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Disney Speaker:

Jay Rasulo

Senior Executive Vice President and Chief Financial Officer

PRESENTATION

Drew Borst – *Analyst, Goldman Sachs*

Good afternoon, everyone. I'm Drew Borst, entertainment analyst at Goldman Sachs on the equities side. Thanks for joining us. I'm very pleased to welcome to the stage Jay Rasulo of The Walt Disney Company, Chief Financial Officer.

Jay has been with Disney in various capacities for nearly 25 years, and he has served as CFO since January 2010. Prior to becoming CFO, Jay was Chairman of Disney's Parks and Resorts division for eight years. So thank you very much, Jay, for coming.

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

Thank you, Drew. Thanks for having me.

Drew Borst – *Analyst, Goldman Sachs*

If we could, maybe we'll start off with a bit of a strategy question. Disney has stated three priorities: number one, invest in high-quality branded content franchises; two, leverage technology to expand its distribution; and three, grow internationally. I'm wondering, as you think about these three priorities, where do you see the best growth opportunities over the next one to three years?

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

Drew, I think you've stated succinctly the tenets and pillars on which Bob has run the company since he became CEO a little more than five years ago, and maybe rather than elaborating on that, I can use some examples of things we're doing behind those pillars to support them and kind of what the term of returns will be for that.

So let me start with, not the first one you mentioned, but with technology. I think that it's safe to say that in terms of distribution of the video, the media assets of the company, Disney really has embraced new technology as a way to do that. I don't think that that's always been true of all the media companies, but its certainly has been true of Disney.

And if you think about the different spaces and places we've done that, something like WatchESPN, which is basically an authentication model for ESPN to be viewed on mobile devices, combined with ESPN3, which is an online streaming viewing of the ESPN product, you really see something that takes advantage of the mobility of the new media devices that are out there.

And that is something that we see as not only a near-term but long-term growth opportunity for a company that is so content-based. Whether that is here in the U.S. or internationally where developing countries are really leapfrogging the old technologies for distributing media and going right to mobile 3G, 4G, so that is something I would say we see quite strongly.

The consumer products division is also taking advantage of that in the digital book space. I think that's a real area for growth in our publishing business as we move from more traditional publishing to a medium that really takes publishing just from reading of books to the delivery of a book as a piece of media content.

I won't go on about how the parks and resorts division embraces technology and how they create their very product, but if you take one example, like the attraction we created 'Toy Story Mania!,' which goes from taking hardware to deliver a great experience to using media to deliver that experience, that's instantly changeable, can be refreshed at a much more rapid rate and lower cost, I think those are all examples of what Bob means when he says the company needs to be technology-driven.

Looking at the international side, over the last year or year-and-a-half, we really have taken large steps to put a much bigger footprint in different places around the world, and I would say the principal means of doing that, the Disney Channel is now in 100 markets – there are 100 Disney Channels around the world. It is what we see is as one of the most powerful devices in bringing people into the fold of Disney.

Used to be in the old days animation, certainly the theme parks in the markets we have them are strong drivers, but the Disney Channel, in developing markets, in new markets for Disney, is really a way to get a strong footprint, and we work very hard at making that a reality.

Needless to say, Shanghai Disneyland becoming a reality; I wouldn't say that's a short-term growth vehicle for us because it won't open until 2015, but it is a way to propel our brand. We know when we have a theme park in a market it moves our brand very rapidly. The UTV acquisition in India that's been widely reported, a way to have a real footprint in India; we are, I wouldn't say behind, but relative to other developing markets, our brand awareness for Disney, in particular, is fairly low in India. And taking a big step like taking control of a company like UTV really can distribute us much more broadly and accelerate.

You all probably know that in Russia, the theatrical market is absolutely exploding, and we are very aggressively becoming part of distribution in Russia. So those are some of the things that we are doing just to kind of live up to the desire to become a more global company to get our brand out there in markets.

And lastly, creative content, I won't dwell on this because it's almost too obvious. But whether it's the Pixar acquisition, the Marvel acquisition, the standard brands that we sell every day through consumer products, the Princess brand, the Fairy brand, new brands being created like *Phineas & Ferb* on the Disney Channel, this is something that we do for living. It is absolutely fundamental to our success. We have to continue to create content that we then can use our ecosystem to distribute.

Surprising things about the way we do that, take something like Princess. Everybody knows that if you go into any retail store, you see the Princess line, we sell costumes. But there are 2,700 books in the Princess title this year. We'll add 500 more this year. 16 million editions of Princess Magazine will be read by kids around the globe this year. So we really put the strength of the company's assets behind these franchises that we think will propel us forward, and I don't see us stopping that. That's really the driver for us.

Drew Borst – *Analyst, Goldman Sachs*

Great. Before we kind of dig into each of your big operating divisions, I wanted to touch on capital allocation. I think last quarter it seemed like you guys really stepped up your share repurchase activity. In the June quarter I think you did $1.4 billion of it. Year-to-date you've done $3 billion. So can you talk about, going forward, how you prioritize, how you use your

excess free cash flow between buybacks and dividend and then M&A and investing in the businesses?

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

Right. Well, clearly, in support of that strategy that we just spoke about, we invest a substantial amount of capital behind the perpetuation of our brands, our properties, and the growth of the ecosystem that delivers those properties. About 60%, in fact, of our cash flow – if you look historically over the last five to seven years – about 60% of our capital was spent in that way. We spend about 20%, if you look at it on average – and it's lumpy, so it's never quite even every year – but about 20% in either organic new business development or M&A; and over the last five years we've deployed about $13 billion of capital in M&A – I'm glad to say, since we're here with our friends at Goldman, most of that very successfully – and the remaining 20% we use, historically returned to shareholders, both in the form of dividends and buybacks.

I would say that if you look across the last 5 or 10 years, we have favored buyback over dividend as a vehicle of returning capital to shareholders, but we look at a consistent level of growth in our dividends and a consistent healthy return of capital to shareholders over time. In terms of what you mentioned about buyback, as of the end of the third quarter, we were about at $3 billion, and the third quarter was a step-up in our buyback. And in fact, into the fourth quarter, which ends at the end of this month, we have actually stepped that up more.

We have purchased, to date, about $1.8 billion of our shares back relative to the $1.4 billion we had last quarter, and we'll probably finish the fiscal year having bought back about $5 billion worth of our stock relative to the $3 billion that we announced in the third quarter. So given where our price is in the marketplace, we always look at buyback, and given where it has been this quarter, we've stepped that up aggressively.

Drew Borst – *Analyst, Goldman Sachs*

Great, that's very helpful. Maybe we can dig into the parks and resorts division. Clearly, the financial markets are concerned about the health of the U.S. consumer – the global consumer, for that matter – and I'm wondering, based on what you're seeing in your parks and resorts division, how would you describe the state of the consumer, both domestically and internationally?

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

Well, I guess I would describe it, in short, this way. We're very happy with the approach that we've taken probably for the last 18 months, which is to increase pricing and be willing to trade off a little bit of volume, as consumers are still heavily shopping in our category as well as every other category. And I would say that we are pretty confident that we can continue there. The

consumer is coming back. They're certainly not all the way back. They're not making the buying decision as quickly as they used to. They're still waiting to see if there's going to be better bargain showing up.

There are many operators in our theme park space – since you asked me about that – that are doing broad-based discounting. We have not had to resort to that, and we've had the underlying strength to resist that, and we've continued sort of on the trajectory that I've talked about every quarter in the last three or four. So I would say that the consumer is wobbly, still a little hesitant, but still buying if we look at our theme park business.

If you look, you didn't ask about this, but if you look at the advertising space I would say that what we've seen is consistent with what you heard in conferences last week and what you've heard from people earlier this week – on the national level, still directionally pretty strong, locally a little weaker, political not as strong this year as last year, but pretty much consistent with what you heard from other folks that have talked to you about that.

Drew Borst – *Analyst, Goldman Sachs*

Great. Let's talk a little bit about the margins in the U.S. park division, in particular. When you look at fiscal year-to-date, the margin has been held back by a number of unique factors, things like the Tokyo earthquake, launch costs for the Disney Dream cruise ship. In the past, you've said that U.S. park margins can return to pre-recession levels. What are the major drivers behind that expansion, and over what timeframe do you think it might be achievable?

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

I've been saying for a long time during this downturn that I do not believe there are any structural reasons why our margins at the parks and resorts can't be back to what they were pre-downturn, and I still believe that. But having said that, let me give you a little bit of insight into what's driving our margins and what might be the expectation for you all in the coming quarter, coming months, coming year.

First of all, you cited a couple of factors that I've been talking about, Tokyo and expansion. If you think about what happens during expansion, you have, for us, the major projects that we've been talking about – the two new cruise ships, the expansion of Disney's California Adventure, the Aulani Resort in Hawaii, the new hotel that we're building in Orlando called the Art of Animation Resort, as well as the beginning of the start-up of that major project in Shanghai.

All of those projects are at various stages. They've affected our CapEx, and we've talked at length about what that is, but they also have an effect on our operating margins because you often have with those businesses, you are either in the point where you're taking in no revenue and spending on hiring, casting, training, advertising out ahead of the business actually

generating any revenue, and even after they open, you're sort of in a ramp-up stage where you're spending in a way that you will not spend when that business is on line and is kind of running at its steady state. And the revenue is not all the way ramped up either.

So to give you kind of an illustration, last quarter, third quarter, we saw about $300 million of revenue from new projects that came on line that were equally matched with costs across the categories that I described*. So, needless to say, we're creating a downdraft. By the end of fiscal 2012 we're going to have an additional $500 million of revenue that is also going to be largely offset by the startup costs that I described, including some expense aspect in Shanghai is largely – $4.4 billion is largely capital. There's a couple hundred million of expenses, and that will start to seep in, and that's putting at expat overseas to start, to manage, and those kinds of things.

And so I want to emphasize that all of these projects that we've described, we believe, number one, are going to return above our cost of capital, and number two, are going to be accretive to margins when they're at steady state. So this is kind of the reality of a temporary phenomenon that we feel, strategically, every one of those is a strategically strong project; every one of those is meeting a need or a growth opportunity for the company; every one of them will be good for shareholders in terms of return, will be accretive to our margins, but there is a period over time that it is going to depress our margins. So I believe that, notwithstanding what I've said about those new projects and their impact on 2012, our margins in 2012 will still be higher than our margins were in 2011 based on the comeback of the core business.

We're also in a place where, I said just a few minutes ago, our consumer is strongly embracing our parks and resorts, but we are not all the way back on an inflation-adjusted basis to where our per-caps were pre-recession, and we're not all the way back on volume. And of course that means that our margins aren't where they were even on the base business before we entered. But when they come back, as I said, there's no reason why they won't be back as far.

We've also got a little bit of downdraft due to pension that we've talked about - that is actually decreasing over time. And for those of you who might remember, we've sort of reoriented our pension plan, so over time we're moving basically from a DB plan to a DC plan, so that should improve our margins. Parks and Resorts has a sort of unbalance with pension because of the number of employees we have in our parks and resorts division, they suffer more, but will benefit more from the new pension plan.

So when you look at all those things, it's sort of an explanation of the back story behind margins. As I said, we look forward to the days when people say, okay, you're back. I won't ask that question anymore.

* This refers to revenue and costs expected for the full fiscal year 2011, not third quarter.

Drew Borst – *Analyst, Goldman Sachs*

That's incredibly helpful. One follow-up on that, how long do you think it takes – the margins of these new businesses, the businesses that will be generating at a $500 million in incremental revenue – can they be margin-accretive in '13, or is it a little bit further out, as it takes a while to get those businesses to scale?

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

You know, way back in the day when I used to run that business, we used to think about a three-year ramp-up for most things we introduced. I'll tell you that our first cruise ship is running 100% full right now. So I don't think if – I think each one will have its own timing, but if you open a resort in Hawaii, and you think about it across the spectrum of Disney businesses, something relatively new for us and consumers to think about a Disney resort that's not coupled up with the Magic Kingdom and Epcot and so on, so that might be a more traditional hotel ramp-up. I used to work in that business. It's three to four years before a hotel gets to where it's ultimately going to be. So I think that they'll come on – I guess they'll come on as they come on.

Drew Borst – *Analyst, Goldman Sachs*

Each one is unique.

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

But that set of projects – if we take Shanghai out of it, that set of projects, four years or five years from now, should be moving towards their steady state.

Drew Borst – *Analyst, Goldman Sachs*

Okay, great. Let's talk a little bit about Magic Kingdom in Orlando. I believe, next week as a matter of fact, it's going to be celebrating its 40th anniversary. Epcot is now 30 years old. Disney Hollywood Studios is 20 years old, I believe. So the question is, does the capital intensity of these parks increase with their age, and then when you're thinking about capital allocation decisions, how do you think about refurbishments to some of the existing parks versus new expansion like Aulani or Shanghai?

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

I guess I'll start out by saying I don't believe that as a park gets older, it necessarily needs more refurbishment or more capital to kind of keep it alive. If you think about prior to what we're

doing right now at the Magic Kingdom, that park went almost 40 years with nothing of major significance being added to it, and it's still the number-one theme park in the world. So I don't think that it's directly related to time. I think a better way to think about it is kind of like managing a portfolio of theme parks, each of which has their own sort of market and needs and need for refurbishment capital and things that are new.

And we look at those things every year, whether it's from a capacity perspective – is the place overcrowded that we need to add more entertainment, are the characteristics of the attractions in that park not as repeatable as others? And so it's a lot more sophisticated than sort of looking at, yeah, over time this thing is going to need more work. It may be true from a refurbishment perspective, but not from the perspective of where major capital goes in, which is new attractions.

I think that, fundamentally, we look towards major additions that will really move the needle, and I think that what Tom and Bob announced yesterday, this *Avatar* attraction, is a perfect example of something that we'll look at and say, hey, this is a needle-mover. This is the most popular movie by box office in the history of motion pictures. It is deep, it is rich, there are more films that are going to come out. We get to use the genius of Jim Cameron in the creative development, and it is something that we think, kind of like we did with 'Cars Land' out at Disneyland, that can really sort of move the needle and propel it.

So if you ask me well, how do you balance that out against something like Aulani, I don't think you trade one off versus the other. You look at each separately and ask, is it filling a strategic need, is it going to give you the kinds of returns that you want, is it doable, is it going to be great entertainment? And I think if you look at something like *Avatar* and how it fits in, just to give you all a little more detail about that deal, it's a kind of a standard licensing deal that we did with Fox and Jim Cameron, doesn't involve a percent of the gate, doesn't involve a percent of revenue. There'll be some licenses – some percent on merchandise that is around the franchise, as you would expect. And from a capital perspective, there have been – Tom gave some scoping of the project about the size of 'Cars Land' – I don't think he meant physically; I think he meant in terms of investment – which he characterized as a little less than half of the overall investment that we're putting into the DCA expansion. Bob told all of you at one time that was about $1 billion, so I'll let you do the rest of the math, not very difficult.

And we see it as something that will kind of be in the steady flow of our capital. It's not probably going to be easily recognizable. We had additions planned for the Animal Kingdom anyway in Florida, and additions planned for that portfolio of assets, and I don't think you're going to see this capital stand out like a sore thumb. We'll just not do something that we were going to do for this incredibly strong needle-moving idea. So I guess that's how we think about it. I hope that answers your question.

Drew Borst – *Analyst, Goldman Sachs*

Yeah. And I guess the bulk of that spending, is that really starts in 2013 I guess is when construction starts?

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

Yeah, usually when we do theme park investments, roughly half of it comes in the last year – maybe 40%, and 30% in the year before, and the rest kind of trickles up. But knowing my former imagineers, our imagineers, they started spending today, and in a very minor way, they'll start ramping up.

Drew Borst – *Analyst, Goldman Sachs*

I guess, yeah, as it relates to some of the comments you've made in the past about sort of – you've obviously gone through a CapEx investment cycle here, a pretty significant one...

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

Yeah.

Drew Borst – *Analyst, Goldman Sachs*

And I think the guidance historically had been that this will be – this year and next are kind of peak years, and then it starts to come down. This *Avatar*, you don't think, really changes the trajectory...

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

No, we are absolutely consistent that next year – this year and next year will be our peak years. We will see a significant decline, particularly in our domestic portfolio, significant decline in the capital that we spend in our domestic parks, and at some point, you'll start to see – the only noticeable thing in the portfolio will be Shanghai as it ramps up. That project is about, I mentioned $4.4 billion total, $4.2 billion of which is capital. We will consolidate all of that capital into our cash flow, and it will come out of a – the 57% of it that the Chinese government owns will come out of a financing line in the cash flow statement. But other than that, I think we will be back to - relatively closer to our historic levels of spending in this, in the domestic business.

Drew Borst – *Analyst, Goldman Sachs*

Okay. Maybe we'll shift to the cable networks now, and sort of on the topic of investment. ESPN has been very busy over the past couple of years renegotiating a lot of its major deals. *Monday Night Football* deal was recently signed. It won't go into effect for several more years. But on the collegiate front ACC, SEC, Pac-10 deals have been signed recently, and there's been a lot of inflation. The prices of this content are going up. So I guess the question is, against the backdrop of cord-cutting, where people always seem to be trimming, and the economy is very weak, it seems like the multichannel operators have a harder time raising their prices. And so how does that impact ESPN's ability to get more money out of multichannel operators to help offset the increased costs of sports?

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

Well, there's a lot I'd like to cover there, so let me try to be quick in each part of it. First, the whole sort of multichannel ecosystem that's in place today, needless to say, for a content provider, incredibly valuable; we believe, and research sort of backs up the fact that it's incredibly valuable for the consumers relative to other ways of tiering or delivering programming, and of course for the MVPDs, that ecosystem is incredibly valuable. So I think that we need to sort of respect that and, as best we can, keep that intact and viable.

If you look at the programming that ESPN buys, I think that, first of all, notwithstanding the fact that we all read, and by more than read, about these big deals and the inflation, I think that you can say that if you look over time, I think ESPN has been pretty fiscally responsible in how they've purchased properties. We have demonstrated, they have demonstrated over and over that as much as they’ve wanted something, like the NCAA Final Four, like hockey, like the Olympics, as much as they wanted those properties, that they really are top-tier properties in the sports world, they've had the ability to say, here's the line in the sand, and we are not going to walk over this, and have not gotten those. And I think they've done, both from power of the brand, the popularity of it, the ratings, the amount of advertising they take in, they've done a really good job at managing a portfolio that is really appealing to sports fans.

We talk about the NFL, specifically obviously *Monday Night Football*, the most valuable franchise on cable television. This deal not only guarantees us the NFL for until the 2021 season, which is great, but it's a long-term deal, and they've kind of moved these deals longer and longer-term such that if you look at the growth rate of the fees that they are paying from sort of our old deal, our new deal, if you look at either midpoint to midpoint or any other way you can look at the growth, the growth is actually pretty reasonable and not in excess of what we think we can get in the growth of affiliate fees.

So we feel very, very good about that. Maybe hidden in the big numbers that are thrown around is that the hours of programming that will be on ESPN behind the NFL has moved from

like 300 hours to 800 hours, and that starts now, not when the new deal starts. So there's lots of good things that we can say about that.

You mentioned college sports. Our position in college sports – I know there's been a lot of talk about conference shifting and so on, a little damper to that this morning, and nobody knows what's ultimately going to happen there, but we have long-term deals with incredibly strong conferences, the SEC, the Big 12, Big 10; we have very strong deals in place and for very long times – 15 years, 12 years, 10 years, a very long period of time, ACC as well, and we feel very good about the hand we have there. What the impact will be if there's a whole bunch of shifting – which it doesn't look like there will be now – we'll pay some of the conferences more, some less. I don't want to speculate too much about what's going to happen there, but we feel very strong about that. So we don't – to wrap up, we don't see a fundamental shift to tiering being a good thing, and we don't think it's good for consumers, and subsequently are strongly in support of the current framework and ecosystem.

Drew Borst – *Analyst, Goldman Sachs*

It was interesting when ESPN redid its deal with Time Warner Cable last August, and shortly thereafter Time Warner Cable launched a slimmed down kind of basic package that excluded ESPN. I think it was sort of a 40-channel, $40 kind of package. Is that – historically, I believe, that the contracts with cable networks and distributors had had some protections that prevented the distributors from creating these tiers, and do you think that there's some room, some give-back on your part, on Disney's part, to allow those distributors to have a little bit more flexibility? You obviously – as far as we know, it seemed like you did pretty well in terms of the price increase in that Time Warner cable deal. It seems like in any negotiation there's a little give and take, and might that be one of the give-backs?

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

Well, the truth is I don't want to get into details of that deal. I don't think it would be fair to them or us. But they've always had that right. That was not a give-back. And in fact, they used those packages in a very narrow way to very narrow markets in a very fenced way I guess either they did – I don't remember – but they certainly could have, and so one piece of definitive information was that was not a giveback. That was in our preexisting deal.

Drew Borst – *Analyst, Goldman Sachs*

Okay. Let's talk a little bit about authentication. I know ESPN has had – Disney has been a supporter of authentication. At the same time, you've also – with ESPN, you've launched sort of a unique product, the ESPN3, which is sort of the over-the-top, if you will, authenticated product that has is its own per-subscriber fee. Can you think about – do you guys have a

preference between those two types of business models, between kind of launching these over-the-top channels versus authentication?

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

Well, I don't see them as – actually, Drew, I don't see them as competing. I see them as two different ways to get our programming out there on ESPN, either through, I guess what you're referring to, the WatchESPN authenticated format – which we've done a deal with Time Warner Cable and Verizon and Bright House – in which people can watch ESPN programming on their mobile devices. The premium to watching sports live is so enormous that we have really embraced what we call a best available screen strategy, which for us is an authentication strategy as well as an online streaming strategy with ESPN3. So we don't really see them as competing.

Best available screen could be your laptop, could be watching computer through your television screen, could be on your iPad or on your mobile phone, and we want to make that available to sports fans across a broad spectrum. In fact, it's not just ESPN in which we support authentication. We support authentication in general, so long as the content providers – us in this case – are being paid for that authentication. So I think that ESPN has an absolute commitment, whether it's in print, on radio, online, on television, on mobile devices, to deliver live sports to sports fans, and so we embrace all those vehicles and don't see the one competing with the other.

Drew Borst – *Analyst, Goldman Sachs*

Moving to broadcast for a second, you recently put out a target for re-trans revenue of $400 million to $500 million by fiscal '15. How do you expect that revenue to phase in over the next four years?

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

Well, obviously, as our deals come up over the next four years with the different carriers, we will be out there aggressively negotiating our re-trans fees and also negotiating our deals with affiliates as they negotiate their reverse comp deals. So it will kind of phase in as those contracts come up over the next four years, but we feel very good about our re-trans revenue. The ABC stations, the eight that we have, are number one in every one of the markets. They have a very strong position. That puts us in a very good place. And so I can't give you any more detail than that, but it will have to go lockstep with the renegotiating some of the deals that we have at year-end of, whatever, '12, '13, as they come up.

Drew Borst – *Analyst, Goldman Sachs*

And does that target also contemplate sort of the reverse compensation?

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

It does.

Drew Borst – *Analyst, Goldman Sachs*

Okay.

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

Yeah. That's what I meant by the deals that we are negotiating with affiliates to get a share of their reverse comp.

Drew Borst – *Analyst, Goldman Sachs*

Okay. Maybe touching on the film studio/consumer products, you recently made some management changes, where Bob Chapek, who was previously head of distribution at the film studio, moved over to consumer products. As part of that management change, Bob Chapek is going to continue to have responsibility for DVD distribution. So it seems like kind of a big change, moving DVDs over to consumer products. Can you talk about the thinking behind that decision?

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

Yeah, surely. First for those of you who don't know Bob, and many of you probably don't, I think Bob has been with the company for almost 20 years. He has focused in those 20 years really, first, in the home video business, and then more recently in the whole distribution window for the filmed entertainment division of the company, so from theatrical all the way through pay channels and so on. Prior to that, he worked in packaged goods and in advertising. And in his new role, he'll not only take on the licensing business, but he will take on the representation of Disney at retail. So he's not going to keep his old job, which is figuring out the distribution windows for theatrical releases, but he will represent – to the extent that there are still physical DVDs being sold at retail - he will represent the company in sort of a single voice at retail strategy.

We have many, many touch points across the divisions of our company with the retail channels – of course consumer products, but publishing, home video, console games. We have a lot of

touch points in which we, Disney, and whether that's for Marvel, whether that's for Pixar product, whether it's for other products that might come out of franchises of the company, we have a lot of touch points with retail, and we thought that we would take this opportunity to sort of reorganize around this notion that, hey, we are one company; we have similar goals and strategies in how we present ourselves at retail; we have great relationships with big retailers; and let's get that organized so that retailers – whether it's Walmart or the various others that we deal with, Toys "R" Us, Target, et cetera, et cetera – that they are basically experiencing Disney through one voice, through one organization, that will handle all of the products that we distribute through that channel.

So Bob, in addition to taking on the licensing business, will be responsible for that, which is obviously very much akin to the responsibility that he had for a big bulk of his career when the home video business was his sole responsibility.

So we're looking forward to everything that can bring us, both from the revenue side and having better relationship, getting us more shelf space, getting us combined presentations of big franchises across all the products that we distribute; as well as the potential to consolidate across all of those retail organizations that we have for each business.

Drew Borst – *Analyst, Goldman Sachs*

Yeah, so kind of take advantage of Disney's scale in a business.

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

Right.

Drew Borst – *Analyst, Goldman Sachs*

The DVD business has obviously been a little bit challenged over the past couple of years. It seems – that's interesting. Maybe, we probably should open it up now for any questions that the audience may have.

Q&A

Drew Borst – *Analyst, Goldman Sachs*

Yes, sir.

Unidentified Audience Member

Could you discuss Disney Interactive post acquisition of Playdom and new management?

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

Sure, happily. So obviously we feel – let me start all the way at the top because I get asked the question sometimes, why are you in the games business, why are you even in this business. We know that our consumers are there. If we want to be a kind of across-the-board, fully integrated entertainment company, distributing product, taking our franchises as far as they can go and where there should be, we should be in social games, we should be in console games, we should be in casual games, and so on and so forth.

Historically, I would say, for the company we probably over-focused on the console side of that business, and fully neglected the social side and somewhat neglected the casual side, which, while we were focusing on console games, was actually growing at a very rapid rate. But we see this space as one that has great growth potential, both here in the U.S. and around the world, and one that we should play in.

Since the Playdom acquisition, where we are in that business, if you look at it purely from a financial perspective, the key to that business is both on driving the revenue side as well as looking at the cost side and executing product in this business in a cheaper way and a faster way to market in a more deliberate way. So on the revenue side, we have focused our energies – and John Pleasants went through this in great detail at our Investor Conference – but focusing behind four big franchises: Marvel, something called Toy Box, and sort of a Mickey Magic and a Disney imagination that includes Club Penguin and other fantasy worlds like that.

So this is our strategy for pushing the revenue side – get out there strongly behind four big ideas across multiple sets of games. And really, I think Holy Grail here, we think, is an integrated system where you not only play Club Penguin the way you play it now, but there's a mobile version, there's an online version, there's a console version, and all of those things sort of link together, and what the status points, coins, you accumulate are transferable among not only that game but across other Disney games.

On the cost side, I think John Pleasants and Jimmy Pitaro, who runs our online side of the business, are absolutely committed to significant cost reductions in how we've run that business. It's been very siloed before. We haven't had sort of this integrated strategy, and they really see that there are efficiencies that we can find. So, clearly, we've got a lot of work to do in this business. They committed to all of you and I guess at the same time to us – or committed to us and informed all of you – that they hope to be profitable in 2013, and their path to that is very clear – focus behind four franchises and deliver the product at lower cost.

Drew Borst – *Analyst, Goldman Sachs*

Any more questions?

Unidentified Audience Member

Just wonder if you could talk a little bit about home entertainment, Blu-ray in particular. Is that an attractive business going forward? As folks move to more streaming, do you bring out the whole catalog on Blu-ray? And then the second question is around mobile. How big a business is mobile for you in general across all the properties?

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

Well, I could focus on Blu-ray, but I guess the whole home entertainment business, in the physical sense, is sort of a melting ice cube. Whether that ice cube is in the desert or elsewhere is a matter of debate, but it's definitely a melting ice cube. So I don't – I think that we are maximizing Blu-ray as not only for what it is but also sort of back-integrating and forward-integrating. Back-integrating is that we usually include a Blu-ray disc in packaging with traditional format discs, and forward-looking is that in that we also include digital downloadable discs in with the Blu-ray. So we're sort of trying to maximize what is left in that physical channel for DVDs. I think that we continue to have a better conversion rate, both because of our product and I think because we've been very creative in how we package discs.

We continue to have a better conversion rate against box office than the industry as a whole. There have been a couple of positive upticks in some of the films that have come out. But in general, clearly, this is a market that is moving over time to digital, and as aspects of the cloud for digitally-owned assets become clearer and clearer – that there will be a universal device, that you'll know where it is, that reliable companies that will be around, that the properties you buy will still be there as technology changes – as all that gets cleared up, which I think it will in the not too distant future, obviously we'll continue to push that there.

In terms of mobile, we've had some very bright moments. In Japan, our mobile business is fantastic, definitely driving it. Part of the sort of integrated digital game strategy that I was talking about a moment ago includes mobile, and if you look at the developing world, where – Bob Iger and I were in India last week, and the amount of content that can be both downloaded and interacted with on even a $50 mobile phone in the developing world is absolutely incredible. I mean it was a shock to us what you are capable of doing on sort of a very dumb version of a mobile phone. And there are 700 million of those in India alone, millions being added every month, so I think mobile clearly needs to be part of an overall strategy for us on the digital games and content side.

Drew Borst – *Analyst, Goldman Sachs*

Unfortunately, we're out of time now, but I just want to thank Jay for joining us today.

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

Thank you, appreciate it.

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

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

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

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

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

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