We're also thrilled to bring to our portfolio a relationship with famed film maker, Steven Spielberg, and his creative partner, Stacey Snider, at DreamWorks. Their plan is to create five to six films a year that go from live - you know, the big tent-pole kind of movies - to smaller prestige properties.

We start with this deal tomorrow with the release of *I Am Number Four*, and we end the year with Steven's directorial debut under this deal, *War Horse*, which we'll be releasing at Christmas.

So, as you heard from Jay, certainly one of the great priorities for us at our group is to create, build and sustain franchises. By better connecting with our consumers around the world and being able to show them and create for them these compelling stories, we know that we can build brand equity and create revenue opportunities throughout The Walt Disney Company.

Another of our priorities, we believe in connecting with our customers and our viewers, is to improve the diversity both in front and behind the camera as well as the cultural relevance of our films.

And to connect with our global customers on a local level we are now producing local productions around the world, primarily focused in emerging markets like India, China and Russia, which I've seen - what I've seen, it's really, really, really exciting.

So this slide, why do I have it here? Well, people are enjoying our content like never before, and we had to evolve our group, our - my group to become more responsive, so two big changes.

On the distribution side, we knew we needed to be more nimble, holistic and to manage our films through their entire life cycle. So now, we have our Home Entertainment group all in one place. We combined our television, our Internet and our DVD business in one group to best maximize the value chain of our films.

On the marketing side, we did a similar thing and we now manage our marketing across all windows and across all geographies. Sure, (inaudible) creating a base in consumer insights is mandatory, but we have more tools than ever to be able to figure this out.

Digital marketing has provided us this opportunity to connect both broadly and narrowly with our viewers. And now, because of all these opportunities, we create material to be able to be the most effective and yet cost efficient, which is really important for our business going forward.

So, before we go on and I have a - we have a panel and we have a conversation with Bob Chapek, our Head of Distribution, I want to show you our 2011 slate.

So, in the top you see our Disney and Disney-Pixar films. In the bottom you see our last two films distributed by Paramount under the Marvel brand, *Thor* and *Captain America*, which you'll be seeing more about today, as well as our DreamWorks films. Our goal is to have 16 to 18 films a year between these four providers.

So, with no further ado, I wanted to introduce my partner, Bob Chapek. When I came to our group, Bob ran the incredibly successful Home Entertainment group. He now runs our entire distribution group that I mentioned, and Bob's going to go through a lot of our thinking of how we look at our world now. Bob?

Bob Chapek – *President, Distribution, The Walt Disney Studios*

Thank you, Rich. Good morning, everyone. Today's media landscape presents us with three challenges that directly impact our ability to commercialize our content to its fullest.

First, consumers are bombarded by low-margin rental and access alternatives to high-margin, sell-through purchases. One only needs to consider the ease of access today in the comfort and convenience of your home with a click of a mouse or a point of the remote versus the rental experience of a decade ago. Add in the free content that's available online, and the problem compounds.

Now, the recession has accelerated these secular changes as consumers reassess their needs for discretionary purchases in tough times. They'll ask themselves, "Why buy if I only watch once?"

And third, regarding piracy, we know two things for sure. Number one is that digital movie consumption will grow and that piracy increases as digital readiness increases, as an example on the slide with Korea. So, we know we must be aggressive in providing legitimate alternatives to consumers.

Now, the impact of these challenges is obvious when you examine the decline of the domestic home entertainment business industry-wide. The industry experienced a 21% drop in the marketplace from 2005 to 2010, and the substantial Blu-ray growth in electronic sell-through and VOD growth has been insufficient to replace the DVD declines.

But nevertheless, we have a huge opportunity to mitigate the impact of these trends through transactional margin management. Now, this chart shows the various transaction margins that are indexed against the standard DVD sell-through transaction.

And our goal is to incent consumers to move from rentals to VOD, from DVD to Blu-ray and from Blu-ray to our super set bundle packs. And we've had significant success in doing this over the last two years.

As such, we have a four-pronged strategy to fully leverage these margin upsell opportunities. First, in the area of product configuration and pricing, we want to drive consumers to these higher-margin products in bundled offerings through product and pricing combinations that clearly can out-value to the consumer. As such, we now enjoy 25% of our unit consumption for new releases in premium-priced SKUs.

In the area of window optimization, we want to act aggressively yet prudently to challenge traditional windows and evaluate our opportunities on a case-by-case basis and make sure that we sequence them according to their relative value. In terms of piracy management we, of course, want to balance offense with defense enablement with defensive efforts, and we want to target piracy segments that can be legitimized.

In terms of technology, we want to focus on interoperability to encourage the consumption of legitimate content. And, most of all, we want to employ the power of the Disney brand in packaging our content in these digital ecosystems.

Now, to further dimensionalize the opportunity regarding SKU management, this chart shows the various product configuration iterations beyond our base DVD that we offer, each one offering greater value to the consumer and higher margins to us accordingly.

From a Blu-ray DVD combo pack to an option that adds in a digital copy as well to another option that then adds in 3D all the way to a future set where we believe that we can bundle product utilities across multiple channels of distribution, we believe that when you give the consumers more value they will pay and buy the premium SKUs accordingly.

Now, to dimensionalize exactly what this can mean to our business, consider that last fall when we released *Beauty and the Beast* Blu-ray DVD Combo Pack with a seven-week advantageous window relative to the standard DVD, instead of getting the typical 20% of our business that comes on Blu-ray we got 60% of our business that came from the higher-priced pack. And given that each one of those carries somewhere between a $5 and $10 increased margin to us, that's very material.

And, as we have with our moratorium Diamond titles, we also have the opportunity to explore this Blu-ray first before DVD window on our new theatrical releases in the future. And like we did on *Alice in Wonderland* this last spring, we also have the opportunity to refine our window duration to squeeze more out of the market.

Our approach will continue to be to optimize this on a film-by-film basis so that we can hit key holiday and seasonality spikes across every channel of distribution and have the flexibility to do so.

Also, we want to provide legitimate alternatives to piracy. We just can't see a world where we have to sit out three months after the end of the exhibition and think that we're going to be maximizing our business. At the same time, we have to be smart. We have to recognize that theatrical exhibition is a wave maker that all other channels of distribution benefit from.

Now, we're intrigued by the early home premiere VOD window to harvest our willingness to pay for one-time, in-home access for those that either can't or won't patronize theaters. And our research shows that one of the biggest sub-segments of the audience that's interested in home premiere are families with very young kids that just can't make it to the theater, given the age of the children.

We also want to consider this as an opportunity to do rent-to-own bundling, converting the trial of a premium home theater early window into purchase. In terms of VOD rental, we want to move the VOD release up to the first DVD date, converting physical renters to VOD.

Now, we've done this for the last 18 months across more and more titles, and we've seen absolutely negligible risks of sell-through cannibalization as we've experimented with this. So, we are forging ahead.

And, of course, no discussion of windows would be complete without updating our position on rental windows. Now, given the margin rationale I've talked about so far today plus the fact that Disney's sell-through share is two times its share of our rental business, our sell-through economics will necessarily drive our rental strategy.

Now, we've got no issue with the 28-day windows that are prevalent out there in the marketplace today, but the current pricing structure to achieve these 28-day windows are simply unattractive to us, requiring price declines off of wholesale anywhere from 50% to 70%, too steep for the benefit we would derive.

So last month, we decided to launch our own program to promote our sell-through business even further while, at the same time, pushing our rental business from low-margin physical to higher margin digital.

So, starting with *Secretariat* we offered our rental distributors two options, full-priced - full wholesale price on street date or a six-week delay, not a 28-delay but a six-week delay at $10. And we're monitoring this program as it rolls out, but we're confident it's going to be successful.

Our third area of focus is piracy management. This is a moving target. We need to better understand piracy as it evolves, who pirates and why, identify the sources of piracy and the trends in consumption.

We need to better understand the impact on our business of piracy, importantly the implications of local market decisions on these global businesses and determine actually which segments of piracy are monetizable.

We want to integrate piracy considerations into our windowing strategies and offer value-added products to compete. And, importantly, we want to refocus our defensive efforts of litigation, legislation and enforcement.

So, considering all this and most importantly because we have the power of the Disney brand, we have a unique opportunity to create a strong, Disney branded consumer proposition for the integrated management of our digital movie assets. And, as such, we will be folding four of our key strategic digital initiatives in the future into one powerful, branded proposition.

First of all, we've got Disney Movie Rewards, which is our four-year-old purchase continuity program that already has 4.3 million members and growing. Second is our Disney Movies Online, our Disney branded online storefront, which enables the direct purchase or rental of Disney content by consumers.

Third is DisneyFile Digital Copy, or the piggy-backing of digital files on a physical disk, which again has been very successful for us. And fourth is our proprietary technology, KeyChest, which enables interoperability across platforms and devices.

In the future, all four of these initiatives will live under one branded, integrated ecosystem called Disney Studio All Access. Disney Studio All Access will serve as consumers' digital Disney vault for the purchase, management and access of Disney content in one place across multiple devices.

And because we have had a fast start, a head start, with some of these programs being in the marketplace now for four years, consumers already have 5 million entitlements or rights that they have to view Disney content already sitting in their vaults.

So, I leave you now with this trailer, which will give you an idea of how we might introduce such a novel branded concept to consumers. Thank you, very much.

[VIDEO]

Rich Ross – *Chairman, The Walt Disney Studios*

Thank you (Inaudible - microphone inaccessible) -- in their own right and are part of this incredibly powerful theme.

So, we'll start with Sean Bailey, who just created and produced our (inaudible - microphone inaccessible) and the producer of our upcoming *John Carter of Mars*. So, welcome.

Sean Bailey – *President, Production, Walt Disney Studios Motion Pictures*

Thanks.

(inaudible - microphone inaccessible)

Sean Bailey – *President, Production, Walt Disney Studios Motion Pictures*

Can you hear me now?

Rich Ross – *Chairman, The Walt Disney Studios*

Okay. So, we'll start - Sean, obviously we're talking about a focus on the Disney brand. But, how are you managing the portfolio within that Disney brand now?

Sean Bailey – *President, Production, Walt Disney Studios Motion Pictures*

Good morning, everybody. At the Disney label, we're very focused on being the best live-action, story-telling studio in the business and telling those stories with the most exciting and relevant film makers, writers (Inaudible)

To that end, we've recently announced development projects with Sam Raimi, who created the *Spider-Man* franchise. He's working on *Oz*, which is the original story of the *Wizard*; Richard Fincher, who most recently directed *The Social Network*, is working on re-imagining the *20,000 Leagues* for us; Cameron Del Toro, known for the *Hellboy* franchise, *Pan's Labyrinth*; John Lee Hancock, who most recently directed *The Blind Side*; writers like Bill Monahan, the Oscar-winning screen writer of *The Departed*; and Linda Woolverton, who created *Alice in Wonderland* for us, and is currently working on an alternate history of *Sleeping Beauty* called *Maleficent*.

So, we're very excited about those projects and the road ahead. I think, as far as the portfolio itself, we think about it in kind of four major arenas. We think about - as - there's a lot of talk about franchises, and that's certainly our focus.

The first area we talk about is the four-quadrant tent pole, and by four quadrants we mean men under 25, men over 25, women under 25 and women over 25. These are the big movies. These are the movies that are meant to play across all four segments of the audience and play globally, and these are movies that ideally for us do a couple of things. They work with our other lines of business, and they are sequelable.

I don't know if there's anything technically we want to do here. (Pause)

Should I just speak loudly? Okay, great. So, to just quickly recap, the four-quadrant tent pole for us is a very big movie. These are movies like a, *Pirates*, like an *Alice*, like a *John Carter of Mars*. And ideally for us these movies are sequelable, and ideally for us these movies work across many of our businesses.

The second are we're very interested in is what we're calling the targeted tent pole, which is the movie that may not go after all four quadrants of the audience but will go after one or two segments and go after them richly and deeply.

We will make these movies at a different price point, and what we will also do here though is they hopefully share some attributes with their big brothers and sisters in the four-quadrant territory in that they're sequelable and that they can work with other businesses of the Walt Disney Company.

A good example of this is our upcoming release in April called *Prom*, which is the storyline revolving around four or five couples as they deal with the events of prom night in high school.

The movie focuses on a senior couple but spends a lot of time with juniors and sophomores, so we can return and visit those characters and students as they move through. And we also have programs with our Publishing group and with Consumer Products for - targeted at primarily teen and tween girls, but we think we can expand a little bit from there.

The other area we are interested in is the Disney comedy and we have some exciting things, we think, happening in that area. We just finished filming on Friday the brand *Muppets* movie.

This is a movie that we think will appeal not only to folks who can get sentimental about *The Muppets*, like me, but an entire new generation. We really believe we've brought back the joy and the wonder and the thrills of Animal and Fozzie and Kermit.

And the last area we are working on pretty thoroughly is the Disney drama. We believe because of our brand and because of who we are that the reasonably priced, well-made Disney drama is a brand of deposit of our companies and enhances the goodwill and value of the Disney drama and of the brand.

So, we've got some great movies going on in this area. We just started shooting a movie with Peter Hedges, who wrote *What's Eating Gilbert Grape?* And great movies are our history, like *Remember The Titans*, *Dead Poet Society*, *The Rookie*. This is a business we will continue to be in.

So if we look at those four areas, the four-quadrant tent pole, the targeted tent pole, the Disney comedy and movies that inspire or the Disney drama, that's really the portfolio approach we're taking if you look at two-ish each movies a year from each category.

Rich Ross – *Chairman, The Walt Disney Studios*

So, obvious, there's a lot of conversation about how we look to build a franchise. How do you - how have you worked with your group to be able to meet that expectation?

Sean Bailey – *President, Production, Walt Disney Studios Motion Pictures*

I'm not sure if Rich was miked. The question was how are we working in a new way to build franchises?

And it's a really - kind of a two-directional approach. The creative teams, we are exposing materials across the company, I think, earlier than we ever have before to create a more consistent and coherent universe.

So, as soon as we have assets from our movies and from our intellectual properties, we're exposing them across the company and around the world. We are also encouraging our teams to work harder than ever before at building these franchises.

The other thing we have done is we've implemented a brand new greenlight process wherein very early in the process we get everyone in a meeting and in a discussion about how these movies can best work across our companies and can best work around the world.

So, I think that we're already seeing some of the results of that. Our new *Pirates of the Caribbean* movie, *On Stranger Tides*, comes out this May. And what we have seen, I think, based on some of those conversations is a more international flavor and a more international cast than I think we've ever had in our Pirates movies historically.

We have lead actors and principal actors in the movie from the UK, Australia, France, Spain, Africa, and we really think this has led to a very, very holistic and we hope very, very big movie.

Unfortunately, I'm not going to be able to be here for dinner with all of you tonight because I'm leaving to watch the very latest cut of the movie. But I did want to say that, in lieu of that, I brought something hopefully - hopefully it's kind of special.

We have the brand new trailer, never before seen, of *Pirates of the Caribbean: On Stranger Tides*. And I should have mentioned one other actor. Indeed, Jack is back, and Johnny Depp will return as Jack Sparrow in the brand new *Pirates of the Caribbean: On Stranger Tides*. Here's the brand new trailer.

[VIDEO]

Rich Ross – *Chairman, The Walt Disney Studios*

Thanks, Sean.

Sean Bailey – *President, Production, Walt Disney Studios Motion Pictures*

Thank you, Rich.

Rich Ross – *Chairman, The Walt Disney Studios*

Okay. We're going to move to Kevin. I mentioned that Kevin has produced *Iron Man 1* and *Iron Man 2* and is now producing *Thor* and *Captain America*. They're all part of *The Avengers*. How have you put them all together to be able to create these terrific films, building up actually to *The Avengers*?

Kevin Feige – *President, Production, Marvel Studios*

Well, it started in 2008 with the release of the first *Iron Man* film. 2008, we did the first self-produced Marvel Studios film, which was *Iron Man 1*. And at the end credits of that film, Sam Jackson walked out. He had an eye patch, and his name was Nick Fury, a very famous character from our comic, and he told Tony, "You're part of a bigger universe. You just don't it know it yet."

And he was also telling the audience that, for the very first time, these characters that we were producing in - under the Marvel Studios banner would be interrelated. They would exist within the same umbrella. That umbrella is called *The Avengers*, and it's been in our comics for many, many years.

And that's one of the great joys of the Marvel comic is that all the characters exist in this Marvel universe, so you never know when you turn the page which character is going to appear where.

And that continued a few months later in *The Incredible Hulk*. When a door opened a silhouette appeared, and Robert Downey Jr. as Tony Stark came in and spoke to General Ross saying he's going to put a team together.

Last summer in *Iron Man 2*, we introduced a few new characters, Scarlett Johansson played the Black Widow, a very famous Marvel character. And at the end of that film, a character, Agent Coulson that appeared in both *Iron Man* films drove into the middle of the desert where there was a big crater with a hammer in the middle. And that, of course, was the precursor to *Thor*, to what would be our big tent pole for kicking off in Summer 2011.

We have Ken Branagh, Academy Award nominated director, who is at the helm of this epic fantasy adventure. We have a new star we're introducing, Chris Hemsworth, who's playing The mighty Thor himself, Academy Award nominee and I hope winner soon. Natalie Portman is in the film, an Academy Award winner. Anthony Hopkins is in the film.

And we have right now a never-before-seen, the final trailer, full trailer for *Thor*.

[VIDEO]

Kevin Feige – *President, Production, Marvel Studios*

Thor is not the only new character we're introducing to audiences this summer. We - I like to say we're book-ending this summer, kicking it off with *Thor* and on July 22nd, we're releasing *Captain America: The First Avenger*.

Captain America, one of our first characters, one of our most famous characters, one of our most important characters is coming to the screen under the direction of Joe Johnston, a man

who has been a part of, frankly, redefining the action adventure genre, with a part of the *Star Wars* trilogy, a part of the *Indiana Jones* trilogy and the *Jurassic Park* trilogy.

And we have an actor in Chris Evans, who I believe will be giving a career-defining performance as Steve Rogers, the young man who becomes the super soldier known as Captain America.

We've got Hugo Weaving, who you'd know from *The Lord of the Rings* trilogy and the *Matrix* trilogy playing one of Marvel's most iconic villains, the Red Skull. And we've got Academy Award winner, Tommy Lee Jones, and Academy Award nominee, Stanley Tucci, rounding out the cast.

It is a 3D feature, as *Thor* is, that is coming out at the end of July. I'm going to show you - I'm very, very proud to show you a work in progress of the full teaser, never before seen, of *Captain America: The First Avenger*.

[VIDEO]

Kevin Feige – *President, Production, Marvel Studios*

That's Golden Globe Nominee, Hailey Atwell, as Peggy Carter, the quite tough female love interest in this film.

It's called *The First Avenger* because, as you can see, it's not only the origin of Steve Rogers, but it is, in a way, the origin of the whole Marvel universe. Dominic Cooper plays Howard Stark, which is, of course, the father of Robert Downey's character, Tony Stark. So it really links in all of the films together.

Now having introduced Iron Man, reintroducing Incredible Hulk, put Black Widow and Nick Fury into the *Iron Man* franchise, and after this summer, *Thor* and *Captain America*, we have the core of the Avengers team. And I'm very pleased that in May of 2012, it will be the first film released under our new family here at Disney. We will be putting out *The Avengers*.

And there are two new cast members that are joining us for that film, Jeremy Renner, Academy Award nominee this year. He's playing Clint Barton, the Marvel hero Hawkeye, and Mark Ruffalo, also Academy Award nominee this year, is playing Bruce Banner, the Incredible Hulk.

It is something that I'm very excited about and very pleased about. Joss Whedon is our writer, director. He's deep into press now for an April start of production.

Rich Ross – *Chairman, The Walt Disney Studios*

Thank you. Speaking of Academy Award nominees, there's a lot of talk today about *Toy Story 3*, which is exciting. Jim, you have to balance revisiting the world of *Toy Story*, but also creating new stories. How do you manage that at Pixar?

Jim Morris – *General Manager, Pixar Animation Studios*

Well, the thing we do first and foremost is try to tell the best stories we possibly can with the most compelling characters. Obviously whether it's an original film or whether you're trying to add to a franchise, there has to be great movies, or it doesn't work at all.

So we spend a lot of time thinking about our movies, whether they're franchise or original, we want them to have that special spark to them.

This year, we have a couple of good movies coming out, over the next couple of years. We have *Cars 2*, which is an original twist - a twist on the original film, directed by John Lasseter and he's come back to direct *Cars 2* as well.

That is followed, next summer, by an original film called *Brave*. It's a story of a spirited teenage girl who goes on a comic adventure in the Scottish Highlands in Medieval times. And that's followed by a film, fall next year, in the *Monsters Inc.* franchise, a new film in that group. So we've got a nice mix of original and franchise projects. The original projects are great because they inspire our artists to come up with new things, but they're also the things that lead to the franchises of the future.

We have brought, today, to show you, a trailer for *Cars 2*. It has just been completed. It's going to premiere in March and let's have a look.

[VIDEO]

Rich Ross – *Chairman, The Walt Disney Studios*

Well, clearly, launching franchises is a lot of what we do, but sustaining them is incredibly valuable for us. How do you work to create content that allows people to keep on seeing the characters they love?

Jim Morris – *General Manager, Pixar Animation Studios*

Cars is a good example of what we've been trying to do in that arena.

When John Lasseter was making the original *Cars* movie, he thought he really had something that was going to engage audiences and would really be fun and entertaining, not only in terms of the films, but also in terms of the consumer products and the toys. John loves to play with toys, as is probably evident in the films he makes.

So the film - the original film came out and it was clear that it engaged audiences of all types, from kids up through collectors and car enthusiasts. But it really connected with boys. Their interest in playing with toy car characters was really great and they continue to enjoy that and enjoy the movie.

So we realized we had a world that was ripe for more storytelling and that inspired our Pixar artists to come up with more stories. And in 2007, we launched a series of short films called *Cars Toons*. *Cars Toons* feature McQueen and Mater and tell various tall tales that they have. And those films were distributed on the Disney Channel and Disney XD, various digital platforms, some of them theatrically.

And we actually made a compilation of them that came out last fall, on a DVD. And those are cartoons that have kind of kept the profile up of the Cars franchise in between movies.

We have actually started our tenth *Cars Toon* at a new production facility in Vancouver, which Pixar has created just to create ancillary content, like the *Cars Toons*, so that we have a pipeline that's continuously making those films and we'll be doing a couple of those a year.

We're in production on our tenth *Cars Toon* right now. And that will come out on a *Cars 2* DVD this fall and actually is an interesting one because it takes the Mater and McQueen characters and has them crossing paths with some airplane careers and takes us into the world of aviation.

Rich Ross – *Chairman, The Walt Disney Studios*

We're incredibly excited. Under the great supervision of John Lasseter and produced by Irving Disney, two new studios, we'll be releasing an original Disney video premiere, entitled *Plane*, and introduce people, and kids, to a whole new cast of vehicles, characters, obviously the first group will be planes. We'll be following up with a couple of others, stuff that kids absolutely love. So we're very excited. And I've seen it and I've seen the first one, and it's really fun.

Jim Morris – *General Manager, Pixar Animation Studios*

It's cool, because it's an example of us having Pixar seed our sister studio and allowing them to use some of that IP to get a new franchise of their own rolling.

So our plan is to continue to make those *Cars Toons* and to keep the experiences top of mind in the consumers, as I said, between our films.

We're taking a similar approach in supporting our Toy Story franchise. We've just completed our first *Toy Story Toon*, called *Hawaiian Vacation*. And that will premiere as a theatrical short in front of *Cars 2*, when it comes out this June, both domestically and internationally. And we're in production on our second *Toy Story Toon*, and that will actually come out in front of one of Sean's films, the *Muppet Movie*, this Thanksgiving, when that comes out.

So we plan to, as I say, continue to support both of those franchises with this ancillary short-form content. And we've seen a number of trailers shown here today, but I also brought *Hawaiian Vacation*, the short I just alluded to.

It is a short that nobody has seen, except some of my close personal friends here. You will be the only audience to see it before it comes out in theaters in June. So with that, *Hawaiian Vacation*.

[VIDEO]

Rich Ross – *Chairman, The Walt Disney Studios*

So that's a glimpse of our summer and our future assignments.

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

Okay. Thanks, Rich and guys. Continuing on the theme of creativity, the creation of high-quality content is also essential to our broadcast television and cable network success.

Anne Sweeney heads the Disney-ABC Television Group. During Anne's 15 years there at the company, she's consistently focused on combining high quality content with strategic use of existing and emerging distribution platforms to deliver compelling viewing experiences. She's also steered Disney's television properties through many firsts in the digital era.

Anne not only manages the creative process, but she's creative herself. She's an artist and was kind enough to share with us a painting she created of her kids at the beach.

Anne will make some opening comments and then she'll lead a panel of key executives from our ABC-Disney Channel and ABC Family businesses and a discussion of how our networks create great content. And now, here's Anne.

Anne Sweeney – *Co–Chair, Disney Media Networks and President, Disney/ABC Television Group*

Good morning. The last time we were in front of you, in Orlando in 2007, we spent a lot of time talking about how television, our television, was leading us into the digital era.

And the way you watch television today, whether it's on your iPad, your phone, its ad-supported streaming on your laptop, really started with us putting the most compelling television content on the most innovative platforms and devices available.

We were first on virtually every platform. We were first on iTunes. We were the first to launch ad-supported streaming, with www.abc.com. And just last April, we were the first television business to have an app on the new iPad.

We were adapting to change. It was moving very quickly. It was a very dynamic and a very exciting landscape. And we're still moving fast.

But right now, we're using this landscape to redefine our television business. And the difference between then and now is the fact that we're not just reacting to the landscape, we're actually provoking change. We're engineering the evolution of our own business and we're taking advantage of an ever changing environment.

We now define ourselves as a studio with three great brands, ABC, ABC Family and Disney Channel. We're producing content under these great brands and we own a lot of our own content. We also own networks, which are that critical first window for our shows.

Now this shift in identity really points to one thing, Studios own content and ownership creates opportunity. One of the things we did over a year ago was to combine the ABC prime-time entertainment team with ABC Studios. And this was done to create a single creative vision that could foster a whole new level of success for our ABC brand.

We've also been pushing our operators and our affiliates to evolve with us. Our cable channels are now considered must-have programming by our consumers. And this has put us in a very strong position with cable, satellite and telco operators, who now recognize our brands and give us the value they deserve.

They're also leveraging our brands to launch their businesses, whether it's video-on-demand, HD or high-speed data sales. Success delivers greater value because operators compensate us for the value of our brands, and this includes ABC. In the last year, we've completed three ground breaking deals, Cablevision, Time-Warner and Verizon. These operators now recognize the value of ABC with cash compensation for retransmission consent.

Now those deals, along with new deals that we've struck with our broadcast affiliates, where they give us a license fee or a portion of their reconsent dollars, have made ABC a multi-revenue stream business for the first time in history. And by the way, these new deals with our broadcast affiliates cover more than 64% of our affiliate base.

We've continued to reinvent our relationship with our affiliates. You've probably read, in the last couple of days, about our inventory exchange system, or IES. And, look, I admit, not as compelling a title as *Desperate Housewives*, but it does the job.

What we've done is to take the way we've sold advertising, nationally and locally, over the last 50-plus years and we've injected marketplace dynamics and entrepreneurial spirit to create more value across the board.

Now all this talk about change, the one thing that hasn't changed is the need for great content. Cable operators need it, satellite, telco, and device manufacturers need it. And I'm privileged to be on stage today with three people who are driving an enormous amount of change by virtue of their great creativity.

Gary Marsh is our Chief Creative Officer for Disney Channel and President of Entertainment for Disney Channel worldwide. Gary is also the mad genius behind the Disney Channel original movie strategy. He's the guy you have to blame for the great franchises that have moved right across the Walt Disney Company.

Disney Channel has had its most successful year-to-date, number one with kids in prime time, for the eighth consecutive year. Now I'm thrilled with our ratings in the other 167 country we are in, but I don't think we really have time today to go through them all. But the performance has been absolutely wonderful.

Gary has a unique process that he's going to talk to us today about, how he develops for Disney Channel. And suffice to say, its talent based and the success has really been in the numbers.

Kate Juergens is our Executive Vice President of Programming and Development for ABC Family. And when Kate and Paul Lee arrived at ABC Family six years ago, we honestly didn't know what it was. But together, they created a brand, a fantastic brand, for the Millennial audience.

Now Millennials are that generation that grew up with multiple technologies. They're not the kids who grew up and had to stand up, walk over to the TV and turn the dial for their parents.

Kate has done an extraordinary job of connecting with this audience, connecting with an audience that understands technology very differently than any other generation we've experienced before. And the story telling that she's introduced for ABC Family has been compelling and ground breaking.

Secret Life of the American Teenager, a hit right out of the box. *Pretty Little Liars*, now going into its second season, has just blown the doors off. So this is a network that's gone from no identity to being a critically important piece of our portfolio and critically important to the audience that we serve.

Paul Lee, President of our ABC Entertainment Group, as I mentioned, started with Kate six years ago at ABC Family. And when the opportunity became available last year, Paul was an easy choice to lead the charge for ABC. Paul's a man of taste and conviction. He is acutely focused on his audience and we're expecting nothing but great things from him.

So, Gary, we're going to start with you today, because you do have a very unique focus. You have a unique take on how you do what you do. Do you want to give us a little bit of insight?

Gary Marsh – *President of Entertainment and Chief Creative Officer, Disney Channels Worldwide*

Sure. Thanks, Anne. I've been at Disney Channel for 22 years and I have to say, though, that the last ten years of those have been the most exciting and honestly it's the most personally gratifying, for me. In those ten years, we've evolved from being just a very profitable cable network, to being a genuine content-creation engine for the entire Walt Disney Company.

Yes, not to worry, we still generate hundreds of millions of dollars in operating income from cable sub fees. We are still a commercial-free network, 24-hours, seven days a week, although if you watch our channel you know that there is one company's products we do promote, to the exclusion of all others.

Anne Sweeney – *Co–Chair, Disney Media Networks and President, Disney/ABC Television Group*

That would be Disney.

Gary Marsh – *President of Entertainment and Chief Creative Officer, Disney Channels Worldwide*

That would be Disney. And, yes, we are the number two rated basic cable network in prime-time among total views and households that is a fact that's not well reported. And have been either number one or number two for the last five years in a row. But the reality is that our value to the company goes substantially beyond that because we can do things no other cable company can do, no other network can do.

Largely because our financial model is different in that our financial success is not based on advertising CPMs and therefore we have a very different goal that we approach our work with.

Basically, we have three strategic objectives that we look at everything through. Number one, build and support the Disney brand. Number two, create global franchises for the larger Walt Disney Company. And number three, find and launch talent that we can then leverage across those multiple lines of businesses that we own.

In fact, the impetus for this strategy started back in the '90s. We had a music series on the air called *In Concert*, you probably remember. What we were doing is we were creating huge opportunities for other record labels by helping launch their talent into superstar status, Backstreet Boys, Britney Spears, 'N Sync.

And we realized that we had, at that point, 60 million, maybe 70 million subs and we could create our own talent-driven franchises that would accrue to the benefit of our company. And so that strategy began in earnest in 2001 with a show called *Lizzie Maguire*, starring a beautiful, young, 13-year-old girl named Hilary Duff.

If you were around back then, or you had kids, you know that this was truly a defining show for Disney Channel. It's honestly what put us on the map. But what's probably lesser known and potentially even more important, *Lizzie Maguire* was the first time that Disney consumer products was able to leverage a live-action tween property into a consumer product success. Very meaningful as you look at what happened after that.

And once Hilary got some traction, I walked her across the street to Hollywood Records, I introduced her to Bob Cavallo at the music group, and he signed her. She went on to sell 13 million records, globally, and we launched a live music touring business with that. So that was the first step.

A couple of years later, we took another step with a talent named Raven and a series called, *That's So Raven*, which also became a worldwide television sensation. What we were able to do is leverage her star power to help create another franchise, in this case, the *Cheetah Girls*.

Cheetah Girls went on to make -- we made three Disney Channel original movies out of that. We sold millions of DVDs and CDs and the *Cheetah Girls* also then continued on a global worldwide tour.

So, between 2006 and 2010, the strategy just exploded and we hit the mother lode with *High School Musical* and *Hannah Montana*, each of which went on to generate hundreds of millions of dollars in operating income for the company. And more importantly, I think it proved to us and to the world, that when we do it right, we can generate revenue across virtually every single business of the Walt Disney Company.

So now, people have been asking, what's next? The reality is that what's next is already here. It's now. And if you've been anywhere within five miles of me in the last two years, you know I have been screaming from the rooftops -- *Phineas and Ferb*.

Phineas and Ferb is a huge developing opportunity for the company. It is the number one animated series for tweens. It has been for three years. It's beating *Spongebob*. It's beating *The Simpsons*. It's beating *Family Guy*. It is catching fire at retail. We have an apparel program and a games program, which has taken off. We have 100 episodes of the series, which are working in virtually every territory, every major territory, around the world.

We have a Disney Channel original movie, which is premiering this summer. It will be our tent pole event for the summer, *Phineas and Ferb, Across the 2nd Dimension* and we are in the early stages of developing a hybrid live-action animated feature film with our studios.

This, if you haven't seen it, this is a smart, sophisticated comedy. It works on multiple levels for multiple generations, across virtually every cultural divide. Because I am so determined to get *Phineas and Ferb* into the cultural zeitgeist, I thought they needed their own talk show.

So here is a short-form piece that we've developed to give *Phineas and Ferb* that extra punch to push them over the edge. *Phineas and Ferb, Take Two*.

[VIDEO]

Gary Marsh – *President of Entertainment and Chief Creative Officer, Disney Channels Worldwide*

So that's on the animation front. On the live action front, we launched a new show, a new sitcom about four months ago called *Shake It Up*. This is a story of two 14-year-old girls who audition to become backup dancers for a local televised dance show. This has great music, great comedy, and outrageous dance. And, honestly, Rocky and CeCe, you see on screen, two of the most adorable girls we found in a long time.

I'm asked, do we have formula for doing what we do? And I say there's no formula. This comes pretty darn close to having a lot of the formulaic pieces we need.

It is the number one series on television right now for girls. It is actually tracking better than *Hannah Montana* was at the same point in its roll out. So we have tremendous confidence that this could work.

Honestly, we have a sort of an audacious goal here, which is we really want to try and own that tween dance lifestyle brand in the same way that *Hannah Montana* owned that pop star fantasy lifestyle brand. And based on the reaction that Andy Mooney's team is getting when they're knocking on doors at retailers, I think we're off to a tremendous start.

Next, I want to talk, Anne mentioned our Disney Channel original movies. We have had great success, particularly with the music-driven movies, *High School Musical*, *Camp Rock*. And this next movie, *Lemonade Mouth*, has all of the elements to really create another success story.

This is the story of five teenagers who have nothing in common, who end up, for various reasons, in detention one day and they realize, through a shared love of music, that they want to create the world's greatest garage band.

This has a phenomenal soundtrack from all these award-winning writers that we've been working with for years. It has great production value and it stars Bridget Mendler, who is the star of our other hit series, *Good Luck Charlie*. That will premier in April, and we have great hopes for that.

Then last, I just want to take a moment to talk about Disney Junior. Now Anne mentioned that it launched a couple days ago, had tremendous success. We are tracking -- it's only two days, so this does not a network make, but we are now tracking 35% ahead of where Playhouse Disney was launching. So it looks like it's very encouraging.

The significance of this is genuine, in that while we've had just a block on Disney Channel right now, next year, Disney Junior will become its own 24-hour network.

That means a 24-hour beachhead that we can populate with IP that we both create and IP that we can use and leverage out of the Disney library. So it gives us a huge, huge opportunity to build those businesses.

So all in all, you can see we have great content, we have great talent, we have a strategic focus and that we have a worldwide footprint of 300 million plus homes in 168 countries. It really does allow us to do things that no other cable network can do.

Anne Sweeney – *Co–Chair, Disney Media Networks and President, Disney/ABC Television Group*

Gary, you were talking a lot about the music created, starting with Hilary Duff and then going to Raven. And the talent that Gary has developed at Disney Channel has moved 50 million units for the record division over time. So it's been an extraordinary story.

Gary Marsh – *President of Entertainment and Chief Creative Officer, Disney Channels Worldwide*

It's our secondary business.

Anne Sweeney – *Co–Chair, Disney Media Networks and President, Disney/ABC Television Group*

Our secondary business. Well, the Disney Channel is a fantastic creative engine for kids and ABC Family has become that great creative engine for the Millennial population that I was talking about. And we've seen six consecutive years of growth and ratings growth has just been extraordinary.

But Kate has a very different process for her audience than Gary does. So, Kate, why don't you give us a little bit of insight?

Kate Juergens – *Executive Vice President, Original Series Programming and Development, ABC Family*

You make it look so easy. We're now a top ten cable channel and we've become part of the pop culture zeitgeist, created hot new stars, but looking at this room, I'm imagining that a lot of you are still not as familiar with ABC Family as you could be.

I can relate, because when Anne brought Paul and I on to ABC Family 6.5 years ago, it was a sub-brand of ABC and it had no real identity, and what really scared us was that it had the word family in the title.

So, as we looked around the TV landscape, and we found scores of underserved TV viewers, between the demise of the WB and the Viacom net serving up multi-reality to this demographic, there weren't really any targeted, scripted programming for this young audience.

Then we looked at our own company, and we saw a handful of scripted acquisitions that were working, thank you, Anne. We also found opportunities in the kids that were watching Disney Channel and the younger adults on ABC.

So we found this opportunity, we targeted this young adult audience, we call them Millennials, and we set out to understand them better than anybody. And the more we looked, the more encouraging the news got.

This is actually the largest generation in US history, much bigger than the baby boomers. There are 86 million of them, viewers and consumers. They are, of course, tech savvy multi-taskers. They are the driving force behind social networking. And the best news for us is that, thanks to you, their parents, the Millennials actually love their families. They really demand authenticity from their storytelling, but we give them stories about relationships that really matter.

Our first breakout hit came in the summer of '08, with *Secret Life of the American Teenager*. This is a show about a young teen mom, a good girl, who got pregnant and how it affects her family and her community. Our viewers couldn't get enough of this story. We watched it and it blew up that summer. It tripled any ratings we've ever had.

Additionally, family is also a strong theme in our shows because it's important to our viewers. They really welcome a family presence in their network, so last summer, when we launched our first hit comedy, *Melissa and Joey*, this is a show about a young aunt who's raising a teenage niece and nephew, played by Melissa Joan Hart, and with the help of her manny, played by Joey Lawrence. They really recognize this unconventional family and embrace it.

Finally, because this audience thrives on social interactivity, along the way, we become a true social network. We're the first channel to give viewers great shows and a place to communicate and connect around them. We engage our viewers before, during and after our shows on Facebook, on Twitter, on ABC Family, on every platform you can imagine.

And five years ago, again, when Bob and Anne challenged us to think multi-platform, we started with viewing parties, we created alternate reality games. We even launched our own mini-social network around our show, *Greek*. This was before Facebook came in and just left everybody in the dust.

But it all really kicked in around the *Secret Life* premier, when so many viewers logged on to our site for our hosted chat after the premier of the show, that they actually crashed the site. And that's when Paul and I looked at each other and we knew that was something that matched up to this audience. If they respond to something, they let you know immediately.

And we've leveraged all this experience to launch our newest hit show, *Pretty Little Liars*, last summer. It was a huge sensation last summer. It's the first 360-degree technology-driven show with text and email and video sort of at the heart of the mystery. And also the way the characters communicate with each other, as you know, you see these kids communicating, in constant communication.

And I realize most of you are probably not the target audience and may not have seen it, so here is an introduction.

[VIDEO]

Kate Juergens – *Executive Vice President, Original Series Programming and Development, ABC Family*

So *Pretty Little Liars* is one of the shows that really defines our network and brand. On premier night, it became a global trending topic on Twitter. And on Google search, we watched it go from spicy, to on fire, to volcanic as it premiered on the east coast.

Our strategy has been; identify and define this generation of viewers, understand what's important to them and deliver it in ways that they care about. And it's working. Among Millennials, ABC Family is a top five channel, beating shows handled like TBS, TNC, FX, Comedy Central.

Among female Millennials, the story gets even better. We're top three channel, beating other channels such as USA, Bravo, Lifetime, TLC, E!. On Facebook, we're huge, we have 10 million fans.

Our series, *The Secret Life of the American Teenager* and *Pretty Little Liars* pretty much dominates the female Millennial audience, beating big Millennial hit shows like *Big Bang Theory* and *How I Met Your Mother*. And all this adds up to a great story. We've had six consecutive years of growth. We've doubled our viewing audience. Fiscal '10 were the highest ratings in our channel's history. And we got Paul a new job.

Anne Sweeney – *Co–Chair, Disney Media Networks and President, Disney/ABC Television Group*

Okay. Thank you. Paul?

Paul Lee – *President, ABC Entertainment Group*

Thank you.

Anne Sweeney – *Co–Chair, Disney Media Networks and President, Disney/ABC Television Group*

Now, Paul does have a new job, thanks in large part to Kate and ABC Family and the great success there.

So, Paul, obviously great background at ABC Family in developing and from your past lives at BBC America to name one, but what's different about the experience at ABC? I mean, how are you developing now?

Paul Lee – *President, ABC Entertainment Group*

Well, first of all, I'm thrilled to be doing the job. I consider this to be one of the great jobs that I've taken. And I consider ABC to be really one of the great American, iconic storytelling brands.

But before I answer your question, I can't resist showing you guys a clip from one of my favorite episodes of this season's *Modern Family*.

[VIDEO]

Paul Lee – *President, ABC Entertainment Group*

That clip alone shows that dad never wins. So I'm sorry to interrupt you with an inappropriate clip. But in many ways, the job is very, very different. Because on cable, you can hyper target an audience. You can build content and branding. Gary's done this brilliantly with the kids and the tweens. We did it with Millennials. And you really go for that audience, whereas, on ABC, really your target is the entire viewing population.

And that's why of the top 100 shows in America, 85 of them are broadcast shows. That's why we dominate the syndication market in the US and we dominate the markets around the world. We go to something like 240 countries around the world.

So even though ABC is number one with affluent women, number one with women ages 18-49, and that's a very, very good thing. This is a very, very valuable group, a demographic for our advertisers. Our job is still to make big tent kinds of programming that invites in all four quadrants of the audience and that's how we really make the big broadcast networks work.

Now, in other ways, it's actually very, very similar. If you look at ABC and if you test it, it's an extremely potent brand. And if you look at the DNA that runs through *Grey's Anatomy, Desperate Housewives, Dancing with the Stars, Modern Family*, they're all incredibly smart shows. They're shows that are culturally defining.

But they're also shows with a huge amount of heart. And that's why *Grey's Anatomy* is the number one drama in the country. That's why *Modern Family* is the number one comedy in the country. So if you can take that potent brand and put it together with great storytellers, then I think you really have a chance of building something great.

And that's why this season you've seen us during our development cycle, really work with some of the A-listers, with the best. We have Melissa Rosenberg, who wrote the Twilight Trilogy. She's developing a show for us.

We have Oren Pelli, who if you guys don't know, is behind the cult hit, *Paranormal Activity*. He's doing a pilot we just picked up, called *The River*. We have Darren Star, who did *Sex and the City*.

We have some of our established show runners, like Marc Cherry, who did *Desperate Housewives*. He's doing a new showed called *Hallelujah*. And the idea there is Marc is trying to do for small-town America what he did for the American suburbs in *Desperate Housewives*.

And Damon Lindelhof, who did *Lost*, who's also doing a pilot for us, I think the key here is we have to be very smart and sensible. You really have to wait until a show is ready before you take it to pilot and then when the pilot's ready, before you take it to series, and be very deliberate about how you roll your shows out.

I was originally a show runner. I started as a show runner. I at least made my way up to being a show runner on British television. And so, clearly, I am passionate about empowering show runners. But I also founded BBC America, and I spent six very happy years on ABC Family, I'm nostalgic already. That really taught me the power, and not just of brand building, but of marketing.

We live in a fragmented world. We no longer live in a world where you can put a show up there at 8 or 9 o'clock on a Tuesday night and behold, it will become a hit. You've really got to be very, very deliberate; you pick a show because it has a hook or a title that's going to attract millions before you get there. You can't go to series until you're ready, and you can't launch until you take the whole network and really throw it behind it so you can break out from the clutter.

Oftentimes in broadcast, you have 60 shows launching together. You've got to make sure you stand out from that and maybe you're not in the week where the other 60 are going. And certainly you put the money aside so you make sure you drive that.

So from my perspective, on ABC, if you can take a potent brand and you can put that together with great marketing, and then have the best storytellers in the business, I think we've really got a chance of building strength for the future for ABC and Disney.

Anne Sweeney – *Co–Chair, Disney Media Networks and President, Disney/ABC Television Group*

Exciting times. And it's -- I know it's an unfair question because you've been deep in your development season, but before we came down here, I asked everybody to think about what are you most excited about? And it's a tough question for someone who's still in development. So, Paul, I'm going to start with you anyway. What are you most excited about?

Paul Lee – *President, ABC Entertainment Group*

Well, that is a difficult one. In my experience, as soon as you mention something, it crashes and burns. I know we had three comedies at BBC America and the only one I didn't mention was *The Office*. So you have to be very careful about the ones you do.

Here's what I'm really excited about. We have brought Marvel into the company. And ABC, if you all don't know this, the network has more co-viewing, more people that sit around the same screen than any of our other competitors. I consider this a huge competitive advantage. It certainly is working for us this year. Those Marvel properties are going to be fantastic for that.

I mentioned Melissa Rosenberg, what she's developing for us is a show called *A.K.A. Jessica Jones*, a classic Marvel superhero, she's a heroine. So we're very excited about that. We've also got *The Hulk*, which Guillermo Del Toro, as you can see in the picture there, looking heroic. He's looking rather Marvel-like. He's developing for us.

Again, we're going to take our time, be very deliberate about when that's ready to go and pick a spot on the network where we've got no competitors around and we can really pile in behind that. But we're excited about Marvel.

Anne Sweeney – *Co–Chair, Disney Media Networks and President, Disney/ABC Television Group*

Yes. Well, listen, and I've got that costume in my closet but I'm just simply too busy to help you at the moment, so good luck with all that. Thank you.

So, Kate, what about you? You've actually finished your development season.

Kate Juergens – *Executive Vice President, Original Series Programming and Development, ABC Family*

We did.

Anne Sweeney – *Co–Chair, Disney Media Networks and President, Disney/ABC Television Group*

You're into stage two.

Kate Juergens – *Executive Vice President, Original Series Programming and Development, ABC Family*

We're also looking at a lot of the Marvel properties and think they fit really well with our brand. But as Anne mentioned, we just wrapped our biggest development season ever. We did double the number of pilots we've ever done before. And we'll be launching three new series this summer.

The first, thanks to Gary, we're bringing Raven Simone back to television in a comedy, The *Great State of Georgia*. We also have a mystery thriller called *The Nine Lives of Chloe King*, that's with our partners that brought *Pretty Little Liars* to us. And then we have a family drama, *Switched at Birth*, also one of Gary's *High School Musical* stars, Lucas Grabeel, is in this. And you are getting the world premier sneak peak.

Anne Sweeney – *Co–Chair, Disney Media Networks and President, Disney/ABC Television Group*

Oh, great.

Kate Juergens – *Executive Vice President, Original Series Programming and Development, ABC Family*

Right now.

Anne Sweeney – *Co–Chair, Disney Media Networks and President, Disney/ABC Television Group*

Great.

[VIDEO]

Anne Sweeney – *Co–Chair, Disney Media Networks and President, Disney/ABC Television Group*

I can't wait. And finally, Gary, what do you have up your sleeve?

Gary Marsh – *President of Entertainment and Chief Creative Officer, Disney Channels Worldwide*

Yes. If I had to bet my career on one talent right now, it would be China Anne McClain, the star of our new live-action sitcom, *A.N.T. Farm*. She's only 12, so you can't have her for six years, so remain calm.

China plays a music prodigy in the ANT program at a local high school, Accelerated Natural Talent. And she and her friends enroll in this school and obviously for a 12-year-old in high school, it doesn't always go according to plan.

In this clip I want to show you, China and her friends have crashed a high school party and they were trying to fit in and they messed some things up and so she tries to repair the damage in the one way she knows how, through her music.

Here's a shot of China McClain.

[VIDEO]

Gary Marsh – *President of Entertainment and Chief Creative Officer, Disney Channels Worldwide*

And the moment after we shot that scene, I walked her over to Hollywood Records and Bob Cavallo signed her up. So she is under contract to the company.

Anne Sweeney – *Co–Chair, Disney Media Networks and President, Disney/ABC Television Group*

So as Steve Jobs often says in the Apple presentations, I think there's one more thing.

Gary Marsh – *President of Entertainment and Chief Creative Officer, Disney Channels Worldwide*

One more thing, so *High School Musical* has been enjoyed by many millions of people around the world. And we thought there was an opportunity to do a little bit more of that kind of entertainment.

We actually are announcing today that we are doing a new pilot for a music-driven series called *Madison High*. It will have the same DNA has *High School Musical*, because it comes from Bill Borden and Barry Rosenbush, the producers.

It will have a new class. It will have a new school and a new cast, but there will be one iconic figure, which ties it together and if you remember the music teacher, Mrs. Darbus. Mrs. Darbus has been transplanted to a new school and will be starting her own high school musical. So we're just going into production on that pilot in about three weeks now.

Anne Sweeney – *Co–Chair, Disney Media Networks and President, Disney/ABC Television Group*

And as I said earlier, the one thing that hasn't changed is the need for great content. I'm so excited about our future, not just here and everything that's going to happen with everything you're doing for the Walt Disney Company, but around the world. So thank you. Thank you very much.

Gary Marsh – *President of Entertainment and Chief Creative Officer, Disney Channels Worldwide*

Thank you.

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

Okay, thanks, Anne, Gary, Kate and Paul. Those of you who know me, you know how much I love breaks. So we're going to take a break now. And we're going to make it a short break. So we're going to reconvene in here at 10:20 a.m. Thanks.

[BREAK]

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

The strength of our franchise portfolio benefits many parts of the company, including, of course, is the consumer products. The Consumer Products group connects our brands and franchises with consumers of all ages based on a myriad of highly creative product extensions.

As Chairman of Disney Consumer Products, Andy Mooney has led the expansion of our licensing business through product innovation and by developing strong relationships with many of the world's largest retailers. Andy has led this business to impressive growth over the last ten years. Andy always keeps his finger on the pulse of the kid's market. He even runs a daily focus group of one at home with his four-year old daughter, Rose. Here's Andy.

Andy Mooney – *Chairman, Disney Consumer Products Worldwide*

Good morning and thank you, Jay. In any 30-minute presentation about Disney Consumer Products with the investment community we traditionally spend 25 minutes on Disney stores and five minutes on licensing, when we should, perhaps, be doing exactly the opposite. Licensing can be the proverbial black box and my objective this morning is really to make the box a little more transparent.

The active approach to licensing employed at DCP is understood even less as it's unique to Disney, and I'll demonstrate a couple of examples, the fact of licensing here today as we believe this approach has been fundamental to driving sustained growth at DCP historically, and we'll continue to do so going forward.

Some fun facts on licensing. Licensing generated approximately $1.4 billion in revenues last year. It consumes little or no capital and is one of the highest margins businesses at The Walt Disney Company, that would make any Scotsman's heart flutter for all of those reasons.

The reported licensing revenue of DCP now comprise both Disney branded and Marvel branded revenues. Fiscal year 2011 represents the first full year of revenue reporting from Marvel and we continue to be very excited about the growth opportunities for Marvel's brand and franchises at Consumer Products. Revenues, however, from Disney branded consumer products will still account for over 80% of total for the foreseeable future.

So I'm going to focus on the 'D' in DCP today and explain why we believe there's a long runway of growth available to us still at Disney branded Consumer Products. Now everyone here I'm sure is familiar with the power of the Disney brand. This year's Interbrand study, for example, ranked Disney as number nine in the world. Brands with the awareness reach an emotional depth of Disney invariably hold leading market share positions in core categories.

In licensing, however, the highest market share we hold today is in the toy category at a mere 6%. In children's apparel we hold only 2% share. In most categories we can measure our market share, in fact, in fractions of 1%. Now it's important to clarify that we do not view the market for Disney branded consumer products being limited solely to the entertainment licensing industry.

Taking children's apparel, for example, we regard the key competitors here being brands like Carter's in the US or Petit Bateau in Europe. While we compete against licensed properties from entertainment companies like Nickelodeon, Disney is the only entertainment company with both franchise and brand equity and is able to participate on a much broader consumer products market as a result.

Although our licensing revenues have doubled over the last ten years generating a compounded annual growth rate of 11%, from a market share perspective we still have ample room for growth. The one reason DCP has grown, of course, is that we have more franchisees to work with than any time in the company's history. Here's a listing of this year's priority franchises organized by consumer segment.

There are nine properties on a Disney branded priority list alone plus a host of small but important evergreen properties like *Nightmare Before Christmas* not even listed. In 2000 Mickey and Pooh were the only two properties DCP had to work with and they represented 80% of licensing revenues and were stretched across every available consumer segment.

Bob's decision over a decade ago to establish a franchise management team and engage Disney's senior leadership in the process of franchise management was truly a game-changer for DCP. Disney Princess was born in 2000 and Disney Fairies in 2002. These two product-led franchisees developed initially by DCP generated 23% of DCP revenues in fiscal 2010.

Cars from Pixar came next in 2006 and *Toy Story 3*, of course, in 2010. Pixar properties generated 18% of total DCP revenue last year. Disney Channel hit home runs with live action properties, *High School Musical* and *Hannah Montana* and as Gary mentioned, we are building momentum in animation with *Phineas & Ferb*. Disney Channel Properties represented only 5%

of revenues in 2010, but the potential always exists for a breakout property to come from Disney Channel and we're keeping a very close watch on *Shake-It-Up* for exactly that reason.

Mickey Mouse and Winnie the Pooh are still important properties for the company as you'll see later this morning. But they now represent a much healthier 32% of our total revenue.

Our uniquely active approach to licensing has also been a significant contributor to DCP growth. It's the least understood component of why DCP has been consistently successful, but perhaps the most important, as we believe it's our unique approach that has generated sustained growth and improved the overall product quality.

Passive or traditional licensing is standard industry practice in entertainment licensing and it's a relatively simple process. Licenses focus primarily on deal making and employ minimal creative resources to serve licensees. With product line management and key account management being essentially delegated to the licensee.

Disney Consumer Products use the passive or traditional approach to licensing itself all the way through 2000. Passive licensing is a highly efficient business model in terms of margin, but it's also highly ineffective at creating sustained growth. Passive licensors usually experience a roller-coaster ride in terms of revenues and profitability as DCP did itself up to the year 2000.

Growth can be driven solely by having incremental IP to license or raising royalty rates on existing licensees. The move to active licensing required us to break down the one large licensing team that existed at DCP into four smaller category focus teams.

We formed the toy team, an apparel and accessories team to which we later added home, a stationary team and a food, health and beauty team. Our category teams performed the brand and product line management functions found in traditional consumer products good companies. They develop growth plans by franchise, by SKU, across a licensee and a retail network, and they do it very, very aggressively.

The central creative team was also broken down and embedded in each category. They now view themselves as an extension of the R&D capability of our key licensees. And many of the most successful products we have are now designed by DCP employees. Today the role of DCP creative community is to build brand equity and to grow market share through design creativity and innovation and that really represents a fundamental shift.

The other organizational change made was to open field sales offices focused on growing Disney market share at all of our key accounts worldwide. We now have field sales offices adjacent to Walmart in Bentonville, Target in Minneapolis, Tesco in Welwyn Garden City and Asda in Leeds. We even have field sales offices on Carrefour's property in Paris or in Toys-R-Us headquarters in New Jersey. Paris, New Jersey, you decide.

In most cases our staff can drive to the buyer's office in less than five minutes. In some cases we can walk to the buyer's office in under 60 seconds, and no entertainment company can compete with us in this regard, and very few global brands, in fact, have the depth and breadth, of buyer relationships that Disney now enjoys.

Disney Princess is now a $4 billion retail brand largely as a result of active licensing. The only new Princess content created in this time period was *Princess and the Frog* in FY'10. Princess Tiana represents 6% of Disney Princess revenues in 2010 and seems likely to sustain at that level in 2011 with the box office success of *Tangled* in 2011 deriving further gains for the franchise.

DCP did collaborate with Home Video and benefited from synergistic programs built around the DVD release of Princess titles from the vault. But DVD unit sales, as you know, have declined over the last decade and there were no Princess DVD releases at all in the years 2003 and 2007, yet Disney Princess continued to grow at DCP.

Generating licensing growth independent of content is unheard of in entertainment licensing, so explaining how we did this is probably the best example we have of active licensing. Our Toy team, for example, functions as a virtual toy company mapping Disney Princess across our licensee and our retail networks

They segment Princess into the sub-category of Fashion Dolls, Small Dolls, Large Dolls and Role Play. And every year, they search for new ways to grow share in existing categories or create entirely new categories. This is brand management 101 to world class consumer products companies, but nobody does this in entertainment licensing other than Disney.

Each sub-category has a lead-licensee, Mattel for Fashion Dolls and Small Dolls, Jakks Pacific for Large Dolls and CDI for Role Play. In the Fashion Doll category, we began by simply developing cross-categorical design schemes like Sparkle at key selling periods. This creates a reason for every Disney Princess licensee to refresh their product line simultaneously. It gives buyers a reason to buy. It creates a unified look at retail and it focuses the advertising dollars of key licensees on a central theme.

We then expand into new categories with Princess & Pets; Ballet Princesses; Bath Time Princesses; Musical Princesses. The Bath Time Princess line was so successful we extended that into two other lines. We added Hair Play Princesses, developed alternate price points for international markets and a Birthday Princess line for a total of 9 assortments.

The Small Doll sub-category is a significant sub-brand unto itself, comparable in scale to the entire Strawberry Shortcake brand. In Large Dolls, our toy team developed in-house an idea that they call Princess & Me. It's a relatively simple idea - the team looked at the play pattern of brands like American Girl and said it could translate to Disney Princess.

We selected licensee Jakks Pacific as a partner and worked with them to detail every aspect of both product and packaging.

We even developed 3D digital files detailing every aspect of each Princess, so that we got all the details perfect. Jakks then worked with their wholly-owned subsidiary CDI to develop girls' costumes to match the dolls.

Princess & Me was launched as an exclusive program for Toys-R-Us in November and was recommending by Toy Insider as a must-have item for holiday. Based on sell through success in holiday, we believe Princess & Me will become an evergreen line extension, representing a significant and permanent addition to Disney Princess.

Princess & Me takes Disney into an entirely new category of dolls, in terms of age, scale, price point, and play pattern and creates a host of new opportunities to sell accessories.

Another example of active licensing is what we've been able to do with *Cars* as a franchise. *Cars* debuted theatrically in summer 2006, representing a healthy $40 million boost of revenue across DCP that year. The product flew off the shelf as *Cars* aligned with the fundamental play pattern for boys. Girls grow out of Princess, but boys never grow out of playing with cars. They're just getting bigger and more expensive. Summer movie works at retail -- retail as we chase deliveries for the holiday DVD release. We are prepared for this assuming consumer demand would exist at above average levels in holiday and beyond, and our planning fortunately paid off.

In 2007 we generated $215 million in revenue. So every movie merchandising program, even the most successful, experiences a steep decay curve in terms of revenues post-DVD release. Given the underlying play pattern in *Cars*, we felt that we could minimize the decay curve on *Cars* through active licensing. But in FY '08 we surprised even ourselves by actually growing *Cars* to $220 million across DCP.

We then added another $216 million in FY '09 and grew the franchise yet again in 2010 to $240 million despite the enormous success of *Toy Story 3* last year. Revenues for *Cars* in DCP have sustained very high levels every year since the movie's theatrical release in 2006. Again, this is unheard of in entertainment licensing and could not have occurred had we continued to operate a passive or traditional business model.

Toy Story 3 in 2010 was the second largest toy merchandise program in industry history behind only *Star Wars* in 2005, generating over $500 million in toy retail sales in North America alone. We believe however, that when the dust settles *Toy Story 3* will be the largest overall merchandising program in history as Disney covers more categories and more geographies than *Star Wars*. It's also interesting to note that *Toy Story 3* toy sales were twice the size of *Toy Story 2* toy sales in 1999 when DCP operated a passive or traditional licensing model.

Our goal for *Cars 2* is to surpass both *Toy Story 3* and *Star Wars* and we plan for *Cars 2* to set a new high water mark for the industry. Our toy team in particular has put an enormous amount of energy into aggressively managing the product line plans of all of our key licensees.

In addition to the core die cast vehicles in Mattel's line, we've worked with them to expand into new categories like race tracks and play sets that follow the story around the world. We've worked with Fisher Price, Leap Frog, VTech and others in younger consumer segments as well as Lego in Construction, Spin Master in RC vehicles and a host of other niche licensees and collectibles for older consumers.

We also holistically manage our licensees' product lines across their key accounts to ensure an appropriate level of product exclusivity for each key account. For Toys-R-Us, for example, we coordinated 20 licensees to ensure Toys-R-Us had 70 exclusive items. In the wooden toy category surprisingly we weren't able to find a licensee to work with on *Cars,* so we designed the product line in-house and offered the fully designed line under license directly to Toys-R-Us who then used their private label supplier to develop the product. We believe this item will become a permanent addition to the *Cars* product line given the evergreen nature of wooden toys.

We've developed unique marketing platforms for every key account to secure permanent and promotional shelf space in all of them. In essence, we plan-o-gram at the SKU level the product lines of the licensee network across our key account base. The combination of product innovation, aggressive product line management and retail mapping at the SKU level represents the heart of active licensing.

This approach is standard operating procedure for world-class consumer products companies. But not to repeat, it's unique to entertainment industry licensing and it has really been a key contributor to growth at DCP over the last decade.

You may have read the coverage in The New York Times last week about our Disney Baby initiative and I'd like to share just a few details about this with you today. We believe The Walt Disney Company has a real opportunity to develop a direct connection with first-time moms. The lifetime value of connecting with new families is perhaps more valuable to Disney than any other brand. Our vision for Disney baby is simple.

We want to establish Disney as an integral brand for new families the same way it exists today for established families. As a company we currently communicate to new families by division without realizing much in the way of synergies. But going forward, we want to communicate with them holistically as one brand. We aim to communicate a compelling and consistent message, integrate company resources to create the Disney difference and develop a common entry point for new points and gift givers.

Although we've made progress as a company with new families, we believe we can accelerate growth by focusing the full spectrum of the company assets on the opportunity. But let me

begin by offering you some context about the market size. The overall market is $36 billion in retail sales in North America alone with 51% coming from apparel. In order to win an infant we must win in apparel and we believe we can.

From a distribution standpoint 42% of the market comes from just a handful of accounts. DCP already has significant business relationships with all of these accounts in multiple categories. Our distribution, however, will include taste-maker retailers like Nordstrom. Moms of course, research online before buying, so we'll be present in key online retailers such as Amazon.

The infant segment, however, is highly fragmented with the leading brand holding 9% share. Disney today holds 3% share in North America with enormous room for growth. To succeed we will need to function as a brand and not just as a licensor of intellectual property. For Disney Baby to become a brand we will need to develop clear positioning that taps on the consumer insights, invest in paid media and promotion, develop a consistent and robust in-store presence, and establish a direct connection with new moms and gift givers.

Millennium moms rely heavily on online communities for advice. They're pressed for time, and speaking from personal experience, they have a tendency to over share. Moms significantly over-index online. Disney Baby will be present in all these forums and disneybaby.com will become an important component in our overall communication mix.

In categories outside of apparel there are many strong and well-established brands, many of whom are key licensees for Disney today. These brands generally focus on a single product category. Disney Baby can leverage the energies of multiple partners across multiple categories and we work with the very best in each.

Disney Baby products will be clearly differentiated. The infant body suit on screen as an item represents roughly 15% of the entire infant apparel market yet there's been no innovation in this item, ever. This product, however, is one of the most important items a new mom buys and she buys lots of them, averaging nearly 35 body suits in the first year of a child's life.

We spend a great deal of time talking to experienced moms defining the ultimate body suit and set out to meet her needs. From super soft fabric to reinforced stitching to our exclusive fit and grow with me snaps we've built a body suit that in usage tests is scoring ten out of ten with moms in every category. We've even trademarked the name, the Disney Cuddly Bodysuit and we've filed for patents because we believe it's that good.

There are a great many details to be ironed out with respect to all of the elements of the marketing mix for Disney Baby, but one area that we're focused on particularly is the CRM opportunities for both Consumer Products and for the company overall.

A perfect example of how we can tap into the power of the broader Walt Disney Company in order to build community is to offer any expectant mom who registers in www.DisneyBaby.com

a free ticket to Disneyland for her newborn. We plan to develop compelling CRM programs offering valuable rewards leveraging the breadth of The Walt Disney Company.

As mom buys Disney Baby diapers, body suits or toys, she'll be able to accumulate points towards a visit to a Disney Theme Park. Along the way she could earn discounts at Disney Stores or perhaps win a chance to be in the audience of the show on Disney Channel. These are just some of the many valuable rewards under consideration that only Disney can offer.

So needless to say we're very excited about Disney Baby as a growth opportunity at DCP. So closing with retail if we turn now to Disney retail there are two significant advantages to owning and operating Disney Stores. The first is the ability to launch and nurture new franchises like Disney Princess and then leverage our sell through data across a licensee and a retail network.

It's important to point out that Disney Princess, Disney Fairies and Disney Baby were all given birth at the Disney Store. Combined these three franchises generated almost $700 million in revenues across DCP in FY'10. Our new store format where we showcase products by franchise will allow us to launch even more franchises going forward.

In 2009 after taking back ownership of our US stores from The Children's Place, we set out to reinvent the stores aesthetically and fully integrate the business into the Walt Disney Company's overall franchise management strategy. The original merchandising philosophy for Disney Stores was an emporium model offering a wide array of categories and properties intending to appeal to all demographics where products were displayed by category in store, similar to every other retailer.

In 2009 we fundamentally altered the consumer focus and merchandising strategy as a precursor to creating an entire new look for our stores and an entirely new experience for the guests who shop there. From a consumer perspective, we now focus on kids under 12 with the sweet spot of kids aged four to eight and we significantly edited the franchises displayed in-store to feature only the most important company franchises.

These actions resulted in a 25% reduction in SKUs. Most importantly we now display products in-store by franchise as opposed to by category. This both strengthens the emotional connection the kids have with the key franchises, but it fundamentally differentiates us from all other retailers.

Our new store design reinforces our new merchandising approach, by showcasing products by franchise in neighborhoods, but our new merchandising approach is currently in place in all stores, and we believe this has been the significant contributor to the positive results that we're enjoying in all our stores.

Our new store design introduces additional elements of unique interactive entertainment. Two examples are the magic mirrors in the Princess section where girls can wave a magic wand that

will bring up a short segment of Princess content in the mirror allowing her to feel like she's actually in the movie. And then there's a digital jukebox in the Disney theater where the kids themselves choose the content they view there.

Traffic in our new stores is 20% higher compared to existing stores and they're 25% more productive on a sales and margin basis. Over 90% of the guests surveyed in North America and Europe felt very strongly that the new design brought them closer to the magic of Disney and improved their overall perception of the brand. And 99% said they would recommend the store to a friend.

At this point we've opened 19 new format stores in the US and Europe and we plan to open 33 more in FY'11. We will continue to judiciously invest in new store openings or remodeling existing stores based on the specific economics of each location, but we do not intend to significantly grow our current store base of 320 in the US and Europe.

Last year, we assumed ownership once again of our 48 stores Disney stores in Japan previously operated under license by The Oriental Land Co. We intend to integrate our stores in Japan and the overall franchise management processes of The Walt Disney Co. there exactly the same way we've done in the US and Europe. We're very excited about owning our Japanese stores once again given the historically strong financial performance and our proven ability to launch new franchises within them.

The second most important benefit to owning our stores is their ability to directly impact the over 200 million guests across our threshold each year. Now the actual numbers of visitors who visit us annually is even higher as we only actually count the guests who are over four foot tall. So that excludes my own four-year-old daughter, Rose, for example, who needless to say is a frequent visitor at The Disney Store.

For many families visiting a Disney Store may be their only way to physically experience the magic of Disney. So we're particularly happy that our new franchise focused merchandising strategy is resonating so strongly with kids.

The Disney Store merchants are now in the enviable position of having to select and edit from an ever-growing roster of company franchises and we therefore feel very optimistic about the ongoing performance of owned retail on both our brick and mortar stores and online. So with that I'd like to thank you for your time and your attention today. Thank you.

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

Thanks, Andy. Our Interactive Media Group is charged with growing Disney's brand and presence in games and entertainment in a wide array of platforms including online, mobile and game consoles. Joining us today are the leaders of this group and the newest members of our management team, John Pleasants, and Jimmy Pitaro. John leads Disney's digital game

business, which includes games across platforms as well as a portfolio of online virtual worlds. He's also the General Manager for Playdom, which now serves as Disney's social game product group. Before joining Playdom, John oversaw global operations for Electronic Arts.

Jimmy Pitaro oversees Disney Online, which serves as the web mobile and social media gateway to Everything Disney. Jimmy recently joined us from Yahoo! where he was responsible for the growth of media properties including Yahoo! Sports. This morning, John and Jimmy will describe their strategy for our Interactive Media Group. I'm pleased to welcome them both to their first Disney Investor Conference.

John Pleasants – *Co-President, Disney Interactive Media Group and General Manager, Playdom*

Good morning everybody. Thank you, Jay, for the introduction. I'm John of the John & Jimmy show. I oversee the games portion of the business. And as a matter of background, in addition to what to Jay said, I spent the last 15 years in the interactive media and commerce space, the first decade at Interactive Corp. where I ran Ticketmaster and many of the online non-ticketing subsidiaries and then most recently in gaming. Jay mentioned I was President of Global Publishing and Chief Operating Officer for Electronic Arts and then headed up Playdom, which is now a division of Disney and is at the forefront of social gaming.

Jimmy Pitaro – *Co-President, Disney Interactive Media Group*

So good morning everyone. Again, I'm Jimmy Pitaro and I'm responsible for the online businesses at Disney Interactive Media Group and I'm incredibly excited and honored to be a part of The Walt Disney Company, as are my kids. In fact, my seven-year-old boy recently told me that he far prefers Disneyland to Yahooland.

In terms of background, I'm a lawyer by training and I practiced for several firms in New York City. And then I took a job for a music startup called Launch.com, which was ultimately acquired by Yahoo! in 2001. And I joined Yahoo! and later took on responsibility for the media businesses, which include news, sports, finance, entertainment, kids and games. And while there, my focus was on serving a large audience by building personalized online experiences. I also looked to create a unique voice and identity for these properties mainly through building out original content and programming, and most of that was done in response to key audience insights that we were aggregating.

And a lot of that, as you'll hear today, is very relevant to what John and I are trying to do at Disney Interactive Media Group. We already have so much incredibly valuable content within this group, we'll be very focused on building a platform and a site to service that content.

John Pleasants – *Co-President, Disney Interactive Media Group and General Manager, Playdom*

So Jimmy and I collectively manage the business. But each of our areas is unique with a lot of its own idiosyncrasies and complexities. And with the ability for us to leverage our respective backgrounds to manage the business, it's turned out to be a real boon for us coming in quickly. And because of that we'll be able to take advantage not just of commonalities but the technologies and sales between us, but the ability to divide and conquer, if you will, and set up some new organizations and new strategies very quickly.

Jimmy Pitaro – *Co-President, Disney Interactive Media Group*

And there's a huge opportunity here. You guys have heard a lot about what's going on in the Internet industry right now today in terms of Internet advertising. 31% of media time spent is spent watching television whereas 39% of ad dollars go to television. Conversely 28% of media time spent is spent online on the Internet and only 13% of the dollars go to online.

So we see a huge opportunity here and we see the share continuing to shift online. And as part of that we want, not just our fair share, but we want a disproportionate share of those dollars as they shift. And with marketers now facing an increased value on trusted brands we feel like we have a huge advantage here.

John Pleasants – *Co-President, Disney Interactive Media Group and General Manager, Playdom*

There's no question interactive media is really, really important to Disney. First of all it's one of the largest segments that Disney competes in. It's definitely the fact it's growing and it's one where our share is smallest. So there's obviously a huge opportunity here in terms of upside, revenue, profit, market share, all the obvious things, so we believe very much in terms of value creation beyond just the obvious P&L metric.

Of course, you all are more familiar than us even with the kinds of multiples that can be ascribed to people who have real leadership positions in the interactive space. But deeper than that, we believe really fundamentally that our group can be a creative engine for the company and that we can build new franchises over the coming years for the company. We believe very much that the franchises that we have, have opportunity in terms of reach on new platforms in new parts of the world and new use states for consumers.

And also we have new business models, very accretive ones that are emerging very quickly in the online space. So we can think of really no better division and no better company to pursue a truly scaled digital entertainment agenda than this company does.

Jimmy Pitaro – *Co-President, Disney Interactive Media Group*

And we have a very strong foundation off of which to build. Today for Disney Online, our family and parenting sites are number one in their category with over 30 million unique users per month per ComScore. In addition, through our successful acquisition of a company called Digisynd, which is focused on creating social experiences for brands and content, we now have 200 pages on Facebook and over 125 million fans on Facebook. The point here is we're not just asking our users to come to Disney.com. We're bringing Disney to our users.

John Pleasants – *Co-President, Disney Interactive Media Group and General Manager, Playdom*

And the hits keep coming as we go across here. In virtual world, we're the number one company. We've actually had the kids create over 150 million penguins on our Club Penguin property. We're the number one entertainment site with over 75 million separate applications that have already been downloaded. In social, we're a top developer. We log over 5 billion minutes of consumer game play every month. In console we're a top-ten developer. We have 275-plus Metacritic titles that came out in 2010.

So when Jimmy and I kind of look at that slate behind us and the pillars, that's a great foundation to build off of. But we also think at the same there's an opportunity to do more with that foundation. And it's deduced, kind of in our opinion, two things that have held us back a little bit from taking full advantage of that.

The first is that those silos have been pretty hard. In order to get traction in this area, each silo really focused on its own products. And we think there's an opportunity to do things across these various distribution platforms.

And then secondly, sometimes we fall in the trap of building marketing products to support other parts of the company as opposed to focusing on building true world-class entertainment properties ourselves. So that's going to be the two things that we change.

In order to do that it all really starts with putting the consumer first. So we want to put the consumer in the middle and build franchises that can basically wrap around the consumer with a connected experience. And by doing so we would over time be able to build the next generation of franchises for the company.

Jimmy Pitaro – *Co-President, Disney Interactive Media Group*

And regarding online, simply stated, kids and adults want different things, as do boys and girls, as do preschoolers and tweens, but today we've been serving the same experience to all of our consumers. Going forward, we'll deliver personalized experiences to each of our consumers where we serve the right content to the right user at the right time.

John Pleasants – *Co-President, Disney Interactive Media Group and General Manager, Playdom*

I'll just go back and use an example, in gaming, for a second. Sean created a great film in *TRON*, a great blockbuster film. And we did many, many great things in the digital space. We put out six titles in online. We won every single gaming platform. We had great 3D capabilities done through the browser in unity, but we didn't build a connected experience. So we lost the opportunity to have a business model in each one of our games, we lost the opportunity to aggregate the *TRON* audience online effectively to continue to build that franchise. We did a lot of things but boy can we do better.

Jimmy Pitaro – *Co-President, Disney Interactive Media Group*

So, when John and I came together we knew it was important to set clear and bold business goals backed by a common mission that unified our businesses. And those goals are number one, to achieve profitability during 2013. Number two, to build DIMG into a growth business. Number three, to deliver asset value to Disney by being both a creative engine and a provider of intelligent platforms on which brand assets can thrive.

John Pleasants – *Co-President, Disney Interactive Media Group and General Manager, Playdom*

And we are well on our way here in the last 90 days since Jimmy and I kicked into stride here in this particular division. First, we've really focused on getting the right team and scaling the team to where our business is today. In the last 60 days we've done a reduction in force. We've also taken millions of dollars of overhead out of the Interactive Media Group.

Between fiscal '11 and fiscal '12 looking next year we will take out approximately 25% more operating costs in our product development and overhead areas to scale the business in a true march to profitability. We are very, very focused on getting there. But at the same time we're bringing in new people. At the same time this is a really, really exciting opportunity for everybody in our group. And so to do all these moving pieces we really want to make sure we have an inspiring and aspirational vision.

Jimmy Pitaro – *Co-President, Disney Interactive Media Group*

And in terms of our mission it's really quite simple, entertain people everywhere with world-class products and content that push the boundaries of technology and imagination and there are three things we want to call out here.

The first is when we say everywhere, we mean it pertains to people globally and across platforms and devices. Number two, when we say world-class products and content we mean the right mix of envelope-pushing games, sites and videos to lead in our markets and transform

our businesses. Quite simply, we want our games and our sites to be to our gamers and our Internet users what Pixar is to movie-goers.

John Pleasants – *Co-President, Disney Interactive Media Group and General Manager, Playdom*

So let's take all this down now and get very specific on games and what our strategy is there. Let's start with market size and opportunities. So, as you can see here today we estimate the global gaming business is about a $56 billion business. And it's going to grow we estimate again by about a third between now and 2015 to about $75 billion. So this is truly a big and very fast growing market.

Now, there's a lot written on the right-hand side of the chart there. Let me just make a simple call out for you, which is the bottom portion, which is in navy blue. It represents the console business. As you can see that is a flat business looking out over the next several years.

All of the growth is coming from the multiple colors there, really driven by the high CAGRs around social gaming, online gaming and mobile gaming. So those are the engines and the pistons that we need to focus on as we look at our investment dollars and what products we're going to be coming out with. The same chart, 56 to 75, but let's have a different sort of slant on it and look at it from a global perspective.

So, North America is written in the orange color. And as you can see it represents approximately 25% of the business here. And so from our development standpoint, we've had a pretty North American focus historically. And when you look at the size of the opportunity internationally, we absolutely need to take that into account. There's a big world out there and interactive gaming is really leading growth in those particular geographies.

So, we have to take advantage of this and we need a really clear strategy. And we basically have a five-prong strategy in games to go and take advantage of this. The first thing is IP and the actual games we're going to make. There is a flight to quality in every single gaming category that is out there. And things like mobile and social, which are the newer categories, are not immune whatsoever to that.

Our strategy is going to be we're going to focus on four to six major franchises and drive very big content platforms that we're going to talk about, key part of our franchise strategy.

Number two is emerging platforms. We will continue to build and focus on growth areas by making smart bets in the areas where the growth is most significant. Number three, business model, if you do the second one, but definition you inherit the third one, which is there's a lot of business models out there now from free-to-play, micro transactions, subscriptions, sponsorships, box product now at multiple tiered pricing with downloadable content on the back end. And we in this group need to take advantage of every one of those revenue streams in a dynamic way to maximize our potential. This is all predicated on technology.

We need technology enablers and we need world-class technology to do what we are talking about. We're talking about games with the service with cloud-based servers and game engines that we deliver across every platform.

Consolidating and building out our engines so that they're world-class. Better development tools, great analytic systems so effectively we're moving head long and fast and furious into the live services portion of gaming.

So we absolutely have to be world-class even in these areas across every one of our studios by providing these things centrally. And as we mentioned it's international. It's a big world. We have to have international sensibility in everything we do.

When we play those five pillars together, and your sort of have one vision of what we're trying to do, we're trying to create as, I mentioned a second ago a content platform around a certain IP. And a content platform is really just a digital ecosystem that can live and grow over time. So you don't just have things that come out and die. They build up and you can build long-standing year-over-year stand-the-test-of-time franchises. That's what we're going to do and we're going to focus on things that are uniquely Disney that only we can do.

Now we're not here today to unveil new products. And that's not what we're going to do and what we're going to show. But it wouldn't be fair if we didn't show you some of the creativity and some of the ideas that we're rallied around right now in building some of these content platforms. And specifically, some of the content platforms that we think are uniquely Disney. So let's give you a dimension of some of the work in process that's going on right now in terms of that sandbox.

We'll start right at the beginning, but we already have one. It's called Club Penguin. It has a great theme and a great product and it denominates its market. And it's a virtual world. It's a social network. It's an aggregator of games. It is effectively a platform for people in its demographics. And it's grown over 400% in active user base over the last three years. So we really want to leverage this and we really believe we can do more with this property.

So we will. We will continue to build it out. And we're going to build it in many ways, from facilitating social play, guiding new adventures and new content and the team is all over that. But we can go beyond. We can even have a bigger environment that encompasses other exciting worlds that can tie into what's a particular demographic. And that world can be very broad where we can connect games and experiences with the common themes and identities. Much as we do right here at Disneyland in a theme park environment with rides and attractions. We are really excited to build our next generation platform for you in these virtual worlds.

I'll give you another example. You've heard a lot today about *Toy Story*, the franchise, and in particular *Toy Story 3*. This was a fantastic movie, a fantastic set of products and a fantastic

franchise. In fact, it's the highest grossing animated movie of all time. What I think is really the coolest thing about this is it all spawned from the simplest of ideas, the power of a child's imagination and the joy of play with toys.

We extracted the essence of that in the movie and pulled that in and built our game around it. In other words we didn't just retell the story. We did something inventive in the game, *Toy Story 3*. We created the Toy Box mode where kids can basically play with the toys, play with Woody and Buzz and everybody in a free form way.

Do whatever they want to do as if they have a play set on their bedroom floor. The only limit is just their imagination. But again, we can do more. We can add more characters. We can add more platforms for kids to play on. We can add more worlds besides the Western towns. We can add more items. We can give the characters more capabilities. We can add ways to share, ways to cooperate with them, making more things to buy. We can add new business models. Everything can be done based on the quality of the platform we've started with, basically a haven for kids in virtual toys.

You're not hearing about it from me, the suit up here. I'd like you to hear about it a little bit more from some of the creators who are working on these products.

[VIDEO]

John Pleasants – *Co-President, Disney Interactive Media Group and General Manager, Playdom*

Okay great. Why don't we try another example? Again we're just going to go right down the litany of franchises we have, Marvel. Marvel for us is obviously a fantastic brand and set of characters. But now we can do so much more with it, we feel, interactively now that Marvel is part of the Disney family.

Yes, we have great partners and licensees and they build a great product. But we, Disney, we the Interactive Group, we need a place for enthusiasts to congregate, what we can build a community. Where we can have episodic content and an overall narrative of where the Marvel characters and stories are going that we can drop interactive products and games into. Again, a content platform that we build for Marvel.

Maybe the easiest one of all is to go back to the timeless and that in Disney vault and think about what we could do there. We started with a game that some of you may know called *Epic Mickey*. It has come out with great commercial success and it was only on one platform, which is the Wii. You can only play as one character, which is Mickey. It's got one basic game kind of construct that's built into it. Again, it's the same theme.

How many more characters do we have? How much more game play can we add? It's only on one platform, how great would it be on iOS as an example. There's so many more stories we can tell as a part of this game.

So that's what we want to do here. We want to tell these Disney stories in a new and interactive way where people have never been able to participate in them before. And through that, we will be contributing and making a deposit back to the Disney vault. Again, this is a content platform that we think can stand the test of time.

So each of these four concepts we just talked about, they all represent the same thing. They're Disney content platforms. They're ecosystems that can house dozens of games over time in a holistic and sort of fanatic way that we can build year over year. That is the backbone of what we're going to shift to in the games part of the business. But it is not all we're going to do. We are still going to make those things I referred to. We're still going to make smart bets, in growth sectors, where we know we can be leader. And we're already doing it with dozens of brands that are launching in real time and are being supported and growing out of mobile and out of social as two good examples.

We also aspire here though not just to be profitable and grow. But to build franchises, what a great creative engine here to reach millions of people in a relatively low-cost way. So we're going to take advantage of this and our hopes and aspirations by our team is to go out and actually build world-class franchises out of this group.

Now to make all this happen from a games perspective you need a lot of things but we already covered quite a few of them and we feel pretty good about them. We have a strategy. We have built out a very good and we have a very good high quality team. We are in process. We know what tech we need. We are building it out right now to deliver these types of experiences.

We have ideas. We are calibrating the expense structure for where the business is today to make sure we can build a very profitable division going into the future. But the one last thing we have to do to make it all happen is we have to do capital allocation correctly. And we have to put our money where our mouth is.

And so we are making some pretty significant changes in capital allocation looking out over the next four years. Console, this particular part of the bar represents the amount of money this year we plan on spending on traditional box product, that is literally just solo box product game. We're going to be reducing that probably by about 50%, looking out between now and fiscal '15. But that does not mean we will not be making boxed product, nor does it mean that we don't highly value that channel, our retail partners and everybody else that goes there. We're actually going to add to it. We're going to add expense on there around these core franchises. But the core franchises are going to live on all these platforms. They're going to be in box products. They're going to be in social. They're going to be in mobile. They're going to be online. They'll be on Android. They'll be everywhere. So $0.70 on the dollar is going to go towards building out these content platforms that we've just referenced.

$0.20 on the dollar approximately on the dollar is going to go towards these smart bets. Again, a relatively low-cost area to build not only growth and profit, but to build future franchises. And about 10% is going to go to fill out the balance of it, which is the technology that we need to bring all this to bear. That is basically it in a nutshell the plan for the games division. Mr. Pitaro?

Jimmy Pitaro – *Co-President, Disney Interactive Media Group*

Thank you, John.

John Pleasants – *Co-President, Disney Interactive Media Group and General Manager, Playdom*

How about online?

Jimmy Pitaro – *Co-President, Disney Interactive Media Group*

Okay. So for Disney Online we currently have two product lines and those are Disney.com and Moms and Families. And we are currently rethinking both experiences. And it's important to note here that we're not just redesigning. We're rethinking the entire experience from content, to product, to monetization, to business models. I told the team to think like a startup and I asked them the following question. If we had a license from The Walt Disney Co. for the brand and the content, what would we build?

And what we know today is that Disney.com will be focused on the user. It will be cleaner, more elegant and easier to navigate. And we know that the content on the pages will be treated as objects and objects that are portable across pages and across sites. And we will deliver an experience that's both hyper personalized and customizable by the guest. I think it's important to distinguish between those two things.

When we say personalization, what we mean is we could actually deliver an experience to our consumers that is personalized to each individual based on all the audience insights, all the explicit and implicit information we have on a specific user.

When we say customization what we mean is we could potentially ask a consumer to tell us something about him or herself. We could put buttons on the top of the page that say, adult or child, male, female, and based on one simple click, we could then customize the entire experience around product and content for each individual consumer. The bottom line is we'll be delivering the right content for the right user at the right time regardless of device or platform.

Now here's an example of how we're thinking about personalization. As you can see it all starts with the guest. The guest is at the center of absolutely everything that we're trying to do. And our guest interacts with us in two ways.

The first is around content and the second is around experiences, those product experiences. And as that interaction takes place, we generate data. And that data and those audience insights actually fuel the personalization engine. And as we fuel that personalization engine, we can deliver a more personalized, more tailored experience to all of our guests. So, by doing that we will then drive engagement, and as we drive engagement, we will generate more data and more audience insights. And you can kind of see how this cycle works.

The bottom line is the more our users engage with us the more we are able to serve a truly personal experience to each and every guest.

And here's an example of how we're thinking about the new Disney.com. It's important to note that this is just one of many designs that we're currently considering. But as you can see it's a cleaner, simpler, more easy to navigate environment, and it will all be powered by a personalization engine at its heart. And when we get this right, and when we know the user experience there will be a rising tide. And that rising tide will lift all boats across all of our business units across the company.

In other words, when we deliver the right content to the right user at the right time, we will grow our reach and engagement across all of our sites and then have a more powerful platform to surface all the fantastic content that we have across our company and help our other businesses grow.

In terms of Moms and Family, we have a huge demand from our advertisers. Today we have a strong foundation across various sites, family.com, Kaboose, BabyZone, FamilyFun.com but we need to rapidly expand our reach and engagement to meet this demand. And our goal is therefore to consolidate all these assets and build a single starting point for Disney Moms online.

And that starting point will be personalized for a moms-specific web page and it will include things like mom-specific categories, utilities, blogs, community and social. And in parallel as you just heard, we'll be partnering with Andy Mooney and his team to build out the online experience around Disney Baby where we develop a direct connection with new moms online. And as part of all this we brought on new leadership to manage and build these moms' experiences and those individuals will be leveraging what we're building, all the technology that we're developing around Disney.com.

In addition to our two vertical product lines, we have several horizontal initiatives that we prioritize. The first is tools and utility, the second is original video programming, and the third is social capabilities. In terms of tools and utility, what we have here is something we're calling the companion experience. We know today that 75% of people that are watching television on

the big screen are multitasking online. And we want to give those users a contextually relevant experience on their PCs, tablets and smart phones.

So through audio fingerprinting and other types of technologies our sites and applications would recognize what a user is watching on the big screen and produce a relevant content and social experience around that program. And we've already launched some products in this area on the ABC side and are actually considering building this type of functionality into the new Disney.com offering.

In terms of original content, on the video side, we've historically focused on content created by the other business units. However, moving forward we'll create our own original digital content and stories, with the goal being to openly create our own franchises within the digital group. And we'll also create derivative content where we possibly introduce new characters and extend story lines of existing assets.

And we'll bring in Internet curated and licensed content to our sites, all of which will be consistent with our brand and our high quality standards. We'll also look to gamify some of this content by launching our video with new and conceptually relevant online games.

In terms of social capabilities, we know that kids today want to emulate their parents' activity on Facebook. And while we don't yet know if we want to build a separate social destination for kids online, what we do know, is we want to weave into our existing sites and our new sites social capabilities and social utilities.

But we also want to be more interactive and we'll continue to invest in our Create portal, which has been incredibly successful for us to date. In fact, through our digital painter application we had almost 600,000 pieces of user-generated content created and submitted over a one-month period. And our in-house technology reconstructed a single image using those submissions, which led to the first-ever online evolving digital mosaic.

And very importantly we'll be delivering experience across platforms and devices. As recently reported, last year we saw global unit shipments for smartphones and tablets exceed PCs and today 60% of time spent on smartphones is spent on mobile Web, games, social networking and utilities. As a result we're investing heavily in this space.

First, we want to enable our guests to access their experiences everywhere tailoring for each individual device. Second, we want our users IDs, profiles, favorites and content entitlements and all the insights that we have on our users to follow them across devices as will the personalization experience. So what we know and learn about our users on the PC will follow and enable those experiences across all devices.

In terms of monetization strategies we're looking at four areas right now: ad innovation, Disney credits, direct-to-consumer offerings, and premium content. On the ad innovation side, we want to deliver powerful and innovative ad solutions to our partners across devices, like this

recent Apple ad that ran on ESPN, we want to deliver an ad experience to our consumers that is actually part of the entertainment experience for both a product and a content perspective. And if we deliver on that both our consumers and our marketing partners will win.

In terms of Disney credits, what we know today, is we want to enable our users to earn anywhere and spend anywhere. We are currently considering offering a single currency across all of our Disney sites. Here currency can be earned through engagement or by digital allowances and can be spent on digital goods. The long-term hope would be to leverage this across all of Disney so that, as I said, users can earn and spend anywhere.

We also want to continue to invest in our direct-to-consumer services. Today as you guys have heard, our Disney Studios All-Access service allows guests to buy and rent movies online. Our plan is to extend this beyond movies and include other types of content like music and games. And we also want to make this service portable across Disney and other sites so that our users can actually watch Disney movies everywhere they are on the Web.

And in terms of content availability, well of course we'll continue to make the majority of our content free to our users. We're also considering putting some of our content behind a registration wall, which as we discussed will further enable the personalization engine. And we'll, of course, continue to offer premium content like movies and games.

John Pleasants – *Co-President, Disney Interactive Media Group and General Manager, Playdom*

So that's the overview of what we're doing here at the Interactive Media Group and we feel really good about. We think we have a great plan. There's obviously a lot to do but it's imminently achievable and Disney has a great heritage of investing in content and creativity. We intend to completely uphold that and add to it new capabilities around technologies and platforms to take that content to the next levels.

And we're going to do it in a way because it's the same standard as everyone of our other colleagues here, which is we need to do it in a way that contributes, not only strategically, but monetarily to this company and we need to do so in the near future.

Jimmy Pitaro – *Co-President, Disney Interactive Media Group*

And I heard a great story, recently. When one of our producers approached Jeff Bridges about the most recent *TRON* film, he said: "tell me things that you are going to do that no one's ever done before."

So, that's the spirit of The Walt Disney Company and that's the mandate of our division and we will deliver. Thank you very much.

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

Thanks, guys. Over the years, our parks business has built a key competitive advantage by strengthening the business connection with consumers through exciting new attractions and innovative experiences around the world.

Our next speaker, Tom Staggs, leads parks -- the Parks and Resorts Group. Of course, many of you know him from his days as CFO. During his 20-plus years with Disney, Tom's played an important role in driving greater capital efficiency and in shaping a variety of our key transaction and strategic initiatives.

Today, he is going to talk to you about how we continue to create value in the parks business and discuss some of our new initiatives. You might not know that Tom started college as a music major.

While he ultimately majored in business, he still enjoys playing a trumpet. So, with that, join me in welcoming Tom.

Tom Staggs – *Chairman, Walt Disney Parks and Resorts*

You know, I was reflecting, actually, when I knew I would come, that one of the things that I really liked about my old job was when you had issues you wanted to discuss. So, shouldn't there be a few more billions that you're putting into share repurchases, or is digital media ultimately good or bad for the business. The answer's still good, by the way.

And, now, I'm glad to see that hasn't changed. I've gotten two questions today - about what time the gym opens and another person wanted to know if I could give them Fast Pass access for their kids.

So, it's good to know you still come to me for the big stuff.

It has been a fantastic year. It was weird to go sort of cold turkey, though, on the regular cadence of investor meetings and quarterly conference calls.

As you'd imagine, I've listened into a number of the calls and I can tell you this, I haven't missed me a bit. In all seriousness, Jay has done a great job, as you've seen firsthand, of jumping into the role. And I've had a bit of jumping in to do myself, as I've tried to travel to all of our locations and immerse myself as much as possible into the world of Disney Parks and Resorts.

Now, in this day and age, there's always someone around with a video camera, which allowed us to pull together a few clips to show you a little bit about what my last year has been about. Let's take a look.

[VIDEO]

Tom Staggs – *Chairman, Walt Disney Parks and Resorts*

So, right after we shot that video, Gary Marsh marched me straight over to Bob Cavallo's office at Hollywood Records. That meeting did not go so well.

Even so, though, it has been a really fun and fascinating year and fulfilling as well and it's a great time to be in this job. As a number of you have pointed out, the parks are really well positioned to take advantage of the economic recovery, which should help fuel strong growth for the segment over the next couple of years.

We'll capitalize on that economic recovery as it solidifies. But, at the same time, we have a significant number of long-term initiatives underway in our business and that's really what I want to talk to you about today.

So, now, having spent considerable time with you over the years, I know that, when I say initiatives in the park business, your thoughts immediately turn to capital requirements. And, to be sure, we are putting substantial capital to work, especially this year and in 2012. But, let me say, up front, that I am very confident in our ability to create value with these investments.

Our principal financial objectives for parks and resorts are to deliver attractive double-digit returns on invested capital, along with continued profit growth, over the long term.

As we look out over the next decade, we fully expect to deliver on those objectives. That confidence is bolstered by our tremendous competitive strengths and sources of differentiation in this business.

Now, at Disney Parks, we are known for the iconic assets that we build, our castles, hotels, cruise ships. But, at the end of the day, these aren't our core products. We aren't in the attraction business, the hotel business, the cruise ship business. We are in the guest experience business. The great shared memories that guests cherish and create every day at our parks help keep people coming back year after year.

Understanding that is essential to understanding how Disney's unique assets and competitive strengths set Parks and Resorts apart. So, let me briefly touch on four of these key strengths.

The first is, of course, the Disney brand. In the family travel and leisure business, the Disney name truly stands apart. It's uniquely powerful, it's synonymous with quality, it evokes trust, and it generates loyalty.

It allows us to establish a connection with our customers unlike any other company. We have the extraordinary benefit of having customers who actively seek a relationship with us, a

relationship that's based on emotions and trust. We understand that we must be relentlessly consumer-focused to sustain and grow those relationships.

Our second major differentiator is the incredible wealth of the fantastic intellectual property and creative talent available to us.

At Parks and Resorts, we bring the company's creative content to life in an immersive and tangible way. Many of our properties are evergreen as Jay pointed out. They provide an ongoing source of strength and relevance for us. At the same time, the constant flow of stories, characters, and music generated across the Disney company allows us to infuse our parks, resorts, cruise ships, et cetera, with vibrant new content on an ongoing basis.

The third competitive strength I want to touch on is our long-standing focus on leveraging technology and innovation throughout our business. While it may be chic to talk about innovation these days, it's been a key focus at Disney since Walt famously said, "It's kind of fun to do the impossible."

Trust me, if you spend time with our Imagineers, you'll see that the drive for innovation is still inherent in everything that we do, and it's inspiring because our opportunities to leverage technology and innovation are greater now than they've ever been.

The fourth strength I'll highlight is one that I'm not sure we talk about enough and that's our incomparable cast. It might surprise you, but, in our research, people cite interactions they have with our cast as the single biggest factor in their satisfaction and intent to return.

The excellence of our cast members is borne out of a deeply-rooted cultural commitment to quality and service that's been part of the organization for over half a century.

What I've really come to appreciate this past year is that our cast's commitment to guest experience is holistic, from designing our parks, attractions, and resorts to creating our entertainment offerings and even down to the food that we serve.

We want to wow our guests with every interaction. Maintaining this culture of excellence across all of the various disciplines required in our business is extraordinarily difficult, if not impossible, for others to replicate.

The guest service orientation of our business does require a significant labor commitment and operating labor comprises about a third of the segment's cost base. But, when so many of our guests single out interaction with our cast as the most important part of their visit, we know this continued investment is worth it.

Capitalizing and building on the key sources of competitive advantage that I've just listed is essential to our investment decisions and an essential part of the initiatives we now have underway.

Our current initiatives fall into three areas: growing our established assets, building out our new businesses, and expanding in geographic markets. So, looking first at our established assets.

Here, at the Disneyland Resort, we're well underway with our expansion of Disney California Adventure. Since its inception, Disney California Adventure has featured some of Disneyland's most popular attractions.

But, from the standpoint of delivering on the fundamental Disney differentiation and immersive storytelling, we missed the mark. So, now, we are bringing more beloved characters, more atmosphere and more Disney DNA into DCA.

Last night, you all saw *World of Color*, which opened just last summer. I hope you really enjoyed it. But, I hope you also noticed that it's not only astounding on a creative and technical level, it's also firmly anchored by classic Disney characters, stories, and music that people love.

It's been a huge hit with guests and, so far, it's been seen by over two million people. Since the opening of *World of Color*, and through the end of our first quarter, attendance is up nearly 20% at Disney California Adventure.

That increase gives us even greater confidence in our ability to grow our attendance and better distribute it between the two parks. This spring, we'll open *The Little Mermaid - Ariel's Undersea Adventure*.

Construction has already begun on Buena Vista Street, the re-imagined entry to the park that will transport guests into a romantic idealized Hollywood of the 1920s. In the summer of 2012, we'll open *Cars Land*, a new 12-acre land that will transport guests to Radiator Springs and immerse them in the world of *Cars*.

Later, this afternoon, Bob Weis, our lead Imagineer on this expansion, will give you a deeper look at our plans, and I think you'll see that we're transforming DCA into a park that's truly differentiated and truly Disney.

Meanwhile, we're also investing for growth at Walt Disney World, which is, of course, our biggest and most profitable asset. For most of our guests, the centerpiece of a Walt Disney World vacation is a visit to the Magic Kingdom.

And the most popular land in the Magic Kingdom is Fantasyland, with its iconic characters and popular attractions. But, Fantasyland has seen relatively little expansion since the park opened in 1971.

Consequently, it can be extremely congested and difficult to navigate on busier days' which decreases the number of experiences guests can enjoy, which in turn directly impacts guest

satisfaction. With this in mind, we're well into the expansion -- an expansion that is the largest in the Magic Kingdom's history and that will double the size of Fantasyland once complete.

By expanding the offerings of our most popular land, we have a real opportunity to drive guest satisfaction even higher. We know that when we create a differentiated experience that no one else can match, we increase guest satisfaction, guests spend more time and more of their vacation dollars with us and intent to return and positive word of mouth increase as well.

We also have the opportunity to better utilize some of our most beloved stories and characters in new attractions, dining experiences, and immersive environments like *Under the Sea*, *Journey of the Little Mermaid*, which will take guests into the world of Ariel, Sebastian, Flounder and all of their friends. Not far from Ariel's new home, guests will be able to relive their favorite moments from Beauty and the Beast in Belle's Village and The Beast's Castle.

One of the most popular attractions of the Magic Kingdom, *Dumbo the Flying Elephant*, will double in guest capacity and will also feature a circus-themed interactive queue that will delight guests of all ages as they enter the Big Top.

Finally, we're adding an innovative new mine coaster, based on one of our most iconic and enduring films, *Snow White and the Seven Dwarfs*. This attraction will feature a new ride vehicle that we've patented, which twists and turns on its track, adding atmosphere, kinetics, and adventure to Fantasyland.

We have additional opportunities at our resorts as well. In 2013, we'll open our new *Art of Animation* Resort at Walt Disney World. This new property celebrates some of our most popular animated stories, including *The Little Mermaid*, *Lion King*, *Finding Nemo*, and *Cars*.

The resort will have nearly, 2,000 rooms, including 1,200 family suites, giving us a significant boost in our attractive value-priced room inventory. Our value resorts and, especially our family suites, play an important part in providing our guests with a broad range of hotel and pricing options. They've been extremely successful and have generated some of the highest occupancy rates on our property.

We believe these initiatives in Florida and California will allow us to deliver attendance growth that outpaces population growth by several percentage points.

By delivering better value, we also feel we can generate real increases in per capita spending. For example, we're already seeing a pricing benefit from *World of Color*. While previously crossing between Disneyland and Disney California Adventure was essentially free for guests on a two-day pass, there's now a $10 premium to park hop.

In addition to focusing on expanding our physical assets, we're also spending considerable time and energy to fundamentally change the way our guests experience our properties.

As we've discussed in the past, consumers are changing. They have increasing access to information, an increasing array of choices, and an increasing desire and expectation for personalization and recognition. So, we need to transform the guest experience to reflect that. We know that our guests love creating great Disney memories with their friends and their families.

We also know they don't exactly relish waiting in line, checking in at the resorts, worrying about missing their favorite attractions, or feeling uncertain about how to best navigate and access our properties.

In the coming years, we'll introduce a broad, integrated set of systems and tools that will help us create a more seamless, personalized experience, and help guests to get more out of those visits with us.

That's our ultimate goal, to welcome more and more people, while making their experience more satisfying, more personal, and more immersive. We've launched a number of initiatives over the years, including FASTPASS and Magical Express, and they've been incredibly popular with our guests. But, we plan to take these kinds of enhancements even further Giving our guests faster and better access to the fun is a centerpiece of our investment in technology.

As a result, we're currently developing an innovative system that will, in essence, create a version of FASTPASS for the entire Disney vacation. We define the Disney guest experience as beginning from the time a potential guest sits down at the computer or picks up a phone to make a reservation.

Our tools will help them better understand all that we have to offer and better plan their time with us. They'll be able to create a personalized itinerary that gives them the exact Disney vacation they want.

Guests will be able to reserve times for their favorite attractions and character interactions, secure seats at our shows and spectaculars, make dining reservations, and pre-book many other favorite guest experiences all before even leaving their house.

We also plan to simplify the check-in process, so that guests will arrive at their resort with room key in hand so they will be able to go straight to their room or to a theme park, again allowing them to get to the fun faster.

We're also creating innovative new ways to pull guests into our stories.

A picture with a Disney Princess is a quintessential part for the Disney experience for many of our guests. So, in Fantasyland at the Magic Kingdom, our Disney Princesses will soon have dedicated homes, complete with Disney magic, and the tools that we're creating will allow them to greet and interact with our guests in an immersive and highly personalized way. We're rethinking the queue lines at many of our attractions and are enhancing them in ways that

make them part of the show. Essentially, creating a new scene one for the attractions, if you will.

For example, the *Winnie the Pooh* attraction in Florida that we just opened has a new hands-on area, where younger guests can explore and play in the 100-Acre Wood. It's been so successful that we've heard kids asking their parents not to use FASTPASS in order to enjoy the new first scene that much longer. You know we're doing something right if kids are asking to wait in line.

We're also developing the means to better assess and manage guest traffic throughout our theme parks, so we can use entertainment experiences, characters, and other forms of Disney magic to help improve the flow of guests during peak periods and drive increased utilization as a result for our parks.

Through this work, we'll put better information into the hands of our cast so they can deliver an even better and more personalized service for our guests. Now, it will be some time before we roll out the bulk of these initiatives, but we're well into development and, in fact, have a number of patents pending on our approach. So, it's too early for me to say much more than that. But, our vision here is clear and we see a real opportunity to further enhance and differentiate the Disney vacation experience.

We're excited about our prospects at our existing sites. But, at the same time, we have real potential at our new and expanding businesses, with the most important of these being the Disney Cruise Line. Cruise is a great example of Disney's competitive strengths, giving us the opportunity to successfully enter a new area of the vacation industry. In so doing, we've created a blueprint for family cruising. In fact, over a third of our passengers say they would not have chosen a cruise vacation if it hadn't been for Disney.

From stem to stern, our ships have been designed to deliver a great Disney cruise vacation for every member of the family. We've carved out a very attractive niche in this business, generated strong returns, and created a new avenue for growth.

But, the most gratifying aspect is the response of our guests. Virtually everyone who sails with us says they will recommend the product to others, and over 80% say they will come back to cruise with us again within five years. I was just on the maiden voyage of our new ship and I met a couple who was on their 80th Disney cruise. Not eighth, not 18th, 80th, their 80th Disney cruise. I love them.

And, so, for the breakout session later, Bruce Vaughn, head of creative for Walt Disney Imagineering, is going to give you an overview of our two new ships, the just-launched *Disney Dream* and the *Disney Fantasy*, which arrives next spring.

I think you'll be impressed with how beautiful these new ships are and how innovative we've been in their design and development. There's literally a surprise around every corner, from the magic artwork to the virtual portals.

Expanding in Cruise allows us to take more guests to more parts of the world and test new markets as well. We've repositioned the *Disney Wonder* to the West Coast, which allows us to sail to Mexican destinations, and, for the first time ever, to Alaska this summer.

While we've incurred significant costs to launch the *Disney Dream* this quarter, we expect our new ship to start contributing nicely to our profits, beginning in Q3. Our cruise business has generated double-digit returns and we anticipate having a similar return for the business after the two new cruise ships come fully online. Given our capacity increase, I'm particularly pleased that our booked occupancy across the fleet is 12 percentage points above where it was at this time last year.

Now, just as we were able to create a unique Disney vacation experience with Disney Cruise Line, our aim is to do the same in Hawaii with Aulani, our first stand-alone family destination resort, which is scheduled to open in late August. We're creating a stunning destination vacation in one of the most beautiful places on earth. It will allow us to deliver an incredible Disney experience that captures the very best of Hawaii.

The project will feature 359 hotel rooms and 481 of our popular Disney Vacation Club villas. Like our cruise vacations, Aulani will offer something for everyone.

It will feature a family friendly lagoon, a pool and water play area that literally needs to be seen to be believed, dedicated clubs and activities for kids and teens, an 18,000 square foot spa, and access to special Disney-created guided tours and adventures on Oahu.

We know the Disney Parks brand is already powerful in Japan, but we've been pleasantly surprised by the interest in Aulani and Disney Vacation Club in the Japanese market. As such, we fully expect this to be both a domestic and international tourist destination.

The experiences we create translate extremely well across geographic and cultural boundaries, and, in the longer term, we expect expansion outside of the United States to be our most important growth opportunity. In building great guest experiences and destinations around the world, we're also laying important foundations for the Disney brand.

As you know, our current principal focus in new markets is China and we think our timing here is right. Roughly 30 million Chinese enter the middle class each year, which will lead to significant growth in leisure travel.

In fact, spending on domestic leisure travel in China is expected to more than double to over $200 billion by 2015. Our first entry into China is, of course, Hong Kong Disneyland, where we're celebrating our fifth anniversary. Last year, Hong Kong generated record attendance, hotel occupancy, and guest spending and that momentum has continued this year.

We opened Hong Kong with an eye towards expansion.

I'm pleased to say that construction is currently underway in Hong Kong on three themed lands. *Toy Story Land* opens this fall and will take guests into the world of Buzz, Woody, and all of the toys from Andy's room.

We opened a similar version in Paris last summer and it's been a huge hit with guests there.

In 2012, we'll open *Grizzly Gulch*, Hong Kong's take on Frontierland, but this time we have an Old West mining town built on erupting hot springs. *Mystic Point*, opening in 2013, is reminiscent of the *Haunted Mansion* and features a Disney take on a widely-known Chinese character called the Monkey King.

With the addition of these three lands, we expect the upward momentum we're seeing at our Hong Kong Resort to continue.

Bear in mind that more than 40% of visitors to Hong Kong Disneyland come from Mainland China. Given that our penetration rate in Southern China is currently just 1% per year, we certainly have room to grow. As we announced this fall, we've signed an agreement with the Shanghai Government to build a new theme park there and are awaiting final approval from the Central Government in Bejing.

Again, we think there is a huge potential for a Disney property in Shanghai and I couldn't be more excited about our prospects there.

We're well into our blue sky development, and once Shanghai opens, in about five years, we know we'll have a park that is distinctly Disney, yet, authentically Chinese. Taken as a whole, we believe China is the most exciting opportunity we've had since Walt first bought land in Florida in 1964.

Walt Disney Parks and Resorts is a dynamic business and one that will continue to be enjoyed by guests around the world for generations. It's a business with high barriers to entry and a sustainable competitive advantage that provides attractive opportunities for us to profitably invest our capital.

The current investments that we're making in our existing assets, new businesses, and new geographic markets leverage and expand our competitive advantages and they enhance our growth prospects over the near, medium, and long term.

They're right for our brand and for our business and they'll help us create value for our shareholders for many, many years to come. Thanks very much. It's great to see you all again.

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

Thanks, Tom. We're now going to break for lunch. For those of you listening in on the webcast, we will reconvene at 1.30 p.m., Pacific Time. So, please, dial back in at that point.

[BREAK]

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

[VIDEO]

So ever since seeing that clip, now Lowell's asking me to take him over to Bob Cavallo's office. So Bob's going to be a busy man.

For more than 30 years, ESPN has led the way in serving sports fans wherever, whenever they want to view or discuss sports while at the same time delivering tremendous value to its advertisers, distributors and league partners. Interesting and true fact about the ESPN brand; we're aware of 33 babies who have been named ESPN.

Our next speaker, George Bodenheimer -- he is not one of them -- is president and ESPN -- president of ESPN and ABC Sports. George has been with ESPN since almost the beginning.

As you could imagine, George attends a lot of sports events. People always ask him who he's routing for. Well the answer's always the same: "Nielsen." It seems to be working because ESPN continues to enjoy tremendous rating success. So, with that, let me introduce my colleague, George Bodenheimer.

George Bodenheimer – *President, ESPN and ABC Sports, Co-Chairman Disney Media Networks*

I have a funny line for that, but I'd rather hold off on that. Anyway, good afternoon, sports fans. It's great to see all of you here today. I hope you had a chance to enjoy all the presentations at lunch, and I hope you had a chance to see the ESPN presentation.

Of course, we got a chance - it gave us a chance to showcase some of the technology we're working on. But, as importantly, it gave you a chance to see some of our people in action. I want to thank Lauren, Kevin, Akash and Rob for their efforts in putting all that together. It's a great demonstration.

I love the opportunity to be here with you today and to showcase the ESPN Company. We worked extremely hard over the last 31 years to build the company, and I'm very proud to be leading it. It's performing now at the highest levels in our history in a lot of ways, but certainly financially and also creatively.

Today I'd like to discuss in very simple terms why ESPN is so successful, and we believe we will continue to be successful. We'll do that in three parts. We'll talk about the fundamentals of the business, where we started and how we got to where we are.

Then it will be my pleasure to bring on John Skipper, our Executive Vice President of Content, who will take you through how we create our content that fans love and then we utilize as broadly as we possibly can around the world.

Then, finally, we'll conclude by showing you how we take all of that and create profit from it. So let's get started. ESPN - and it's headquartered in Bristol, Connecticut - and our headquarters, we like to think of as the content factory. We - that's what we call it, our digital center.

On the left, you can see the unparalleled collection of rights that ESPN has unmasked over the years, second to none. On the right, you can see the world-class news and information assets that we have created.

It all gets set into the content factory, which when we built it several years ago was the first of the kind in the United States and we believe the world and still the envy of many.

So all the rights go in, all of the news and information, out comes tens of thousands of hours of ESPN branded sports content. We then take that content and distribute it around the world to fans on any device that they wish to be served on, as you can see depicted here. That is our mantra, and you will see us - you will see much of our time today spent on that, how we distribute our product widely.

Then, of course, lastly, we have a model that allows us to monetize it like no other company in the world. That, at its essence, is the fundamentals of the ESPN business; rights, news and information, into the content factory, out comes the ESPN-branded products, distribute it widely to fans wherever and whenever they choose to use it.

But to fully understand ESPN and where we're going forward, you have to understand where we came from. ESPN was born - was developed in the late 1970s in Bristol, Connecticut, 20 miles southwest of Hartford.

At the time, Bristol was known for manufacturing clocks and doorbells. It was not a likely destination for a media company. Many, many folks in our industry were skeptical.

[VIDEO]

George Bodenheimer – *President, ESPN and ABC Sports, Co-Chairman Disney Media Networks*

Well we may have been kids then. Obviously we're no longer, but we still like to have fun. Despite the skepticism, the dishes went up. And on September 7th, 1979 was born a network solely devoted to sports, the first of its kind.

Two important things were born at that time. As if on cue from a sign in our parking lot a culture was created, a hardworking, blue-collar, can-do culture; that, along with our mission to serve sports fans, simply stated. Those two things, the culture and the mission, drove ESPN in the early days and still do today.

Let's take a look at some of the early images. At the time, we had neither the money nor the stature to buy world-class events like we have now. But what we did have was passion. It's what separated the ESPN people out. Everyone there loved sports, and we loved the challenge of what we were trying to do.

But without the money and without the stature, we had to innovate. That's what we did. We began to innovate. What you see here is an early image of *SportsCenter*; George Grande on the left, Bob Ley on the right. It doesn't look much like the *SportsCenter* today, does it? On the event side, an the early staple of ESPN, Australian Rules Football. College hockey - we didn't have much trouble getting edge for tickets in this Boston college game.

Tape delayed college football - and I know it's tape delay because at the time my job was to drive back and forth to the Hartford airport on Monday mornings, a day and a half after these games were played, and pick them up in a Federal Express counter and deliver them to Bristol. That's how our college football came to us in those years - tape delayed college football.

Weekly boxing was also a staple for ESPN for - and still is. But for many, many, many a time, we heard that every week.

Even ping pong and slow pitch softball. In fact, the very first event ever televised on ESPN that first night, September 7, 1979, was a slow pitch professional softball game featuring a Milwaukee Schlitzes versus the Kentucky Bourbons. But in a sign of things to come the game was sponsored by Budweiser.

But you know what happened? A funny thing happened. People started watching. We learned then what seems rather obvious now, that sports fans have an insatiable appetite for sports and, in particular, sports delivered by ESPN.

First millions of fans, then tens of millions of fans, and now hundreds of millions of fans watch ESPN. You know, the first million may have been thousands, but I can't remember that - quite that back far. But it was the beginning of a powerful emotional relationship with fans. Jay

mentioned we have 33 families that have named their children after the company. That's an expression of that bond that we have with some of our fans.

But given the culture that I mentioned, the mission and the passion that our employees, perhaps not surprisingly, over the next three decades, the company exploded. Now we have a worldwide footprint around the globe; 200 countries, 16 languages, 46 networks, 15 international versions of *SportsCenter* alone. Heck, we televised the Super Bowl internationally in 160 countries ten days ago.

Back home, what started as a single network has grown to eight networks - ESPN, ESPN2, News, U, Classic, Deportes, ESPN 3D and, finally, espn3.com, which is an Internet-delivered network capable of carrying 20 games simultaneously live. To me, espn3.com is a very interesting product. It feels a little bit like ESPN 1979. I'm not sure exactly where it's going, but it's growing. If you're a sports fan, it's a great product.

But that's not all. On the Internet, we have a leading position as well, and we have audiences that rival the large social networks and portals. In mobile, we also have a great position. We can see our products there, one of our most - one of the most successful brands in the mobile business. It's potentially our most ubiquitous business given there are 260 million handsets in the US and the 5 billion outside the US; great potential for ESPN Mobile.

ESPN radio network has grown into the largest sports radio network in the world. The feature here is Mike and Mike, stars of our morning program, which also airs on ESPN2, so one of the early versions of where our product delivered for - the one medium, crossed over and is now serving multiple mediums.

You put all of this together, the combination of these assets is unique. I believe that there - it is absolutely a true statement to say that they're unique. No other brand serves a single genre under a single brand as extensively as ESPN does in a world of sports. It's really the key to our success.

What you can see behind me is the growth over the years depicted visually. So from a lot in Bristol 31 years ago, we've now grown to a plethora of networks and services that you can see here.

You know, I often get asked, "Gee, you know, what is the ESPN strategy?" Well it's very sophisticated, and I'll do my best to explain it. Here it is. We try a lot of things. Those that work we keep doing and try making them better. Those that don't work - those that don't work we stop doing. That's our strategy. Not a complicated company, we like trying lots of things.

What you see here is the growth of all those new services and products, many with business plans that were to be developed as we launched, new products taking advantage of what we saw in the marketplace to act fast. We launched our UK network six weeks two summers ago

after getting the rights, six weeks later. Our company can move fast. We've developed an incredible range of products.

We don't believe in cannibalization. It doesn't exist. Everyone in the media - every one of these mediums continues to grow. Not one of them is cannibalizing the other. We've never been afraid of that. Sports media, overall, is growing. ESPN is perfectly positioned to grow with it. It's about content and access to that content, which is a great segue for me to introduce John Skipper.

John's our Executive Vice President of Content. He's a 20-year veteran of Disney and ESPN. As you may know, we like to keep things simple at ESPN. John has responsibility for all the content. Anything you see, hear, read or interact with John is responsible for it.

While he may have been on the bench at North Carolina, he's a starter here at ESPN. With that, John Skipper.

John Skipper – *Executive Vice President, Content, ESPN*

Thank you, George. Other than a vigorous personal lifetime of fantasy and hallucination, that's actually my first appearance in a North Carolina jersey. You notice how worried everybody else looks on the bench.

However, I, like many of our sports fans, live and die with my teams; North Carolina, the Jets, the Knicks, Tottenham Hotspur. Fortunately for what we do at ESPN, my passion for my teams is symptomatic of our country's mania for sports. We are a sports nation with liberty and justice for all, although if we had a little more justice for Rex Ryan and the Jets, they would have made the Super Bowl. That didn't work too well.

But that is the power of sports, that passion. The power of sports is a sports nation. 224 million strong; 90% of all Americans 12 plus are sports fans. Sports is central to our culture, and ESPN is central to their sports fandom. 107 million fans consume ESPN in an average week, and they consume an average of 13 hours and 20 minutes per week, almost two hours per day; impressive, but not satisfying.

The further good news is that the rate of sports media consumption is growing, and it is growing faster than any other media genre. In the past five years, overall television viewing has grown 6%, while sports has grown 23%. In digital media, it's even more pronounced with growth on the Internet of 55% for sports as opposed to 24% overall.

Now in the power of sports, it's powered by the power of live. Sports needs to be consumed live, and 98% of sports is consumed live. Given the choice between entertainment media and live sports, fans will time shift entertainment and watch sports live. So in a time-shifted world, sports becomes even more important.

Because we understand this, sports events must be consumed live, we have been programming games on new platforms so that fans can choose the best available screen or the best screen available.

Of course, every fan, and I'm assuming it includes people in here, would prefer to watch all sports events on a 78-inch HD television screen. However, that screen is not always available. Work intrudes sometimes, and you need to watch on a computer at work, thereby increasing both your productivity, your job satisfaction and our ratings.

Sometimes you're caught at a dinner party or, heaven forbid, an investor conference and you must consumer sports on your always available handheld phone or your mobile device.

Now the greatest manifestation of this, for all this fun, was this past summer at the World Cup where one out of every three consumer - one out of every three people watched on a device other than a television set. Our average rating for a game on television was 3.3. However, we had another rating of 1.5 watching out of home or on digital screens for an overall rating of 4.8, which allowed us to almost double the ratings from 2006.

Now George showed you our original mission earlier, and it has served us very well. But we have understood for a number of years, and I would submit far earlier than many of our competitors, that new technologies change the way that sports fans consume sports. While others resisted change and feared business disruption, we simply revised our mission, which has allowed us to embrace new technologies as an opportunity.

Our revised mission now reads: "To serve sports fans wherever sports are watched, listened to, discussed, debated, read about or played." Every ESPN employee, and that certainly includes every member of the content group, understands, knows and lives this mission.

Because we are consumed with being wherever our fans are, we have driven the ubiquity of ESPN in our landscape. I would urge you as you travel, perhaps as you travel home, to observe how omnipresent ESPN is in hotel lounges, sports arenas, bars, dorm rooms, airplane screens, on tablets and everybody's phone.

It is no stretch to suggest in this context that we are America's network. Take a look at this video you might remember from last summer filmed by fans mostly with their phones.

[VIDEO]

John Skipper – *Executive Vice President, Content, ESPN*

That was pretty cool. I'm hearing the guys on Wall Street stopped to watch. It was a spectacular event, a very proud moment for ESPN. I think it - clearly, we transformed the way that people in this country think about the world's greatest sporting event.

Now as George mentioned at the top -- and I've learned it never hurts to cite your boss repeatedly and reverently - key to all of the success has been the aggregation of an unprecedented portfolio sports rights. No other company has ever come close to assembling such a collection.

We have more games and more hours of quality national rights than all of our competitors combined. On this screen are the logos of 28 leagues, conferences and governing bodies. We have agreements with every one of them. No other entity has agreements with even ten of these.

And we have moved towards a practice of significantly longer deals. We hold many of these rights well into the future, including, for example, our deal with the Southeastern Conference through 2024.

Obviously, these rights cost money. But at ESPN, we are thoughtful. In fact, there's our thinking cap along with our thinking pants. And we are disciplined about what we acquire and, just as important, what we do not acquire.

We try to think about three things as we enter a negotiation. We want to concentrate on driver rights, those rights like the NFL, NBA, MLB, World Cup, Masters that attract huge audiences, significant - create significant advertising inventory and generate value for our distributors.

Second, we want a balanced portfolio across a larger number of sports and in every month of the calendar year. Third, we exercise financial discipline. Let me be overt here. We understand that some question ESPN's ability to sustain growth as rights fees escalate. Given the power of sports and the power of live that we discussed, rights fees will continue to become more valuable. However, we will continue to make thoughtful decisions on what rights we can afford. That is the financial discipline we exercise every day and in every negotiation.

For 31 years, we have balanced our investment in rights with the need to maximize profitability. We are committed to buying rights that drive our existing businesses as well as power new ones, and we are able to buy rights and utilize them in ways that no other company can.

Let me use *Monday Night Football* as an example. Of course, the games on Monday night are phenomenal, and they rule the nights they appear. But we are not buying just games. We are buying a broad grant of rights to feed our content factory, to program across all screens and to create a broad array of shows, features and applications to serve fans.

In fact, I was watching *SportsCenter* this morning and saw the Mel Kiper/ Todd McShay draft story. We have preview of the eight new coaches of the NFL. We program NFL 365 days of the year across all of our platforms and programming.

Now we'd like to continue this. As it has been widely reported, we've been in active discussions with the NFL about an extension of our valuable and mutual and beneficial relationship. We have not concluded a deal, but it goes without saying, though I'm going to say it - it says right here - that any new deals would include a broader grant of rights and should expand our ability to offer ESPN and its ample coverage on a wider, deeper basis.

I'd like to show a short video demonstrating how ESPN moves with you from sun up to sun down.

[VIDEO]

I'm sure all of you know some people for whom that is an average day. We do get 107 million two hours per day. The reason we can is the way we utilize the rights we buy like no one else.

Innovation and creativity are core to our culture, and we continuously introduce new products. You heard George give us the strategy for us. We start new products. If they work, we keep doing them. If they don't, we stop.

Well, last year, we started a whole lot of new products. On this slide behind me are 60 new products that we debuted in 2010 alone. We introduced all of these products under the umbrella of the premier brand in sports.

In fact, 99% of Americans are familiar with ESPN. What's important, of course, about this familiarity is the natural navigation it provides. In a world where new products get introduced every day, the ESPN brand navigates fans to our products.

There's a reason that ESPN *ScoreCenter*, not score center or brand X score center, got downloaded 14 million times, dwarfing any other mobile application.

Many of our fans help us navigate. All of my jokes about these guys were excised from this script. However, they will be available on my blog later tonight. I'm trying to go from spicy to volcanic.

Now our key - the building of our brand and our relationship with fans has been our ongoing, long-running, award-winning *SportsCenter* campaign. The sport - the spots communicate our mantra, "We take our sports seriously, but we don't take ourselves too seriously."

I've brought along two of my favorites, one from the early days and one more recent.

[VIDEO]

John Skipper – *Executive Vice President, Content, ESPN*

Now while we may not take ourselves too seriously, one thing we take very seriously is our share and, of course, the next slide. Thank you very much. What sets us apart from our competitors is our share across multiple platforms.

On television, we carry a 41% share. On the Internet, we capture a 31% share of time spent viewing; on mobile, which is by far the fastest-growing platform, a 68% share; on radio, 50%; magazines, 42%. Thank you very much.

Now what's also important is to understand who our closest competitors are in each of these segments. On television, Fox holds a 14% share in national rating points, which provides us with the number one share by almost a three-to-one margin.

On the Internet, Yahoo! has a 19% share. Again, we are number one. In mobile, the NFL mobile - NFL mobile has a 23% share. Again, we hold the number one position by almost three-to-one. Sorry. It's a little bit of a slow build here.

In radio, we actually do not have access to our competitors' share. However, we have a 50% share. We know we have multiple competitors. So by mathematics and default, we are number one.

In magazine, Sports Illustrated has a 49% share. This is sad to us because it makes us number two. However, they have a 44-year head start. We are gaining very rapidly and in Men 18 to 34, we have a 52% share and are number one.

You'll be seeing that any second now. Oh, it moved over. We are number one. So we are number one, number one, number one and number one.

Now what is, of course, important about this is these shares provide us a very significant and sustainable competitive advantage. That advantage is the ability to use each of these platforms to drive every other platform.

You heard George tell you that we do not believe in cannibalization. In fact, we know the contrary to be true, that the more usage we get on each platform the more opportunity we have to drive usage on every other platform.

In this past year we just completed, we were up 56% year-over-year on espn.com, 41% year over year on mobile. We were able to use that increased usage, those increased viewers to drive an all-time-high rating across all of our television networks. We believe in our ability to continue to do this year after year.

Now I'd like to close by inviting my boss to come back up here and tell you one quick anecdote about my first week in the job, which will provide you a little insight into my relationship with George, our culture and how important results are to us.

My first day on the job, almost, I got a memo from George outlining the ratings from July, August and September, of which had declined year over year, with a hand-pinned note on it that said, "John, I'd like to understand your comprehensive plan for growing ratings." Now I decisively and quickly put that underneath a large stack of papers because I just started my new job.

Now the good news is good fortune smiled upon me. Two weeks later, I get the report for the first two weeks of the next month on ratings, and ratings year-over-year are up significantly. So I pull that other piece of paper out, I staple it to that new piece of paper, I hand-pinned a note that says, "George, I have a plan, and it is working."

Thank you, George, for the opportunity. Nice to be here with you.

George Bodenheimer – *President, ESPN and ABC Sports, Co-Chairman Disney Media Networks*

Well thank you, John. Oh, by the way, keep the plan working. Now how do we take all of this great content and the position we have and profit from it? I just want to reiterate the absolute headline here which is that sports is a growth industry, and we are well positioned in that industry. John mentioned this in his presentation.

Over the past five years, overall TV viewing up 6%, viewing of sports up 23%; Internet growth over the same period, 24% overall, sports doing up 55%; when we first started, I recall we were often referred to as a niche network, meaning we were a one-topic network or one category. It was meant somewhat derisively. We were just a niche network we were told.

Well I'll tell you what. After 30 years, if sports is a niche, it's one large niche, and it is continuing to grow. Now our sports business is fueled by two major revenue streams. You see them here - advertising and affiliate. They both represent a tremendous strategic advantage for the Walt Disney Company in the ESPN at the levels that we enjoy them.

ESPN pioneered the dual revenue stream in the early 1980s. As such, we have a first-mover advantage that has driven tremendous profitability over the years.

First, let's take a look at advertising. ESPN - one of the things driving our success - and you heard from Jay's comments in earnings last week that first quarter was up 34%, and our second quarter year over year is trending at double-digit increases. What is driving this is ESPN - is one of the things is the appealing audience demographics that we have, namely hard-to-reach young - hard-to-reach young upscale men.

Our advertisers rated us as number one in this category, appealing audience demographics. It's extremely important. Again, it's a big contributor of driving our ad revenue. ESPN then leverages its multi-platform reach to provide creative opportunities for advertisers. Once again, our customers ranked us number one in providing these opportunities.

Let's take a look at how this really works in today's - in today's ad climate. What you see here - what you're going to see - is an advertiser, one of our biggest, in this case, General Motors, reaching potential truck buyers on five different screens, five platforms. You know, reaching your audience any place, any time is the future for advertisers. At ESPN, that future is here now.

I love meeting a CEO or a head of marketing in a major company and say: "If you want to advertise your product on ESPN, and here is all the reasons why I think you should, brand, demographics, et cetera, why would you want to just buy television? You want to buy your fans, particularly sports fans, wherever they're accessing product." And that's what you see demonstrated here.

Five years ago, you could have counted on one hand the number of big advertisers buying us in this way; 18 months ago, 50%. Today, 70% of our advertisers are buying cross-media on ESPN. It's this capability - this capability to effectively spread their message across all these platforms that's driving growth at ESPN.

So much so that when asked which networks do you plan to spend more on next year than you do this year, once again, ESPN was mentioned more than any other network. Consequently, I'm very happy to say we're on a path to sell more advertising this year than ever before in our 31-year history.

Now, onto our second even larger revenue stream, that would be the affiliate revenue stream. Having grown up in this area, spending 15 years in the department, I take a lot of personal satisfaction in the accomplishments that we've achieved in this critical component of our business.

First, let's take a look at how viewers ranked us. And you won't be surprised to see that we're ranked number one, the highest perceived value among network viewers. But I also like to listen to distributors. It's very important. They buy our products directly and then redistribute them. And once again, similar to the advertising community, the affiliate community ranks ESPN the highest perceived value.

Now many of you recognize from prior conferences, you will recognize that stat because we have been rated number one by the affiliates for 11 straight years. Now many often ask, how do you develop such good relationships with the distributors? It's a difficult business, you seem to fight through the tussles in the paper all the time. We have great relationships.

The answer, pretty simple. Hard work over three decades. And as John alluded to, and you just got through seeing, we're continually developing products. When we meet with distributors now, with ESPN, we have over 30 different products, networks and services, that deliver real value for these distributors.

I'd like to call out two of our most recent ones, ESPN Buzzer Beater and ESPN Goal Line, our two college-oriented products, keeping fans up-to-date with their favorite colleges, up-to-date scoring and we just developed these products and they're being received very well by both the - by both the affiliates and the fans.

And what I know about ESPN, after 30 years, from what you've been hearing with us today, is based on the company's mantra, the culture, this list, this list is never going to stop growing.

But of course, it's not just about creating products. It's about getting paid for them. And in the subscription fee horse race that we're all in out there, well, let's just say that over the years, ESPN is generating credible value. It's obviously working. And we have industry-leading rates to prove it.

You've all taken a look and guessed and seen all the industry research at the numbers. This visual is Secretariat, by the way, winning the Triple Crown in 1973 by 31 lengths. It's an image that we chose to depict ESPN's relative position versus the rest of the industry in gathering affiliate fees. And trust me, our strategy, just like Secretariat, get out front, build a big lead and keep running as hard as we can. We intend on building an even bigger lead, just as Secretariat was doing here, down the back stretch.

Now seven years ago, my co-Chairman, Anne Sweeney, and I, we consolidated the affiliate sales teams of our company, the Walt Disney Company. So when we sit with the affiliates now, we sit with ABC, ABC networks, the Disney Networks and all of the ESPN networks.

It's a tremendously efficient way for us to go to the market and deal with our affiliates. It's very efficient and it's very successful. It's a huge advantage for the Walt Disney Company. Disney, ABC, ESPN.

Of course, there was a very recent example of that, which Anne touched on this morning and that is the deal that we negotiated with Time Warner just this past September. This agreement had dozens of ESPN, ABC and Disney networks and services included. On the ESPN front, a big win in that it set a template for our rates going forward, very important agreement for us.

Now, I would like to touch upon a subject that I know all of you have been reading about and discussing and that subject is cord cutting. A lot's been written about it. What is cord cutting? Well, it's when a consumer disconnects a subscription to either satellite, telco or cable because of the amount of free content on the Internet. We did extensive research in the second half of 2010 and found that one-tenth of 1% of 105 million households cut their cords during that period of time.

By the way, we published that research and it's available to you if you'd like to analyze it further yourself. And we'll be doing more going forward because we're taking this issue seriously at the Walt Disney Company. But the good news is that today, this is a non-issue.

Non-issue, not only because it's an inconsequential number, one-tenth of 1% of 105 million. But it more importantly dispels the notion that is often in the articles you see written about this. That is that cord cutters are young tech savvy folks, fundamentally changing their buying habits for video subscriptions.

Not the case. In fact our research indicates cord cutters are not. They're not heavy streamers at all. They are not young. Excuse me, they are not sports viewers at all. And they're not young. In fact, they're middle aged, middle income households, perhaps, we believe this, making tough decisions about household expenses in difficult economic times.

Now, as you've seen us depict today about our company, and you know is true for the Walt Disney Company and you know from Bob's comments about seeing opportunity in technology, not threats, we don't look at online video at all and see a threat. We see opportunities. In fact, we see there's a huge opportunity, particularly in sports, but across the entire company.

And we are starting to realize that opportunity, not only in the authentication of our networks in the Time Warner deal, but just this week, in four more products, from Verizon. So it is starting to move within the industry. And the good news is, it's value for ESPN, the distributors and the fans.

Take a look at this 30-second spot recently debuted by Time Warner to herald this new opportunity.

[VIDEO]

George Bodenheimer – *President, ESPN and ABC Sports, Co-Chairman Disney Media Networks*

Notice Time Warner's tag there about "others don't have it." As we develop products and one distributor has them, in most major markets, there's four providers of video, two satellite, the telco and then existing cable. So when we develop a product that they want, that creates demand, not only amongst the one distributor, but across all four of them, it provides great opportunity for us in the business.

I love that spot and its even better concept, increasing access to fans and creating incremental advertising and affiliate revenue for ESPN. It plays right to Bob's - Bob Iger's ideas, which he's talking to us all the time, about using technology to increase fans' convenience and access to our products. It's key. And this is a perfect example of that.

I also want to say, technically extremely complicated to put that together. And I couldn't be more proud of the ESPN team coming together in the last several months to make that a reality. And it's going to continue to grow.

So in conclusion, we've covered an awful lot of ground today. John and I are extremely proud to have the opportunity to showcase our company to you. And we've done our best to cover some of the obvious strengths that the company has. But I would like to take a minute to discuss perhaps what may be less obvious. I touched upon it up front and that was the ESPN culture.

It's the strength of that culture that we developed 31 years ago. I got a front row seat for 30 years and I see it and I know it. I just - it just permeates the company. It's a hard working culture, collaborative, can-do, entrepreneurial spirit and it's the kind of thing that you develop when you're against all odds, everybody's laughing at you and you're really not considered to be - to have much of a business model. And over the years, we've built that up and obviously we have what we enjoy today. But it's not without a lot of hard work.

And that culture believes that at ESPN, anything is possible. Time lines, getting this right, figuring something out technically, doing some new production enhancements to increase fans, whatever it is, no one at ESPN ever takes no for an answer.

We've overcome every single obstacle thrown our way in 30 years and trust me when I tell you this, I've been here for 30 years. The company lives to continue to grow and serve sports fans. That's what we do. And it's that culture that's going to continue to drive the company.

It was born, in the humble beginnings, 31 years ago, but that culture is driving this company forward today. A big part. I think it's our biggest strategic advantage, honestly, epitomized by our people. But that culture is the main ingredient in the things you've seen today that drive ESPN. Namely, the best brand in sports.

The most sophisticated sports content factory has been developed, anywhere, I believe. The world-class rights that we've assembled that are unequaled anywhere. And our ability and our willingness to serve fans in any imaginable way. On any screen they wish to be served. All of that fueling two revenue streams. Our unparalleled advertising business. And finally, our industry-leading subscription fee business. That's ESPN. Thank you.

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

So George mentioned he's been around at ESPN for 30 years. ESPN would not be what it is today without George's efforts.

Now the reason I had him stay up here, as you know, a year ago, I had Tom and Jay switch jobs, which was kind of out-of-the-box thinking on my part and a little impish, and listening to your

presentation, all those number ones, the idea I have is maybe the two of us switch, I think? I think maybe - I wouldn't mind spending a little time with all those number ones.

George Bodenheimer – *President, ESPN and ABC Sports, Co-Chairman Disney Media Networks*

If you play your cards right, we'll see.

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

We'll see. Congratulations. Thank you. I mentioned, at the beginning of this day, the fact that you were going to be witnessing a lot of pride on the stage and clearly the case with George and I think it's been evident throughout the day.

As I hope you know, I'm the President of Pride or the CEO of Pride in this company. Because I'm the lucky one that gets to see how all of the products that we make, all of those great brands, all of those great assets touch people the world over and enter their hearts.

And every once in a while, I have, actually, an up-close and personal experience with this, to, I guess, cite a term that's pretty popular back in my ABC Sports days. I turned 60 last week. I know it's a shock to many of you. And I decided that I would celebrate it by bringing my three-year-old granddaughter to Disneyland. It's her first visit to Disneyland and her first visit to - her first visit with Mickey Mouse.

She looks a little horrified, (laughter) but I will say there's nothing like experiencing the magic of The Walt Disney Company than through, not only the eyes of a child, but the eyes of your own grandchild. Just a great day.

So now that you've had a chance to hear a number of different insights and perspectives about our business and our strategy, I thought I would share some thoughts about how we're really viewing the world and how we're positioning ourselves to address the many dynamics that we're experiencing, some that I cited earlier in the day.

I also want to give you some perspective about our digital media strategy. I know that's a hot topic and I think it's certainly relevant.

Now to state the obvious, we all know that media is really just a combination of content and technology. And for years, technology has provided content makers like us with unbelievable opportunities, not only to create, but to distribute. And we're seeing more of that.

But today, there's another really interesting dynamic force that is upon us that we believe is making media much more compelling and will continue to, and adding a whole new dimension. And that's the ability to collect consumer data and then to use it effectively and profitably to deliver personalization.

And we're becoming more focused on personalization opportunities because we fundamentally believe that this added dimension has the potential to create huge value for us.

Additionally, other dynamics have emerged that are and will continue to deliver real media growth. And they are, as we see them, one, dumb things are getting smart. Just think about toys, televisions, when you compare today's to those when we were kids, books, just look at an app on a tablet, even cars are much smarter than they used to be.

Smart things are getting even smarter. We've talked a lot today about phones. Think about the impact of smart phones. We believe that that definitely falls into this category. And then all things are getting connected and at much faster speeds. We think that's pretty interesting. Think of televisions in this case.

So why does this all matter to us and how are we positioning ourselves, not only to contend with these dynamics, but to prosper from them?

We believe we're going to see huge expansion of choice and content, an explosion of distribution and all kinds of new opportunities, methods and places to consume media. And don't think just along traditional lines. Things that were not media in the past are suddenly becoming media, like phones, toys, as I mentioned, even clothing and buildings has media being built into them.

And it's not just about new technology devices either, like tablets. It's about media showing up in so many new places in many new ways. Like a plush toy, for instance.

And in some markets, the trends and developments are just stunning. Today, there are 750 million phones in India. Now if they all become smart, think of the millions of media devices in people's hands and, at some point, they will all be addressable. So what was once a market deprived of media infrastructure is suddenly becoming fertile ground to distribute and consume media.

Now, let's go back to the point that I made about the collection of data and personalization. It is now possible, and will be increasingly so, to collect relatively small amounts of data about consumer choice, consumer behavior and preference and then to use it as a growth engine by offering personalized experiences, delivering efficiencies and added value to the consumer, aside from creating unbelievably compelling ways to upsell relevant and desired products.

And personalized experiences can be delivered without the consumer having to explicitly or with great effort to tell us what they want.

So not only will consumers demand personalization, because it's going to improve their experiences by filtering out things that they don't like, but personalization can become a

powerful tool for us to sell things to people that they do like, sometimes by just showing them what they like.

Simply put, we believe it will be very important for us to offer personalization across all of our businesses to both meet demand and create demand. And as we see it, this is a very compelling growth engine, particularly for brand-loyal consumers.

Another interesting dynamic that we're watching carefully and focused on is instant gratification. It sounds kind of simple. People, all of us, all of you, are hard-wired to want instant gratification. And we've always been that way.

But in media, we've barely been able to meet that human demand, because of the absence of technology or the absence of good business models to support offering media to people rapidly or on-demand or to satisfy instant gratification desire.

Now today, we're becoming more and more capable of serving this great human characteristic and we believe the value proposition is becoming and will continue to be very compelling. So we see business models emerging to meet this demand and ultimately believe that meeting it is going to give us pricing leverage. To accomplish this, we see windows continuing to be challenged and ultimately will be replaced by far more variability, not only in timing, but also in pricing.

We also think that adherence to old windows is going to become more dangerous because not only is it going to deprive content owners like of great opportunities, but to state the obvious, the powerful combination of technology and instant gratification demand is only going to lead to increased piracy. So it's going to become even more urgent to bring products to market on a better time, better priced basis.

And one of the ways our philosophy has manifest itself is in our approach to distributing media on new digital platforms. And since this is truly a hot topic, as I mentioned earlier, I thought I would single it out and provide you with a little added perspective.

Through short-term deals, we have been experimenting with various business models, pricing and windowing. And it is still too early in the game to absolutely know what's going to work, but we feel that it is incredibly important to be early and to learn early. And since we don't have all the answers about what will work, we believe that experimenting is critical and we've already learned a lot from the various experiments that we've participated in.

We also believe the revenue we have earned from various digital initiatives is incremental to what we would have earned and we've seen no signs of cannibalization of initial viewing or of our current business models.

Today more and more people are turning to digital media to be entertained and informed. Thus, we believe it is very important for our brand and for our franchises to be present on those

new platforms in order to either maintain or to build relevance. The piracy point addresses what I covered earlier about the damaging combination of technology and people simply wanting things quickly.

It's also important for us to be thoughtful about volume and timing to market and we are still considering what the right balance is in terms of volume and windowing and we are and will be thoughtful and judicious, not only about how much product we make available on these new digital platforms, but when we make that product available.

Now when you create content, the more distributors the merrier. George cited this just a few minutes ago. Particularly if your content helps launch platforms and enable those platform owners to acquire customers. And we know our brands are extremely valuable to both old and new platforms and they can't thrive without those great brands and our content.

We like the concept of helping new distribution businesses get off the ground and we believe it's going to create long-term value for us.

Lastly, we are supportive of and we are actively working to create effective forms of authentication, George mentioned this as well, provided that the value that authentication creates for the multichannel distributor is reflected in the deals that we cut with them and further provided that we maintain control over how our product is distributed on new platforms.

In essence, we would like to see subscription offerings, which already offer consumers great choice and substantial value, providing consumers with even more.

The MVPD subscription of the future must address the consumer needs and demands. They must be simple to use and navigate. They must be widely available across multiple platforms and devices and they must provide immediacy. Authentication has to provide consumers seamless opportunities to view content that they have paid for, but on the best available screen and from multiple access points.

Now as we look at all of these conditions and dynamics in a world with a lot more technology and a lot more media, we believe that there are some very, very important characteristics of success, many of them that we're already adopting and many that we're in the process of adopting. And they are, simplicity - things have to be easy to find, easy to buy and very easy to use. Apple certainly has written the Bible on this.

Tom talked about this, as it related to planning a park experience, for instance. A good example of us working hard to create more simplicity in how we sell our products and how our consumers actually use our products.

Quality and creativity. This is foremost. In a sea of choice, quality will stand out and we are striving to achieve quality in everything we make, even if it means making less. The relentless

pursuit of excellence is a common goal across all of our businesses and I hope we got those points across throughout the day.

Originality, also important, newness and originality are emerging as important ingredients of success. People like things that are new. Yes, they like things that are familiar, but newness is exciting. Pixar certainly exemplifies this.

Value and trust. Brands are extremely important here because brand promise represents value, but brands are also an important navigation tool. They stand out in a sea of choice and they add to that simplicity quotient.

Personalization, which I mentioned. More and more people are going to expect products to be personalized to meet their own needs and interests. And as I said, this is becoming an important ingredient in creating value, in part, because it emanates directly from consumers.

You saw examples of personalization efforts beginning in many our businesses. Jimmy Pitaro mentioned it as it relates to what we're doing online. We're certainly looking at doing this at ESPN, across our studio and consumer products and in the Disney Baby initiative.

Enhance social relationships. It's inherent in most of us to want to socialize. And we believe that we need to provide people with that possibility through their interaction with, and their consumption of our products.

Not only do we want consumers to connect to one another, but we want to connect to consumers from marketing to purchase to consumption. And we want to enable them to essentially share common experiences. So building elements of socialization into our numerous offerings is becoming more and more of a priority. This is going to be true for Disney Baby.

Flexibility - companies with adaptable cultures are going to thrive, not only because they're open to change, but because they're willing to challenge old habits and business models and they're willing to sacrifice some short-term value for long-term gain.

It's also imperative to avoid deals today that thwart the ability to go after new businesses and new business opportunities. We're trying very hard, in the deals that we cut, not to cut deals that prohibit us from adapting to all the changes that we're seeing and the changes we believe we're going to see.

Lastly, innovation. We believe being innovative is more and more critical and we view innovation as how we create, what we create, how we market and how we distribute everything we make.

Now this quote, I think, supports how I view the world and in many ways, articulates where we are as a company today, and it's from Charlie Munger. "Live with change and accept

unremovable complexity, recognize and adapt to the true nature of the world around you and don't expect it to adapt to you."

The proactive approach that we're taking to the dramatic changes that we're experiencing, we think, speaks volumes and as you think of the Walt Disney Company, consider this compelling collection of great attributes.

Great content and great brands, things that are simple to find, to buy and experience and readily available, things that are new and original, trusted and valued, personalized, socially connected, relevant and, of course, innovative.

I want to thank all of you for your time today. I know it's been a long day. I think I said earlier how proud I am. But I think you also know that I am indeed proud of this whole company, its assets, particularly its people, its performance. But I fundamentally believe we're just seeing the tip of the iceberg in terms of opportunity.

I think there's so much that we can do and so much that we will do and there's certainly a lot more value for us to deliver. I'm going to be back for Q&A. Jay's going to come up for one more presentation. So take it away, Jay. Thank you.

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

So, you just heard Bob speak about our strategy, which is obviously designed to maximize shareholder returns, and you've heard my colleagues speak about operational excellence throughout the entire day. I'm going to focus on how we deploy cash in service of this strategy. Historically, we've deployed cash judiciously to maximize shareholder return. The resulting mix looks like this.

62% deployed to supporting ongoing operations, including content and sports rights spending and maintenance capital. 19% deployed for growth, both organic and M&A, and 19% deployed returning cash to shareholders, through share buy-backs and dividends. Note that these percentages are based on our capital expenditures, plus cash, acquisitions, stock repurchases, dividends and content and sports rights spending.

Deploying cash to support our operations, obviously, is crucial. We look at three primary criteria when evaluating these kinds of investments.

First, are they in support of our brands? As you heard earlier, our branded businesses have a competitive advantage and therefore, we expect to earn superior returns from investments in them. Second, do they extend our competitive advantage above and beyond the brands? And last, are they expected to meet our return requirements?

The first criterion is whether an investment supports our brands. Our investments in high-quality content and experiences are great examples of this. These investments continually enhance our emotional resonance with consumers and therefore they reinforce our brands, Disney, Pixar, Marvel, ESPN and ABC.

Our feature film slate investment is an excellent illustration of our strategy of deploying cash under our powerful brands Disney, Pixar and Marvel.

As I mentioned earlier today, franchise movies, more broadly branded movies, deliver superior financial returns. So as we move forward, we're planning for approximately 95% of our annual slate investments to fall under our core brands. And as I mentioned this morning, the majority of that will be on franchises.

Our brands provide a substantial competitive advantage and as I've discussed, we are continuing to invest behind their substance and equality.

But, we also have a second investment criterion: does the investment extend our competitive advantage above and beyond those brands?

This type of investment includes new experiences, new business models and new technologies, which serve to extend our reach to consumers and their ability to touch us.

Our willingness to innovate in response to the dramatic changes, which are taking place in the way consumers use and pay for media and entertainment is reflected not only in our culture and strategy, as Bob just mentioned, but also in these investments. While there are many potential examples, I'll list just a few to illustrate our strategy in this regard.

At ESPN, we're investing substantially in increasing our brand presence through platform ubiquity. For example, ESPN mobile apps and in enhanced digital programming, which enables us to deliver the highest production values in sports - for example, the ESPN digital center, ESPN HD and ESPN 3D.

As Tom discussed, our parks team is continuing to innovate on a seamless experience, which will enhance visitor satisfaction at our parks and resorts. These are investments that we believe are uniquely possible for Disney theme parks and resorts to make efficiently, due to our industry-leading scale.

And as Andy said, the new Disney Store format has been redesigned around franchises. As a result we can ultimately use our stores as a platform for launching new franchises that can support our existing franchises more than traditional retail allowed.

Our third criterion is expected financial returns. We take a disciplined approach and, of course, judge all of these investments against multiple financial metrics, including return on invested capital, NPV and economic profit. We apply these return requirements not only to investments

in supporting our ongoing operations but equally to our growth investments, which I'm about to discuss.

So turning to those growth investments, we look at them through the lens of the IP and ecosystem framework that I discussed in the franchise presentation. When viewed in this way, we expect our growth investments to either add new IP to our integrated business model with a focus on brand and franchises or to expand our reach, in particular, taking advantage of rapid growth in digital platforms and our increasing presence in international markets.

There is significant growth in digital platforms that we can leverage. As you know, this is being driven by the rapidly increasing penetration and capabilities of key technologies - broadband, mobile, game technologies and cloud computing.

These technologies are getting into the hands of the mass audience faster and faster. This slide shows a helpful overview of the key digital markets. Let me take you through it and give you a quick explanation of what it says.

The size of the bubbles shows the market size, the Y axis shows the expected rate of growth in that market, and the X axis shows our planned go-forward emphasis on that market. So, you can see that the most attractive markets on which we are increasing our emphasis are in the upper right quadrant.

We re-evaluate our areas of emphasis on an ongoing basis. For example, as John Pleasants said earlier, we're shifting resources from traditional console games and PC games to online and social games.

In some instances, we're seeing the creation of entirely new business opportunities, which can drive growth for The Walt Disney Company. Social and mobile games are great examples. While these digital businesses are small today, over the next five years we expect them to make an increasing contribution to our growth.

We will leverage this growth to, on the one hand, participate in the made-for-digital businesses, for example, online games with Club Penguin, social games with Playdom and mobile games with Tapulous and, on the other hand, as a means of distributing traditional content through emerging and popular new platforms, for example, online video with ABC.com and Hulu, Internet paid content with Disney Digital books and iTunes and mobile with ESPN mobile.

More importantly, we're utilizing a wide range of business models to monetize these businesses, including advertising, subscription, purchase, rentals and micro-transactions.

As Bob mentioned, in international markets we are working to both maintain our emphasis on large but slower growing developed markets where small improvements in our penetration can add significantly to our bottom line in the near term, as well as increase our emphasis on emerging but still relatively small markets with a burgeoning middle class.

To this end, we vary our business priorities by market. I won't walk through every single market in detail, but I would like to call out a few key themes in our current emphasis.

First, selectively expanding our parks presence. Shanghai Disneyland will be an important addition to our portfolio, and we continue to expand in Hong Kong and Paris.

Second, increasing our Disney branded international television presence. You see this across most of our markets.

Third, using our Consumer Products and in some cases Disney Stores, to monetize our brand strength. You see this in many of our markets as well.

Fourth, building new media businesses in markets with high levels of digital platform usage. For example, our mobile partnership with Softbank in Japan is an important way that we engage with the mobile-centric Japanese audience.

And finally, selectively replicating the ESPN locally relevant live sports model, for example in the UK. As emerging markets develop, which they inevitably will over the next five to ten years, we expect to expand our presence significantly.

Let me turn now to our M&A strategy. We take a rigorous approach to M&A and, while the filters we use are equally applicable to our organic growth investment, I'm going to focus today on M&A.

First and foremost, any potential acquisition needs to fit with our well-defined corporate strategy. Fit includes an evaluation of whether or not the target provides IP, which will augment our portfolio, or whether or not it can expand our reach and our two-way relationship with consumers.

Second, the standalone economics of the target and the outlook for its market need to be favorable and support the acquisition price. And critically, our ability to add value to the business post-acquisition is essential to providing value to our shareholders in any acquisitions that we make.

Let me take you through how we've applied this approach to our recent major acquisitions. Let me start first with Pixar, which we acquired in 2006 for $6.4 billion net of cash.

Pixar was a unique purchase at a critical turning point in the history of our Company. At the time we were evaluating this acquisition, our Company was facing a crisis. The Disney animated film business was actually destroying value. Our premier growth engine was broken, and the negative effects were rippling throughout the entire company.

As I showed you this morning, for our uniquely integrated business model to succeed, animation must be successful since the IP that we create there is propagated throughout our entire business ecosystem – in Home Entertainment, Consumer Products, parks, television, video games and so on.

As a result, it was an urgent strategic priority for us once again to become the preeminent creator of animation. An acquisition of Pixar was the best way to execute. So you can see that Pixar's strong brand and highest-quality animated feature films were an obvious fit with our strategy.

In terms of its standalone attractiveness, Pixar's extraordinary creative team had amply demonstrated its ability with an unparalleled stream of massive box office hits.

And finally, our ability to add value, we knew that infusing our multi-platform business with Pixar's incredible franchise IP and bringing new creative leadership to Disney animation would be an unbelievable value creator.

Of the four transactions I'll discuss today, Pixar was the earliest. So, we actually have the most data on how it's worked so far. Pixar has continued its astounding success at the box office. Most recently, *Toy Story 3*, as I mentioned this morning, achieved $1.1 billion in worldwide box office.

And, just as I talked at length about the tremendous success of the *Toy Story* franchise across multiple platforms, by the way, I could have been equally effusive about *Cars*.

We are particularly pleased with the contribution the Pixar team has made to revitalizing Disney animated feature films, evidenced most recently by the success of *Princess and the Frog* and *Tangled*. More importantly, the success of these Princess films has significant flow-through benefits to our Princess Consumer Products line.

Now, let's take a look at Club Penguin, which we acquired in 2007 for $350 million with up to an additional $350 million subject to an earn-out. When we were evaluating the acquisition we noted first, the fit with our strategy. We knew that Club Penguin would bring Disney brandable IP as well as a new business model for our ecosystem.

Next, its standalone attractiveness. Club Penguin was a leader in the high-quality virtual worlds market.

And finally, our ability to add value. We knew we could leverage our global presence to expand Club Penguin internationally and could translate the IP across multiple platforms of the overall Disney-branded ecosystem.

Since the acquisition, paid subscribers have more than doubled. Club Penguin has become a centerpiece of our games business and has brought online games management expertise to our broader business.

We've enjoyed significant success in Club Penguin packaged games for the Nintendo DS and Wii. We've also had some success in translating Club Penguin to Consumer Products, and there's further upside to be had, making a true company-wide franchise.

The earn-out targets represented sufficiently aggressive performance such that there was the potential for the transaction to provide Disney shareholders with substantial value even if the earn-out targets were not met.

And, in fact, we expect the acquisition to generate value well in excess of our $350 million purchase price, despite none of the earn-out being paid.

In 2009, we acquired Marvel for $4.2 billion. When we were evaluating this acquisition, we noted first, in terms of fit with our strategy, Marvel would bring an extremely strong brand and a vast universe of character IP, with a particular appeal to the boys demographic.

Next, its standalone attractiveness. Marvel had a successful Consumer Products licensing business and had demonstrated initial success in its self-produced film strategy with *Iron Man*.

Finally, our ability to add value. This was an area that was really compelling in the Marvel acquisition.

We knew the Marvel franchises would benefit substantially from our domestic and international Consumer Products capability, our studio distribution muscle and our branded global television distribution through Disney XD and our vertically integrated new media businesses.

In addition, we recognized that Marvel had a deep untapped library of characters.

Since the acquisition, the *Iron Man* franchise has continued to perform well, with *Iron Man 2* delivering $622 million in worldwide box office.

Licensing integration is underway, particularly outside the US.

We negotiated an agreement under which Paramount transferred its worldwide marketing and distribution rights to us for *The Avengers* and *Iron Man 3*, and we are now implementing a cross-company, multi-platform exploitation plan for *The Avengers* and *Spider-Man* franchises.

Most recently in 2010, we acquired Playdom for $563 million plus an earn-out of up to $200 million.

When we were first evaluating this acquisition, we noticed it fit with our strategy. Playdom could add another growing exploitation platform to our business ecosystem and allow us to create branded experiences in an arena where there are more and more fans of our brands and franchises.

Next, its standalone attractiveness. Playdom was a leader in the high-growth social games market, which has a lower risk profile than console games because of its lower initial product development expense. Also, we saw that Playdom would bring a powerful new micro-transaction business model to our new media segment.

Finally, our ability to add value. Social games are an ideal platform to keep audiences engaged with content from all of our brands. It's very early days, but we look forward to Playdom helping us access and monetize the over 125 million fans of our properties on Facebook with games like ESPNU, and we plan to extend to Disney, Marvel, Pixar and ABC.

After our investments in supporting our ongoing operations with the highest-quality content and experiences and in attractive growth opportunities, both organic and M&A, we return cash to our shareholders through a combination of dividends and share buybacks.

We intend to maintain our dividend policy, and we will continue to pursue share buybacks when our shares are priced favorably, both to offset dilution from share issuance as well as to supplement dividend yield. Ultimately, we believe that this approach will optimize our shareholder return.

So, that pretty much concludes our formal presentations for today. We're going to take a quick break and reconvene here in 15 minutes for Q&A. Thanks.

[BREAK]

Q&A

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

We are going to begin the Q&A. There are a couple of things that we request. Number one, I'm going to call on folks. When I call on you, a) please stand up, state your name and your firm name, and b) please wait for a microphone to get to you because we are webcasting this.

Second, we do ask today -- though we don't usually ask --that if we call on you if you could limit yourself to one question, that will allow us to get to more people in the two minutes we've allocated for Q&A.

So with that, does anybody -- I see no questions, Bob. Okay. Jessica? So, now we need a mic. Stand up, Jessica. All right. Yes, please stand. Thank you.

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

I just wanted to ask about the build-up into the Shanghai opening. Can you talk about kind of what you expect to do into the opening in terms of building up your business in China, Consumer -- how it's going to affect the rest of your businesses. And on your chart at the end, I noticed that you did not have a Disney Channel in China. Is that a possibility at some point? And I guess, like really, the overall question is what will Shanghai Park do to your overall business in China?

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

Well, as Tom mentioned, we're still awaiting Beijing government final approval. But, I think suffice it to say that between now and when the park might open, Tom mentioned somewhere in the five-year range, we are and we'll continue to build our brand-building efforts there in a variety of different means.

We do have presence on media, both new media platforms and traditional media platforms, notably some channels. We hope that that will continue to grow. We're looking at a retail strategy in China as well as a means of growing, and we found lately, even though we're not necessarily getting more films into China, our Disney films have been resonating more in China than they did in the past.

There isn't a specific promise to launch a Disney Channel in China, but obviously it's something that we would love to be able to do at some point, although today's current regulation does not allow us to do that, at least on a broad basis.

Obviously, we believe that while no two markets are the same, meaning how we enter markets and how we grow the business is different from market to market. A park in Shanghai of the scale that we're talking about building, both opening day and the potential scale of the park, over the years we believe has the ability to do a substantial amount for us in terms of brand growth. And we view it as a real cornerstone of growth initiative in that market.

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

Okay, this side of the room? Anyone? Laura? Hold on.

Laura Martin – *Analyst, Needham & Co.*

Laura Martin, Needham & Company. Bob one of the things you said is you like experimenting with digital platforms and supporting new forms of distribution.

Could you update us on what you've learned from your Hulu and your Netflix support and where you're thinking about those two platforms today, regarding The Walt Disney Company?

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

Well, the first thing we learned that I said in my remarks is that we haven't seen any evidence of cannibalization. So, we believe that the revenue that we've derived is incremental.

On the Hulu side, there's no question that well-presented, simple to use, simple to navigate, traditional media works, basically, in that medium because Hulu has witnessed some pretty substantial growth. Clearly, the programs that we put on have really worked as well.

I don't know that there's much more we could say in terms of what we've learned there other than as consumption grows, advertising has grown, and thus we believe that there's more opportunity because we think it's going to continue to grow.

On the Netflix side, still relatively new, the deal that we announced not all that long ago is a short-term deal so it conforms to how I described our digital media strategy. We'll deliver some nice revenue to this company over that short-term period of time.

We were judicious in terms of how we window product into that platform, the product that we're making available, so it's limited in terms of in-season, as a for instance, and thus we just view it, as we've seen their growth grow dramatically, we view it as another distribution opportunity for the company that complements, we believe, our current distribution models.

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

Okay. Let's go to the back. Ben?

Ben Swinburne – *Analyst, Morgan Stanley*

Ben Swinburne from Morgan Stanley. My question is about ESPN growth and profitability. Jay, you mentioned the Time Warner Cable deal recently as a template going forward, and I think also the team at ESPN talked about the SEC contract, which I think goes to 2024, as also a key part of the strategy.

If you think about those two deals, revenue and cost, how do those fit into your view of the growth and return profile of ESPN? Is this a business that drives margins higher over time? Why are long-term contracts the right strategy on the cost front? And what was it about Time Warner Cable that sort of gives you confidence it's the right way to move forward? Thanks.

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

I'm happy to answer, Ben, and Bob will add whatever he feels is necessary, if anything.

First, I think that what George said, I didn't mention it but what George said in his presentation about the Time Warner Cable deal, is that it gave us -- I don't know if it's the right word -- I don't know if he used the word template, but getting that deal signed certainly set some precedent for upcoming deals that you all know about with the big distributors that are in our future.

And so, in terms of how we match that up with long-term deals, look, we look at the ESPN portfolio as something we want to be happy with year in and year out over time. We've built that great brand that you saw, dare I say number one in many, many markets, that by looking out for a long period of time and saying, "What kind of hand are we going to deliver to sports fans over time?"

So, all the deals are of slightly different duration. We invest in the long term for things that are -- we think we're going to be able to build on, that are going to supply, as you heard about the NFL from John, that we can really create a lot of programming around.

And so, we look at how we want to grow our cost base in total, and there are a lot of moving parts year in and year out about what goes in and what goes out. And we look forward to those and say, "What's our hand going to be in 2017 when this deal falls out in terms of whether we want to renew it or think about renewing it or replacing it with something else?"

So, we are very happy with the revenue side trajectory we have against the sports portfolio strategy that we've been following. And I wouldn't expect rapid change there. What we've done for years and years is working extremely well, no point in trying to guess what we'll do five years from now. As we get closer we'll look at the hand and we'll make those decisions.

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

I think just to add to that, a couple of important things to consider on the SEC deal. John Skipper talked about drivers. So, ESPN is focused on committing to sports that they really believe can help drive their business long term. And you look at the size of the SEC, the popularity of the SEC, the region that the SEC reaches, ESPN concluded that it was basically a blue chip property that would help drive their business.

One of the reasons that it's long term is that, as we look at the sports marketplace, we continue to see new entrants that are trying to build brands and businesses on sports. And there are some that we believe that we'd be better off having for competitive reasons on top of driving our own business.

The other thing that's important, which speaks to what I talked about earlier, is that we're not going to limit flexibility in deals that we make. So, where we can make a deal that provides us with a lot of flexibility to go after all kinds of new media opportunities, we're going to do that.

So, in the SEC's case, we were able to buy an array, a very broad array, of digital media rights. And by doing so, we felt comfortable making a deal through 2024 because we don't think there's anything limiting about that deal itself.

On the Time Warner side, and I guess the overall question is giving you some guidance on ESPN margins, which we're just not going to do. But, the template that George talked about the Time Warner deal being is an interesting one because, one, it includes all of our networks or channels, ABC in retransmission consent, ABC Family and Disney Channel, and all the ESPN channels, it includes new channels and new products that we're making, not only for Time Warner, but for others. And it includes the ability to watch ESPN on the best available screen if you're a Time Warner household, and that ability is reflected in the fees that we are going to be paid by Time Warner over time.

We looked at the Time Warner deal overall because it was an omnibus deal for the company. Obviously, we looked at it in the context of where we expect each one of these businesses to go or to grow.

But, we also looked at it as an overall deal for the company and what kind of value it would be driving the company, both from a bottom line perspective but also in terms of our ability to create more products, more touch points with consumers, and thought it was a particularly -- well, it was a template deal, meaning it was, I think, a sign of the times for us in terms of the kind of deals that we want to cut. And it was long term, by the way, which we thought was valuable in that case too.

Lowell, you're in charge.

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

David?

David Joyce – *Analyst, Miller Tabak & Co.*

David Joyce with Miller Tabak & Company. Jay, if you could provide some more color on what we should be thinking in terms of the CapEx trends. Obviously there was a big spike in paying for one of the cruise ships this year. You'll have something similar next year.

You also have Hawaii finishing up and California Adventure. In the past when you were working on Hong Kong you were maxing out around $1.5 billion, $1.7 billion a year in CapEx on the parks. Is that what we should expect for the next several years since you have multiple projects in the works?

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

Well, I think if you think about what Tom reviewed in his presentation today and just to tick them off, so the construction and delivery of our second cruise ship, which primarily will be reflected in CapEx in 2011, the completion of DCA, which culminates very close to the end of the fiscal year of 2012, and those kinds of investments are very back-loaded as well.

Hawaii, which is concluding close to the end of 2011, and construction projects typically have heavy spending in their final year of construction, as well as the overall investment that he spoke about in creating the facility for our guests to better plan and have a better experience of our parks, in addition to the Magic Kingdom expansion, clearly we are in the middle of a growth investment period for Parks and Resorts.

Towards the end of that, of course, kind of holding it aside, but Shanghai will begin to come on. It won't come on in huge numbers in the early years, but we'll start to invest against it as soon as that final decision gets made.

So I would, without revealing where we'll be relative to the cap, you can expect a pretty big bump in '11 and '12 in our CapEx, all related to those theme park projects. And if you looked at a number that was a $1 billion bump, you wouldn't be way off.

So, I think that we've talked about this, certainly since I've been in this job and probably before, many, many quarters, about this sort of pig in the python on park investment domestically. We're happy with it. You saw the kinds of project they're going to deliver.

We're very confident that we can both maintain our returns and margins as those projects mature. A lot of the investment, if you think about Aulani and Cruise, are in our highest-margin businesses in Parks and Resorts.

So we feel good about it, but the reality is that delivering the quality product that we want to deliver, that allows us to, two weeks after the first paid sailing, to be running 12 points over a

prior two smaller-ship inventory with three ships now, doesn't happen because you don't invest in your product on an aggressive basis.

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

Rich? Over here?

Rich Greenfield – *Analyst, BTIG*

Thanks. Rich Greenfield from BTIG. You put up a slide I think on growth initiatives, or places for investment in mobile gaming, social gaming, were right at the top of that kind of upper, right quadrant.

I think when people look at Club Penguin and especially Playdom, there's some confusion over kind of the return on investment and kind of how to think about the value you're getting out of those investments.

If you look at something like Playdom, after you bought it there's a pretty substantial decline in monthly usage that that property is experiencing. And just how do we think about the timeframe that you're thinking about in terms of these investments?

You obviously don't break out specific financials, so it's hard for us to exactly judge the individual investments, but what do they mean to the broader Walt Disney Company in terms of why you made them, and how we should think about your return on investment of those specific investments? Thanks.

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

So, Jay, let me address some of that.

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

Well, I'm going to disappoint them because they asked a lot of details I'm not going to give them. So, you should take them.

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

We're not going to answer that question, Rich. I'll just sing a song. Playdom, first of all, when we bought Playdom we bought Playdom in part to put us into a space, social gaming, that we saw as a growth space.

And when we make a decision like that, we consider what it would take to build organically, hiring the right technology experts at the company and bring in the right technology and going for it, it felt that the space was going to move very fast and grow very fast and that we would be better off entering it faster through acquisition than organic growth.

And we also were bringing into the company expertise in social networking in general that we had little of. So, a lot of the value that we saw, which may not equate directly to return on invested capital as you measure it was then putting us in a very compelling space very fast.

We also knew what was looming in terms of some changes that Facebook was making in some of its rules that we were going to end up with a dip in terms of consumption for a couple of reasons, one, the switch over to Facebook credits, and then there were some other changes that Facebook was making that affect virality that we thought would ultimately happen.

And in addition to all of that, John was focused on looking at the games that they had made, trying to figure out how to ultimately infuse games with Disney IP but also trying to get better at the games that Playdom was making.

And so, there was a purposeful lull in what we were making, the product that was entering the marketplace, so that we could make them better and so that we could make games that were based on Disney IP. So, so far, what we've seen happen at Playdom in terms of the usage has not really been of great surprise to us.

As we look at the overall gaming business, as John mentioned, we are really working hard to decrease our investment in what we think is the lower growth part of that business, console, and increase our investment in what we think are the higher growth parts of the business, namely mobile and social gaming.

And again, Playdom, Tapulous, a few other smaller acquisitions that we made, enabled us or will enable us to go after the growth part of that business rather than staying in part of the business or staying in it as robustly as we were that we don't think is as compelling.

Club Penguin, we look at it. We actually measure Club Penguin pretty directly on a return on invested capital basis, because Club Penguin has been nicely profitable for us and has grown both usage and profitability, although we've also invested in Club Penguin more to bring to Club Penguin to international markets. And so, that's depressed the bottom line a bit.

But, we think that not only can Club Penguin anchor the kind of land or world or experience that John depicted in the picture that he put up, but there again we brought technology and we brought people into the company that we didn't have, that quickly put us into kind of a kids social network space that we think is going to be pretty interesting in the years ahead.

John, do you want to add to that?

John Pleasants – *Co-President, Disney Interactive Media Group and General Manager, Playdom*

Regarding Playdom, just a couple of quick things since I'm probably the closest person to it here. Bob mentioned overall that if you look at, let's say, the top four companies from a traffic standpoint on Facebook, all of them have declined significantly since the summer, kind of coming into the beginning of this year due to the virality changes.

On a percentage basis, it's pretty equal across the top performers. So, while it's not good for the top four, it's not something that is entirely unique to Playdom. Zynga has a bit of an exception because of a product they launched called CityVille, which kind of brought them back up again. But, if you look pre-CityVille, the trend on the four companies is relatively similar.

One thing that's really good for Playdom is we have offset the majority of that decline with international traffic and other network traffic. We've got somewhere between six and ten products now that run on international social networks all around the world, Latin America, Russia, Eastern Europe, Asia, that is not measured by what you're looking at, because I believe what you're looking at is probably singularly just Facebook traffic. So, it's a good piece of news.

Bob mentioned, our last product launch at Playdom was September 27th, I believe, and March is when we're coming out with our next slate of products. And we have a really good slate coming up, and it was, as he said, a very conscious pullback because we wanted to go back and leverage different things and build different types of products.

And lastly, I think most people in the industry would recognize that Playdom is, if not the leader, certainly one of the strongest players as it relates to monetizing DAUs, so there's not much public information on these companies because everyone is focusing on traffic.

But, it's pretty important how you monetize that traffic, and we have not taken our eye off the ball, not at all. So, we continue to grow our revenue line and are happy with that.

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

David?

David Bank – *Analyst, RBC Capital Markets*

Thank you, David Bank from RBC Capital Markets. So, I think you showed a real willingness -- repeated your willingness to embrace technology and to use it rather than sort of hide from it. But, in some senses, you're not in complete control. Right?

The distributors -- you have to deal with the distributors -- and technological. And is -- the Time Warner deal, is it replicable across every distributor right now? Or, are there technological hurdles on the distribution side?

And if the consumer wants online consumption and the distributors, the traditional distributors can't give it today, what's your view about sort of full freight online MVPD distribution? When are you willing to sell to that? And when's the world ready?

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

Okay. I'll answer the second part of the question. George, I'll have you answer the first part, whether the deal is replicable to other MVPDs.

If a full, online distributor or if an online distributor, we'll call it MVPD, came forward and was willing to pay the going rate for the channels that we offer and buy essentially the packages of channels that we offer and we felt that their platform had a real shot at succeeding, then we would be willing today to make a deal to distribute.

We are not willing to make deals to distribute a network for someone to use to launch an online platform as a for instance. We don't think that would do us any good. But, if they're willing to negotiate with us along the way, along the terms that we typically negotiate, we'd be more than willing. And so again, what I said earlier, the more the merrier.

And I think you're probably going to see, I'll call it an online MVPD, probably make a go of it sometime relatively soon would be my guess. I know that there are a number out there, a number of entities, that are kind of kicking tires.

George, do you want to answer the -- whether if it's -- I guess this is the authentication part of it, David, that you're really talked about. We definitely know that people are clamoring to have the ability to offer ESPN on a multi-screen basis to their customers.

George Bodenheimer – *President, ESPN and ABC Sports, Co-Chairman Disney Media Networks*

We've already done an additional deal with Verizon since the September date, so if actions speak louder than words I guess you would say it is replicatable.

We're going to have continued interest in all of the products, Disney, ABC and ESPN. It's what I was alluding to earlier. When we put a new product or a new distribution mode like authentication in the market it gets everybody's attention.

So, provided the other distributors do the technical work so they can deliver our products securely and in a high-quality manner, we'll certainly be there to talk to them. And I fully expect those deals to be replicated.

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

Let us clarify one thing too as it relates to Time Warner, for instance, and ESPN authentication. If you are a Time Warner subscriber, you can see ESPN in its entirety on a computer screen today.

That offering is made by us to you, and the authentication is that you are a Time Warner subscriber. So essentially, if you go to ESPNetworks.com and you are a Time Warner subscriber, you will be able to watch all of ESPN -- or virtually all, not all completely yet -- on that service.

Time Warner has the ability to put an online service together that is an aggregator of all of the channels that they have gotten those rights to, but they can't just offer ESPN alone to customers. Correct, George?

And then when it comes to tablets and phones, etcetera, the ability to stream ESPN on those devices, which ultimately is coming, again is provided by us. So, an MVPD cannot create an ESPN app for a tablet, for instance. We can. And again, if you're a subscriber to an authenticated company, then you can watch it on one of these devices.

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

Tuna?

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

Thank you very much. Tuna Amobi at Standard and Poor's Equity Group. So my question is on Hulu. I know you touched on Hulu kind of in your commentary, but given the reports of some kind of friction among some of the Hulu members and the various strategies which the networks seem to be pursuing in terms of the overall strategy.

What's your view in terms of whether Hulu -- as you look out at the next couple of years, do you see Hulu as still integral to your overall digital strategy?

And there have been reports about a potential IPO. I'm just kind of also wondering if you would see that as a logical step or you would have, does it matter for example, would that step be consistent with how you view your equity participation in Hulu. And do you see that as continuing to evolve? Or…?

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

Well, look. I'm not at liberty to speak on Hulu's behalf. We are an equity partner, and Anne and I are members of the Board, but we're not going to make any comments about the direction of Hulu or the condition of Hulu today.

When Hulu was created, it was created to essentially create an incremental revenue stream, advertising to people who were either stealing content or watching it on platforms that were not monetizable because they either didn't offer a good advertising environment, or people were watching product on DVRs and skipping through advertising. And that didn't work.

We've found since we've been part of Hulu that it does have the ability to, one, generate more advertising and, two, get people to actually watch ads. It's a pretty interesting environment, pretty good environment, healthy environment to watch product, and we believed in its growth potential.

Like any new platform, it's kind of learning as it's going as well, and it's still something that we feel is of interest to The Walt Disney Company. I don't think we ever felt it was necessarily integral to, or an anchor of, our overall digital strategy. It was part of our overall digital strategy, and it remains that way.

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

Spencer?

Spencer Wang – *Analyst, Credit Suisse*

Historically in the television business, Bob, there have only been like two windows, the live window and the syndication window. But, over the last couple of years, a whole bunch more have popped up, the Apple EST window for TV shows, streaming windows, TV, DVD.

So, I was wondering if you could just talk to us about how you think television windows could best be optimized to achieve what you're trying to achieve since different companies are doing different things? Thanks.

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

Well, how will they best be optimized? I think you're going to end up with more windows, but our philosophy is that there's still a reason for us to protect, by windowing judiciously, the initial broadcast, in that case -- or the initial cablecast of a program, either because of the importance of the advertising revenue that we reap or, in the case of cable product, the subscription fees that we reap, which you know are pretty substantial.

So, I think what you're ultimately going to see is you're ultimately going to see multiple ways that the product enters the marketplace after a certain period of time on both third-party channels, or third-party platforms, but also on company-owned platforms.

So, we will get to a period of time -- well, we're already there with ABC.com for instance -- where we'll offer some of this product windowed onto our own platform as well as sold to third parties.

I don't know what specifically you were looking for there other than we're going to balance protecting essentially the initial window with maximizing consumption in revenue on new technology platforms that exist today or crop up in the future.

Spencer Wang – *Analyst, Credit Suisse*

(microphone inaccessible)

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

Yes. We have different windows. We will have -- and this will probably remain, at least for us for some time, a different window for the product that we put out post-channel airing from cable channels versus from broadcast. And there will be a difference ultimately in window between what an authenticated consumer gets and what a non-authenticated consumer gets.

So, if you are a subscriber to a multi-channel service that gets the Disney Channel, you will have access to that product in a much more aggressive window than you would if you didn't have access to it.

Spencer Wang – *Analyst, Credit Suisse*

Thanks.

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

Let's go to Alan. Actually, why don't you just hand the mic to Alan behind you?

Alan Gould – *Analyst, Evercore Partners*

Thank you. Alan Gould with Evercore Partners. Bob, you had mentioned -- I think of the slide where you pointed out the US -- this is a piracy question, the slide where you pointed out U.S.

versus Korea. And then, you also pointed out that one of the trends you see is that more things are connected and things are going to be connected quicker.

What is the industry doing? It seems like the industry's not doing a whole heck of a lot, Disney or anybody else, in trying to fight piracy. Or, is there anything you can do to fight piracy?

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

Well, yes. I mean, there are things that you can do and there are things the industry is doing, some that don't meet the eye, some that are just forming, some that have been around for a while and I don't know, you might want to argue that maybe they could be more effective, but industry efforts typically are on the defensive side.

And there's been a fair amount of dialog with various government entities, both in the United States and outside the U.S. as well as with various technology companies. ISPs for instance, to to create -- well, either to enforce laws that are aimed at protecting our copyright or to create technology or use technology that exists to better filter out illegal content and essentially aide in our effort. Because we believe that ultimately piracy is a bad thing for platform owners that rely on investment in robust content because if the business model, obviously, is hurt, then the ability to invest in more content will also be diminished.

The other thing that's, I think, of real interest to the government is, in a world where everyone's trying to figure out how to create jobs, protecting an industry that has created millions of jobs by creating intellectual property in the United States is something that is of great value and would be of great value to the economy of this country. It's also a great export business.

So, there's been a fair amount of dialog. There's some industry -- a fair amount of industry work going on, some that is new. There are new developments. In our case, we've participated in that dialog. In some cases, we've helped lead it. But, for the most part, we believe that one of the best ways to fight piracy is with an offensive strategy as well, and that is making product available on legitimate platforms, well timed, well-priced.

And I think it was NBC that put out a study pretty recently, and I read it, that said that they had direct evidence that where product was available legitimately and basically well-priced, then people were more inclined to buy it than to steal it. And I still believe that that's right.

We're never going to eradicate piracy. And I actually believe the threat of piracy is going up because of what I talked about earlier, which is powerful technology, which I think means that we've got to get even more aggressive about making the product more widely available, at the same time more aggressive about demanding that governments protect this property, because it's important to economies.

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

All right. So, given the time of the day, we're going to take a couple more questions. Doug, right behind you.

Doug Mitchelson – *Analyst, Deutsche Bank*

Thank you, Doug Mitchelson, Deutsche Bank. So, Bob, you said that someone would take a shot soon at being online MVPD, and you also said that you wouldn't unbundle your channels. But, can you walk us a little bit farther down that path?

So, you sell your channels to somebody. Time Warner separately sells their channels. Maybe somebody chooses the Disney bundle, not the Time Warner bundle, and then Comcast loses subs --

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

I didn't say that we were going to sell our channels directly.

Doug Mitchelson – *Analyst, Deutsche Bank*

Not directly, but so an online MVPD is formed. Right? They get the Disney Channels under traditional terms and they start to sell them to consumers. They package and sell them to consumers, and you don't want to unbundle your channels. That's understandable. But, are you unbundling the basic bundle? And are there implications for that down the line?

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

Well, I would imagine that if a digital MVPD cropped up, the only way that they could launch would be with some critical mass of channels, and we would have to assess that. Meaning, I don't think we would be that interested in launching just our channels on a new platform.

It would have to be a platform that had already done deals or it would be predicated on that platform doing multiple deals with other content providers, so that the platform itself had a channel offering that looked pretty similar to expanded basic cable. And that we would, in effect, be participating in a business model that we thought had a chance of creating real value to us, to the distributor and to consumers.

So, I think we'll know it when we see it. I don't know that I said imminent, or maybe I said soon. I just know that because there are entities kicking tires that have asked us whether we would be interested, know that this is something that is of interest to various entities.

And look, as I said earlier, we've been pretty aggressive at making our content available to new platforms. We did it with AT&T. We did it with Verizon, good examples of that. And I think we would take a similar approach. Enabling our product to be on a platform that isn't offering something that is good enough wouldn't do us any good.

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

All right. Let's take one all the way in the back. I can't see who that is, but I see an arm.

Malcolm White – *Analyst, CI Investments*

(inaudible – microphone inaccessible)

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

This question's come up a number of times over the years and -- although it hasn't come recently. And I think we've pretty much answered it the same way. The company has looked over time at a variety of different possibilities in terms of selling off property, whether it's land or buildings, on land. And we found that in our analysis that it never quite makes enough sense to us.

First of all, the land that we have in Florida is a real jewel. It's almost unrivaled, certainly in Central Florida, and we believe that there are still growth possibilities on that land, although we'll never develop all of it, in some cases because it's not developable for environmental reasons.

But, one, we don't want to sell off property that allows others to encroach on what is a real jewel of an experience. Two, putting some of the property into the hands of third-parties would probably add encumbrances or complexity to how we manage those businesses that we really don't want to contend with and feel that would ultimately destroy value rather than creating value.

And to your first point that we don't monetize our land, I think we've actually done a pretty good job of monetizing our land. We may not have monetized it as much as you would like us to, but the monetization of that acreage in Central Florida that Walt was smart enough to buy in the middle 60s, if you look over time, has been rather significant for this company. And it is our number one monetized property in all of our theme park kingdom.

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

I will say this that some years ago -- I want to say it was three years ago, maybe more -- we looked at all that real estate in the categories that Bob described, and we characterized it as well, this is absolutely strategic land that we would never sell because it is strategic in terms of its either access to the monorail beam, its proximity to our operations, where we would like to expand profitability into, and that was the highest and best use.

There was some land that's undevelopable, and there was other land that was on the fringe that we could not imagine monetizing ourselves and wasn't of strategic importance. And a number of those parcels have been, and I'm going to say it's in the realm of 40 acres or so, maybe 50, have been used, either for other resort projects that would have been built off our property -- we may as well monetize the value of the land and had them on our property -- as well as there are some office and commercial development that was done, again in areas that would never be part of our core resort district.

So we have, in fact, monetized that portion of the portfolio and are still -- I'm not sure we're 100% done, but -- aggressively look to monetize it when it didn't fall in the either undevelopable or strategic category of land banking.

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

Okay, everyone. Thanks for your questions. And thanks, everyone, for joining us today. To those of you listening to us on the webcast, this concludes our Investor Conference. Thanks, for taking the time with us.

###

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

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

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

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

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

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