



The Walt Disney Company Q2 FY11
Earnings Conference Call

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Disney Speakers:

Bob Iger

President and Chief Executive Officer

Jay Rasulo

Senior Executive Vice President and Chief Financial Officer

Moderated by,

Lowell Singer

Senior Vice President, Investor Relations

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second-quarter 2011 Walt Disney Company earnings conference call. My name is Stacy and I will be your conference moderator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of the conference. (Operator Instructions). As a reminder, this conference call is being recorded for replay purposes.



I would now like to turn the presentation over to your host for today, to Mr. Lowell Singer, Senior Vice President of Investor Relations. Please proceed.

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

Okay. Thank you, and good afternoon, everyone. Welcome to The Walt Disney Company's second quarter earnings call. Our press release was issued almost an hour ago. It's now available on our website at www.Disney.com/investors. Today's call is also being webcast and the webcast will be on the website after the call. Finally, a replay and transcript of today's remarks will be available on the website as well.

Joining me in Burbank for today's call are Bob Iger, Disney's President and Chief Executive Officer, and Jay Rasulo, Senior Executive Vice President and Chief Financial Officer. Jay is going to lead off, followed by Bob, and then we'll be happy, of course, to take your questions.

So with that, let me turn the call over to Jay and we'll get started.

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

Thanks, Lowell and good afternoon, everyone. We reported Q2 earnings per share of \$0.49 cents, up \$.01 cent from last year. The underlying quality of our earnings was good but our results were particularly impacted by four items which we estimate collectively reduced operating income by approximately \$170 million dollars versus last year.

These items are, first, the impact of the very disappointing performance of *Mars Needs Moms* and the year-over-year timing difference of key Pixar DVD releases which, together, reduced results at Studio Entertainment by roughly \$90 million dollars. Second, an estimated \$23 million dollar impact on Parks & Resorts from the Easter calendar shift. Third, the impact of the devastating Japan earthquake, which we estimate reduced operating income at our parks and consumer products businesses by \$25 million dollars. And, finally, a \$34 million dollar impact on Interactive Media results from purchase accounting for the Playdom acquisition. These four items collectively reduced EPS by about \$.06 cents.

Now, I'll turn to the main drivers of our Q2 performance in our business segments. Media Networks' operating income was up 17%, driven by growth in affiliate and advertising revenue at ESPN and Disney Channels, as well as at our broadcast network and our TV stations.

At ESPN, ad revenue came in 43% above prior year. During the quarter, ESPN added three BCS college football games, including the National Championship Game. When adjusting for these, we estimate that ESPN's ad revenue was up by 23%.



In Q2, ESPN recorded lower equity income, as a result of higher programming costs at our ESPN Star Sports joint venture due to its airing of the *Cricket World Cup*.

At Broadcasting, strong results were driven by increased revenue from advertising and from retransmission fees, as well as higher sales of ABC-produced shows. Results were also helped by decreased news production costs.

ABC Network advertising revenue was up in the second quarter, helped by strong pricing in the marketplace, partially offset by lower ratings. Q2 scatter CPMs came in 41% above upfront levels. Ad revenue at our TV stations was up 6% in the second quarter.

At Studio Entertainment, operating income was impacted by the timing comparison of key DVD releases and by lower performance of our theatrical slate. As expected, home video results were affected by the difference in the international release timing between *Up*, which was released in Q2 last year, and *Toy Story 3*, which was released in most markets in Q1 this year. We estimate this timing difference impacted Q2 operating income by \$15 million dollars. As I mentioned earlier, the studio results were also impacted by the very disappointing performance of *Mars Needs Moms*, which reduced Studio operating income by more than \$70 million dollars in Q2, driven by both P&A spending on the film and an incremental impairment charge.

At the Parks and Resorts segment, operating results reflected higher costs at Disney Cruise Line and the loss of royalties resulting from the Japan earthquake. In addition, Q2 results across our parks last year included one week of the Easter holiday, whereas the holiday period this year falls entirely in Q3.

Underlying trends at our parks and resorts were solid. Domestic attendance in Q2 came in flat to prior year levels. We estimate that without the impact of the Easter timing shift, attendance at our domestic parks would have been up 2% versus prior year. Per capita guest spending rose by 6%, driven by higher pricing and lower discounting. Occupancy across our domestic hotels came in one percentage point above prior year levels at 81%. Per room spending was up 4%. At our international parks, higher results in Paris and Hong Kong were offset by the loss of royalties from Tokyo Disney Resort, which was closed for about three weeks during Q2 due to the earthquake in Japan.

At Consumer Products, improved comparable store sales at Disney Stores North America and higher licensing results drove profit growth in the quarter. Merchandise sales from franchise properties *Cars* and *Tangled* were strong in Q2. On a comparable basis, Disney-branded earned licensing revenue was up 5% year-over-year.

At Interactive Media segment, purchase accounting from the acquisition of Playdom, as expected, continues to impact results. In the quarter, we recorded \$34 million dollars in



purchase accounting charges. Segment results also reflected product development spending in social and mobile games and virtual worlds.

Overall, we delivered double-digit growth in operating income and earnings per share for the first half of the year.

Now I'd like to highlight the business trends we're seeing so far this quarter and provide some of the key swing factors that will impact our results for the remainder of the year.

At Media, ABC Network scatter pricing is running more than 35% above upfront levels. Ad sales at ESPN and at our TV stations are pacing up single-digits versus prior year. Both businesses face tough comps in Q3 since they each delivered double-digit ad revenue growth in the second half of fiscal 2010. Also, bear in mind that last year's Q3 results at ESPN reflected the benefit of the *World Cup* and a seven-game Lakers-Celtics *NBA Finals*, while TV station advertising benefitted from strong political ad spending.

You may recall that last year, ESPN reached most of its key programming commitments in the third quarter. At this time, we do not expect to reach some of these commitments until Q4 this year. We currently expect net affiliate revenue recognition related to program covenant timing to be \$228 million dollars lower in Q3 than in prior year. However, we expect Q4 net affiliate revenue recognition to be \$245 million dollars higher than in prior year. Of course, a relatively small number of programming hours could shift some revenue recognition from Q4 to Q3.

At Parks and Resorts, room reservations at our domestic resorts for Q3 are currently running two and a half percent below prior year levels, while booked room rates are running double digits ahead of prior year. The increase in pricing that we are seeing in our business is consistent with the strategy we articulated to reduce discounting.

I will also remind you that last year's Q3 Parks and Resorts' results included the benefit of a real estate transaction at Disneyland Paris, which added about \$30 million dollars to operating income, on a sales price of approximately \$60 million.

We expect the aftermath of the Japan earthquake to continue to impact our business for the remainder of the year. While it's difficult to predict consumer behavior and the pace of infrastructure improvements, we estimate several cents of earnings risk for the remainder of the year.

At our Studio segment, we are excited about our four big summer releases, starting with *Thor*, which opened domestically last Friday, *Pirates of the Caribbean 4*, coming to theaters May 20th, *Cars 2* on June 24th and *Captain America: The First Avenger*, to be released on July 22nd. The performance of these films will be key swing factors for the remainder of the year.



At the Interactive Media segment, key game titles in the second half of the year include *Cars 2* and *Lego Pirates*. Playdom purchase accounting will continue to impact segment results for the remainder of the year.

Last week, we announced to employees that we are implementing changes to our salaried pension plans. We expect these changes will reduce our pension expense by 25 to 30% versus what we would have incurred under our historic program. While the estimated cost savings are dependent on a variety of assumptions, including the discount rate, we currently estimate total savings between \$350 and \$400 million dollars over the next five years, starting in fiscal 2012.

Finally, we have continued to repurchase shares. For the fiscal year so far, we've repurchased almost 52 million shares for approximately \$2 billion.

With that, let me turn the call over to Bob.

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

Thank you, Jay, and good afternoon.

I'd like to reiterate that we are pleased with the underlying quality of our earnings this quarter and are confident in the trends we are seeing across our segments. The attendance and spending trends at our Parks and Resorts remain encouraging as do the advertising trends at our broadcast and cable networks. With the wealth of great creative properties coming in the next six months, 2011 is shaping up to deliver strong results.

As you all know, last month we broke ground on the Shanghai Disney Resort, our sixth resort and the first in mainland China. This marked a defining moment in the history of The Walt Disney Company. The Shanghai Disney Resort is our largest foreign investment and will be a critical component of our growth in China. Our Imagineers are deep into the design phase for the resort and when it opens in approximately five years, it will combine great Disney storytelling and beloved characters with authentic cultural touches tailored specifically for the people of China. In essence, it will be authentically Disney and distinctly Chinese.

At the Studio, we are extremely excited for the May 20th release of *Pirates of the Caribbean: On Stranger Tides*, the fourth film in our extremely successful, multi-billion dollar franchise. Johnny Depp reprises his iconic role this time with Penelope Cruz by his side. Just this past weekend, we celebrated the world premiere at Disneyland, home of the original attraction and the film's stars are now in Moscow for our first-ever Russian premiere of a *Pirates* film. It will also release day and date in China and most foreign markets.

On June 24th, Disney•Pixar's *Cars 2* premieres. The movie, directed by John Lasseter, will continue to drive a significant consumer products presence at the Disney Stores and major retailers, which should sustain through the holiday season. Work is also continuing on Cars Land



at Disney California Adventure, which will bring guests into the remarkable world of Radiator Springs when it opens in the summer of 2012.

This past week *Thor* opened in theaters in the U.S. and in multiple overseas markets, and its current global box office is just over \$250 million, which is a strong and important opening. This film, along with this summer's *Captain America: The First Avenger*, plus *Iron Man* and the *Hulk*, is a key component of Marvel's *Avengers* franchise. Marvel's first *Avengers* film launches next summer, and it will be the first Marvel film to be marketed and distributed by Disney.

At ABC, we are currently in the middle of screening pilots and we are excited about the quality and the variety of the shows we're seeing. This crop of pilots represents the work of a new management team, and we are hopeful these new shows will firmly anchor our primetime schedule in the years ahead. All signs are that next week's upfront will be a strong one.

Last month, Disney Channel scored yet another hit with *Lemonade Mouth*, the top original cable movie of 2011, which helped Disney Channel post its best April ever. Disney Channel's newly-branded programming block for preschoolers, Disney Junior, continues to flourish with shows like *Jake and the Never Land Pirates*, which is TV's top series with preschoolers and is pacing as Disney Channel's top preschool series of all time. Disney Channel XD continues to perform very strongly and is delivering record ratings levels in 2011, with double-digit year-over-year growth in key demographics.

ESPN continues to grow in both ratings and reach. In fact, this was ESPN's highest-rated Q2 on record, with ratings increasing by 10% driven by strong results for the BCS Bowl games and ESPN's highest-rated NBA regular season ever. With its expert coverage of the NFL, the NBA, Major League Baseball, NASCAR, golf, tennis and even cricket, ESPN has created integrated digital platforms that keep fans informed and entertained. Additionally, ESPN continues to lead the industry in its efforts to offer consumers more content in more places as evidenced by our recent launch of an authenticated ESPN real-time viewing app for Time Warner Cable, Brighthouse and Verizon subscribers. Finally, last week we announced the signing of a landmark 12-year deal with the Pac-12 to televise football, basketball and more across multiple platforms beginning in 2012. This agreement, which adds significantly to ESPN's leadership position in college sports, is a huge win for sports fans everywhere.

While the spotlight shined brightly on Shanghai this quarter, work has continued on some other important Parks & Resorts' initiatives. Crews are putting the finishing touches on Aulani, our resort and spa in Hawaii, which will welcome its first guests this August. Construction also continues on the expansion of Fantasyland at Magic Kingdom in Florida, which will more than double the size of one of Walt Disney World's most popular lands.

On the other side of the globe, shipbuilders in Papenberg, Germany continue to make progress on the Disney Fantasy, the sister ship to the Disney Dream, which will begin sailing in the spring of 2012. Disney Cruise Line also announced new 2012 itineraries that will enable us to bring the



Disney cruise experience to more guests in more places, and demand for our cruise product remains very high.

I'm also pleased to report that the Tokyo Disney Resort is now open following closure due to the March 11th earthquake and tsunami in Japan.

And following its best year ever with record attendance, Hong Kong Disneyland continues to post strong attendance numbers this year as well. The multi-year expansion effort that will add three new themed lands is running ahead of schedule, and we look forward to welcoming guests to the first of these, Toy Story Land, later this fall.

So, as you can see there is great creative momentum throughout the company and we are confident that our strategic focus on producing the best content possible will bode well for the rest of 2011. With our upcoming slate of films this summer, Disney Channel's continued creative strength and ratings growth, ESPN's ever-expanding sports offerings, new experiences at our parks and resorts, and our aggressive exploration of growth opportunities in countries like China, India and Brazil, we are well-positioned to capitalize on the encouraging business trends we're seeing to deliver favorable returns in the years ahead.

Thank you and we look forward to taking your questions.

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

So operator, we are ready for the first question.

Q&A

Operator

[Operator Instructions] Your first question comes from the line of Ben Swinburne from Morgan Stanley.

Ben Swinburne – *Analyst, Morgan Stanley*

Hi, it's Ben Swinburne. Maybe one for either of you, I wanted to ask about the parks trends, and if you'd qualitatively describe for us how you think the consumer is behaving out there? Or how they might be impacted, if at all, by gas prices, and maybe the Wizarding World in Orlando, or if you think the attendance trends you saw in this quarter and also the forward-lookings are generally in line with your expectations?



I know you're in the process of unwinding prior-year discounts and have to work through that, but I'm just curious if you've seen any kind of bumps or slowdown in the overall consumer.

And then just one cleanup question. Jay, on the \$34 million of Playdom-related, did you say those were charges as in one-time? Or is that a recurring amortization number? Thanks.

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

It's the latter, Ben, and you can expect to see similar numbers in the coming quarters.

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

On the parks trend side, Ben, you know, we work really hard to wean the consumer of the discount. And it worked in the second quarter, where we had slightly improved, if you factor out Easter attendance and occupancy rates, and better pricing, which was really important.

The goal remains the same for the third quarter, where as Jay mentioned we're running very slightly behind last year this time, bookings-wise, about 2.5%, but our pricing is up in the mid-single digits. And we feel that's basically in line with where we would like to be -- sorry, pricing is up in the double digits right now for the hotels that are reserved on the books.

And so with that in mind, we think that the consumer is willing to pay higher prices for good product, that's a good thing. They're still booking late, though. And I think that's interesting, because I think there's still an expectation in the marketplace that there's going to be some discounting. And that's probably why we're seeing the trends that we're seeing.

We've said this a few times -- we don't really see much of a specific or direct impact from higher gasoline prices, at least that's never been the case. Of course, we don't know what happens when pricing gets as high as it could get, but so far, we don't believe that's a factor. And we're going to continue to watch our pricing carefully with an eye toward not driving for volume at the expense of pricing -- continue to keep our pricing higher, so that we can send the signal that we need to send to the consumer that the economy is stronger than it was a few years ago, and that discounting that we obviously had to implement during the downturn is something of the past.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you.



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

Thanks, Ben. Operator, next question, please.

Operator

Michael Nathanson, Nomura.

Michael Nathanson – *Analyst, Nomura*

We have two. First one being -- Jay, when you look at your domestic parks business, and you just take away for a bit the Tokyo impact and the ships impact, what is the core operating margin improvement you're seeing? So, this quarter, a lot of different noise. We wondered, are you seeing improved margins apples-to-apples within the domestic business? And what type of cost growth is there there?

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

Michael, if you account for the Easter shift, we did see on domestic parks a moderate margin improvement for Q2.

Michael Nathanson – *Analyst, Nomura*

Okay. And then, Bob, can I just ask you one about interactive -- I know you had the Playdom accounting charges, but we had assumed that interactive would start getting towards breakeven. I wondered, when you look at this quarter and for the rest of the year, will we see improvements from the years over, ex the Playdom charges of in profitability in interactive?

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

Well, first of all, we didn't specify that we'd get toward breakeven. I think we talked at the investor conference about profitability in 2013. And it's a work in progress.

What we've decided to do at Playdom, as it had somewhat of an impact, at least on our revenue this year. And that is that when we looked at the marketplace specifically in social games, we determined that there was a great need to improve the quality of the games. So the games that worked initially, which are relatively simple, were not going to continue to work at that level. And given not just what we believe the consumer wanted but what the competition was doing, we thought it would be wise to improve the quality of the games that we were going to release.



So we took a five-month hiatus, which had not been planned, from releasing games, to build a higher-quality game, and then also to re-stack our technical capabilities to deal with volume or to deal with scale, which we were hoping to achieve. And the results so far have been very good.

Playdom released its first real hit game called *Gardens of Time*, which is a Top 10 -- it may even be a Top 7 game right now on Facebook. It's doing extremely well in some of the typical measurements, which are MAUs and DAUs. But what's really interesting is that it's monetizing very well, which is another one of our goals.

While we believe that volume consumption, measured at least by the standards that have been created in MAUs and DAUS is important, it's more important to create games that are more monetizeable, and that's our goal. So we've got a number of games in the pipeline, some that will be released in '11; more in '12; some that are new or made from whole cloth, not derivative; some that are made from other products, like ESPN-branded, Marvel-branded, Disney-branded. And we feel good about the direction of Playdom, particularly with this new hit game in the marketplace.

On the Disney.com side, we are hopeful to launch a complete redesign of that site in the coming months. We're not making any predictions in terms of breaking even or increasing the revenue at this point. We're mostly trying to get it right in terms of navigation, user interface, universal registration; and then, obviously, opportunities by creating greater entertainment to better monetize, mostly with advertising.

Michael Nathanson – *Analyst, Nomura*

Okay. Thank you.

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

Michael, thanks. Operator, next question, please.

Operator

Doug Mitchelson, Deutsche Bank.

Doug Mitchelson – *Analyst, Deutsche Bank*

Thanks. If I could just do a follow-up on Ben's question and then a question on the Olympics. For the rooms on the books down 2.5% for the June quarter, I think you get a one extra week



benefit from Spring Break. So I just wanted to understand the confidence in the underlying trends. Is the potential park attendance doing better than the room bookings?

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

Yes, Doug, in fact the Spring Break is so heavily booked that it doesn't really affect the rooms' totals as much as it does local attendance and spending. So you don't see a big difference in the Easter swing that we talk about week-to-week in terms of occupancy.

I would say that, you know, we're partially into the quarter. The timing of some of the programs that we had and when we announced them, last year versus this year, has more to do with what I would consider a very mild and not easy to read as to where the quarter will wind up, changing the bookings versus last year.

But as Bob mentioned and I did as well, the room rates, I think -- there's a definitive signal there that our decrease in discounting and the room rate price increases that we took are definitely sticking. And what we've got on the books is significantly up to the tune of double digits from where we were in the prior year.

Doug Mitchelson – *Analyst, Deutsche Bank*

All right, thanks for that. And for Bob, I'm just curious on strategy -- given ESPN seems like it's at the point where it can't get any more affiliate negotiating leverage than it already has; it has a ridiculous amount of leverage already. So when you're thinking about taking on new sports properties like Olympics bids, which are around the corner, are you at the point where you start to look at that stuff on an ad-supported bases, on a pure ad-supported basis, to underwrite them? Isn't there a disincentive to go after new properties like the Olympics, at this point?

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

Well, I will comment on your "ridiculous amount of leverage" description. What ESPN has tried to do is, obviously, create a must-have product for consumers, and thus, a must-have product for distributors who need to keep their consumers happy. And I think they've done a brilliant job of buying sports rights and turning the rights into both profitability and significant brand building, which I think has led to the position that I just described, as well as a bit of a competitive advantage.

Between now and when the Olympics rights that are being bid out occur, ESPN has a number of rather large negotiations with distributors to engage in. And so, there are definitely opportunities for ESPN to address its subscription revenue based on the general program offering that it has, which is both a collection of events, including the Pac 12 or sports that's already bought, and possibly sports that it may buy.



So I think it would be wrong to assume that the purchase of an Olympics should only be looked at as a possible generator of incremental advertising revenue. It would definitely generate incremental subscription revenue.

I also want to say that, while ESPN certainly intends to take a look at the Olympics seriously, ESPN has also demonstrated a great ability to walk away from opportunities that they didn't believe made sense from a bottom-line perspective. And they've also demonstrated an ability to divest certain rights that they feel weren't driving the value that other rights could have.

So it's going to continue to be a balance. They're mindful of their profitability. They're mindful of their margins. They're certainly mindful of maintaining a great competitive advantage, and essentially, the must-have status that they've managed to achieve, which is something, obviously, that's incredibly important for the company, overall.

Doug Mitchelson – Analyst, Deutsche Bank

Thank you very much.

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

Thanks, Doug. Operator, next question, please.

Operator

James Mitchell, Goldman Sachs.

James Mitchell – Analyst, Goldman Sachs

Thank you. I had a couple of questions on ESPN specifically. One was it looked like margins dipped a little bit on a reported basis, but increased if I ex out the *Cricket World Cup*, suppressing the equity and income of investees for CableNet. Is that correct?

And then second, I think you said ESPN advertising revenue is tracking up single digits in the third quarter. Now a year ago, I think you mentioned that was a 14 point benefit to ESPN ad revenue from the *World Cup* and the two extra NBA games. So is it fair to take the single digits guidance, add 14 points, and then infer a kind of underlying ad growth to ESPN in the third quarter? Thank you.



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

Let me take your first question first, James. Your analysis as it stands, I mean, we give the cable margin number, and if you are correct, in terms of backing out -- or the impact of the *Cricket World Cup* on those margins, the equity -- the ESS equity number affecting the margins in the downdraft; but they are plus one otherwise.

And your second question, I want to just highlight the fact that, remember, we are now lapping quarters, in which ESPN had incredibly strong advertising growth in the prior year. So we were up double digits, I think 13% last time around. And this time around, we basically are seeing what the impact of that -- I gave you the wrong number, it was 31% last time -- and we're basically seeing the impact of a lapping of those incredible numbers. And that's where we're reporting our single-digit up.

James Mitchell – *Analyst, Goldman Sachs*

And the 31% was 17% ex *World Cup* and the two extra NBA games, is that correct?

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

Correct. Correct.

James Mitchell – *Analyst, Goldman Sachs*

Okay. Thank you.

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

Thanks, James. Operator, next question, please.

Operator

Anthony DiClemente, Barclays.

Anthony DiClemente – *Analyst, Barclays Capital*

First for Jay, on parks. Thanks for splitting out the impacts of Easter and Japan. I was just wondering if you had the contribution to revenue from the Disney Dream in the quarter?



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

We are not going to break out the specific revenue, but Bob mentioned in his remarks how pleased we are with the booking of this ship. And in fact, I would venture to say if you tried to get a state room between now and the end of the fiscal year, you'll have better contacts than I do.

Anthony DiClemente – *Analyst, Barclays Capital*

Do you have the launch costs? Jay, can you split out the launch costs, please?

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

I would call -- you know, needless to say in the additional costs that go into Cruise line, there is the straight-up operating costs for the period that we were taking in revenue. And also the marketing and launch costs, which I would call the latter at about \$15 million -- between \$15 million and \$20 million.

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

And to the point Jay made about bookings, our three-ship fleet is over 95% booked for the current quarter; 86% booked for the fourth quarter; and believe it or not, almost 60% booked for Q1, which is pretty interesting, given the fact that the new ship has 4,000 guests on it, a considerable number of state rooms. So we added a significant amount of inventory, and bookings are very strong.

Anthony DiClemente – *Analyst, Barclays Capital*

Thanks. Thanks for those. Very helpful. And then, Bob, just a general question about the Marvel acquisition. At the time of the deal, I think you talked about one of the bigger opportunities being in terms of upside of consumer products, benefits to television. And then this summer, we're seeing the integration of the film studio.

I just wonder if you can just talk about Marvel -- talk about where you see, in kind of most of the upside or downside versus your expectations upon the acquisition. And importantly, if you see any other potential acquisitions like Marvel out there, in terms of IP, that you can lend to the Disney global infrastructure? Thanks.



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

Well, everything about Marvel for us, as we looked at it, was designed to deliver long-term value. And we knew that it was going to take time to get at some of that value, because there are a number of deals in place, both on the distribution front and on the licensing front, that had to essentially wind down or be changed before we fully took advantage of what is, clearly, a treasure trove of value, both on the character side but also on the executive front.

We're pleased with what we see as the potential for Marvel, particularly as we look ahead. We ended up negotiating with Paramount, an earlier exit from their distribution deal on the studio front, which gives us the ability to distribute *The Avengers* next year. And I'd say that is our first really big initiative since the acquisition. Because not only will we distribute it and market it, but we know that Marvel is working really hard with the cooperation of a number of entities at Disney to turn *The Avengers* into a true franchise.

The release of *Thor* was a critical part of that, because *Thor* is a component of *The Avengers*. And we feel good about the release of that film this year, as we feel optimistic about *Captain America* coming up. And when you add to that *Iron Man* and *Hulk*, we think we're going to have a big franchise on our hands. And that's kind of the focus at this point.

We're also working on creating a Marvel television block for the Disney XD platform. And there's a show on the air; there's one in development. There's also development activity at ABC Family and at ABC. And of course, there's a consumer products side, where we're well integrated in international markets, and starting to approach licensing in a much more coordinated fashion -- less so in the United States. But Marvel has done a great job at its licensing endeavors in the US. And it's sort of an, "if it ain't broke, don't fix it" approach in that regard.

But we feel great about Marvel. And we feel really good about the quality of the film that they made that was released this past weekend, *Thor*.

Anthony DiClemente – *Analyst, Barclays Capital*

Okay. Thanks.

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

Thanks, Anthony. Operator, next question, please.

Operator

Doug Creutz, Cowen and Company.



Doug Creutz – Analyst, Cowen & Co

Hi, thank you. I was wondering if you'd comment on what the impact could be, if any, to your ESPN affiliate revenue, if there are extended work stoppages for the NFL and/or the NBA? Thank you.

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

There are so many variables in terms of potential work stoppage. It could be one game; it could be an entire season as a for-instance. And so it would be wrong for us to predict. Plus, the nature of our agreements with the distributors is also confidential, so we're not going to predict there.

We can only say that if there is a work stoppage of even significant length, the impact on our bottom line should be negligible. That, in part, comes from a belief at ESPN that, if there is a loss of NFL games, there will be a mad dash for male demos and other sports, notably college football, where ESPN has almost 300 games across its multiple platforms, including ABC, and the ability to add inventory to those games by changing formats and drive substantially increased CPM rates, which you might even see in the ESPN upfront, that reflects a concern by advertisers of possible work stoppage and their inability through the NFL to get access to male demos.

Doug Creutz – Analyst, Cowen & Co

All right. Thank you.

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

Thanks, Doug. Operator, next question, please.

Operator

Richard Greenfield, BTIG.

Rich Greenfield – Analyst, BTIG

Hi. Just a kind of a high-level question for Bob. You led this quarter with a financial review, which I think in 16 years, I've never heard Disney actually do. And was just curious kind of the thought process behind leading off with financials. And should we take any meaning out of the change in how you thought about laying out the earnings call?



And then specifically on Playdom, I think this initiative really surprises people. You put up a number that wasn't terrible last quarter for Interactive Media. This quarter, you're actually citing a pretty big number for purchase price that wasn't broken out last quarter; yet, I think you owned it for the whole quarter.

So curious kind of why the disclosure now versus last quarter? And the share count also didn't go down, despite the fact that you bought back a ton of stock. Were there options related to Playdom that also came into play that impacted that?

Just curious, as I think there's a lot of concern about the interactive side and why you're bothering with this piece of the business at all. So maybe if you just kind of can help us understand why you're doing this going forward, that would be great. Thanks.

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

Okay. Rich, a lot of Kremlinology there on the order of our comments today. I would be surprised if it's been 16 years. I think we did it differently at times when Michael was involved too.

We thought it would be appropriate for Jay to go first, because we wanted to address what were in excess of \$170 million in factors that led to a disparity between where the Street thought we would be and where we were. And we thought by breaking those down early, which I also did on CNBC, after we released the earnings and before this call, would be a wise thing to do to sort of get that out in the open as quickly as possible. It's no other signal in terms of anything to do with the quality of our earnings or anything that would have a long-term impact.

On Playdom, we had a \$34 million accounting charge in the last quarter. As to why that wasn't broken down, Jay/Lowell, I think we just didn't consider it to be particularly material or it wasn't a driver of the quarter, which as you recall, was substantially above where the Street thought we would be and it just wasn't an issue. But because there was a collection of factors this time around, we thought it would be smart.

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

Well, we also, even though there was, in fact, a bigger miss in last year's -- in last quarter's earnings in the opposite direction, we didn't feel the need to describe what factors might not have been accounted for by the analysts -- one being the Playdom accounting, which you guys would actually have no idea about, but decided, as there is a disparity this time around, in the opposite direction, we would point out one of the potential reasons for that.



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

You asked a couple of other questions, one I think had to do with option exercises?

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

Number of shares outstanding.

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

I think we had a number of -- we had probably -- well, not probably, we had a significant number of options exercised because the stock price ran up to in excess of \$44 a share. I think that's probably what you're seeing in terms of dilution in the number of...

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

Not specifically related to the Playdom acquisition.

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

Correct. Was there another question related to Playdom, Rich?

Rich Greenfield – *Analyst, BTIG*

Just, I think, the overall -- looking at people's reaction, people are just kind of shocked at the size of the Interactive Media losses. And so there's a lot of question, like why does Disney need to be in this business versus just licensing it, licensing its content to the Zyngas of the world? Like, why is it so important to you?

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

Well, we've approached games in kind of a blended way. On the console side, we've licensed them, we've built our own. As you know, we've gotten more conservative on that side about building our own, because we thought the risk was substantial.

We're looking at the social media space today, particularly games. And believe that there's an opportunity to leverage current IP or create new IP in a space that we think is still in its infancy, still going through a bit of a shakedown. But we thought that it would be a wise bet on a new technology platform, earlier than maybe when we were betting our resources on the console



space. So the opportunity for growth on the social game side, at least at this point of our entry, is probably greater than it had been when we entered the space on the console side.

I guess the same would be true on the mobile side. We just feel that controlling our destiny and making some smart bets that have potentially greater upside, albeit bearing some more risk, would be the right thing for us to do.

Rich Greenfield – *Analyst, BTIG*

Thanks.

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

Thanks, Rich. Operator, next question, please.

Operator

John Janedis, UBS.

John Janedis – *Analyst, UBS*

I have two quick questions. First, deeper into the parks, how different are the trends between value moderate and luxury? I'm trying to maybe get a better sense of how broad the strength of the consumer looks across the categories. And then I've got a follow-up. Thanks.

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

The typical trend in bookings is that, interestingly, the earliest things booked are usually at the polar opposites. The highest end rooms for those who want to be, if you will, the closest to the magic, and then value-related guests who know they are going to book in an economical way and want to be sure that they get in. And it tends to close towards the middle.

Some of that is directed by us. We actually start to trade people up in rooms when the value segment starts to fill, because we -- obviously, the volume is of great strategic importance. And secondly, the trend -- and we don't -- the general trends, and I don't think we've seen anything remarkably different this time around.



John Janedis – *Analyst, UBS*

Okay. Thanks. And then just on the third quarter, can you talk about what you're seeing for 3Q options and to what extent you're seeing more caution from the auto, CBG, or food categories? Thanks.

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

Option exercise or option pickups have been particularly strong; have been all year. Extremely strong in the second quarter, continue to be very strong in the third quarter. Automotives have been quite strong, certainly for ESPN. There's obviously a little bit of issue or hesitation on the Japanese side; but generally speaking, it's been a strong category, particularly for ESPN, as has telecoms and technology and packaged goods.

John Janedis – *Analyst, UBS*

Thank you.

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

Thanks, John. Operator, next question please.

Operator

Spencer Wang, Credit Suisse.

Spencer Wang – *Analyst, Credit Suisse*

Two questions. First, to go back to the park margins -- sorry to beat a dead horse on this -- but Jay, you gave us, I think, a \$23 million operating income impact from the Easter shift. I was wondering if you could just give us a rough approximation for the revenue impact?

And then also were fuel costs -- could you quantify the fuel costs perhaps impact for Cruise lines? I know sometimes you guys are hedged. So, I didn't know if that was material.

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

Yes. Let me take your second question first. Because of the volatility of the market, we are not fully hedged either on our theme park operations or cruise ship operations for fuel. But we are hedged to the tune of one-third to one-half of our fuel usage. I will only say that fuel cost



increases were not a driver for the quarter. And I don't want to give you the specific number, but suffice to say it was de minimis.

Revenue on the Easter shift is about \$27 million dollars against \$23 million in profit.

Spencer Wang – *Analyst, Credit Suisse*

Great. And then maybe for Bob, I was just wondering -- it seems like the TV station ad growth seems to be decelerating, and that's in contrast to what seems to be very strong national TV ad market. So I was wondering if you could just talk about the divergence you're seeing there? Is that just purely a function of the political comparisons for local or perhaps auto at the local level or something else? Thank you.

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

Well, if you take the political out in the second quarter, the stations were 9% above where they were last year. Now, where in the third quarter and then again in the fourth quarter, we're going to be lapping what was an unbelievably strong second half of the year last year with political spending. So your comps are going to get even more difficult.

In general, pacsings at our stations have been relatively strong. We continue to have industry-leading stations in most of the markets that we operate in. I'd say the back half of -- or the third quarter might be slightly softer than the second quarter. Part of that has to do with what's going on with Japanese automotives.

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

Spencer, just a little detail on the political. Last year's Q3 and Q4 were a little less than \$55 million of political advertising combined.

Spencer Wang – *Analyst, Credit Suisse*

Great. Thank you very much.

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

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



Operator

David Miller, Caris & Company.

David Miller – Analyst, Caris and Company

Hey guys. Jay, just one quick question for you. Should we infer from your prepared comments vis-a-vis the studio and *Mars Needs Moms*, that the size of the *Mars Needs Moms* write-down was \$90 million? Would you be willing to quantify for us? Or are you even allowed to say?

And then, Bob, I want to ask you a question that I really never got to ask you during the Analyst Day back in mid-February, and that is, where do you see the strategic significance or what's your strategic rationale for owning the equity interest in Hulu that you do at this time?

It seems to me that dating back to December 8 where you made that announcement vis-a-vis Netflix, the selling of some of that ABC Family content, the Disney Channel content, for roughly \$100,000 an episode to Netflix, it seemed like you were saying -- at least rhetorically -- that you kind of favor Netflix as a streaming partner over Hulu, which is somewhat ironic, I think you would admit, just given your equity interest in Hulu. So with that, where do you -- what's your priority for Hulu at this time, if at all? Thanks very much.

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

Let me take your question first. I'm going to reiterate what I said about the second quarter. The P&A spending of the \$70 million related to the studio, the \$50 million of it was more in the P&A costs to launch and market *Mars Needs Moms*, and the remainder being incremental impairment. But I'm not going to go back and talk about what we impaired prior on the IMD write-down.

David Miller – Analyst, Caris and Company

Okay.

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

And regarding Hulu, we haven't lost interest in Hulu. And the deal that was done with Netflix was not in any way a signal of such. We got involved in Hulu because we thought it would be important to help support a new platform that we thought contributed nicely to the company, not just as an equity partner but as an owner of IP. And we continue to be supportive of what Hulu is trying to accomplish.



We never believed that Hulu would end up, either through our contractual arrangement with Hulu or on a de facto basis due to our ownership, in an exclusive position as a distributor of the company, except where we specify that Hulu would have certain exclusive rights.

We continue to look opportunistically at all of the new platforms that are entering the space. We know that between Amazon and YouTube, and who knows who else is going to crop up, that it's a world where the owner of IP has substantially expanded opportunities to monetize their content. And we don't intend to let a platform, even one that we own, necessarily get in the way of our ability to do that. We don't think that was right.

That said, we believe in Hulu and what it's trying to accomplish, and think that they've done a really good job of building a very viable platform for consumers and a viable platform for distributors.

David Miller – *Analyst, Caris and Company*

Okay. Thank you very much.

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

Thanks, David. Operator, next question, please.

Operator

David Bank, RBC Capital Markets.

David Bank – *Analyst, RBC Capital*

Two quick questions. The first is, Bob, historically, I've heard you say that the greatest strategic value to ownership at ABC is its use as sort of a first window to create content that you own and monetize it sort of globally across lots of different platforms. I think right now, the greatest opportunity to exploit content is probably on non-serialized dramas and sitcoms.

How do you feel about how you've been doing with that over the last couple of years? And what's your outlook to fully exploit the ABC platform there?

And second, real quickly, can you guys talk about what the timing of the compensation from Netflix will look like? Is it upon delivery of content? Is it over the life of the contract? Thanks very much.



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

The housekeeping question, yes. The payments for Netflix are along the delivery of the products for broadcasts.

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

On your question regarding ABC, in particular, owned IP, I meant what I said, clearly, that one of the core strategic values of ABC is as a platform to support the investment in intellectual property, mostly scripted, that is now leverageable in more ways than we've ever seen before, particularly when you think of the global opportunities as well as the new digital platform opportunities. There's other strategic value to ABC.

In terms of our ownership of our IP and our success, we clearly had a phenomenal run with *Lost* and *Desperate Housewives* and *Grey's Anatomy*, to name a few. We've had some successes since then, and certainly, *Castle* is one of those. And there's some others as well, but clearly, our successes these last few years are not as great as the successes that we saw some -- whenever it was, five, six years ago.

I'm in the middle of so-called pilot season with the ABC folks, screened all their product, and I've seen a fairly wide range of quality shows both owned and licensed. I'm encouraged by what I've seen in both fronts. I'm hopeful that ABC Studios is going to contribute not only to ABC's success in terms of its primetime network schedule, but to its future bottom-line because of the ownership of IP.

There's some really strong shows from the studio right now. And since no decisions have been made yet by ABC about their schedule, it wouldn't be appropriate for me to say anything more than the enthusiasm that I just expressed -- and optimism.

David Bank – *Analyst, RBC Capital*

Thank you.

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

David, thanks. Operator, we have time for one more question.

Operator

Tuna Amobi, Standard & Poor's Equity Group.



Tuna Amobi – Analyst, Standard & Poor's

Thanks a lot for squeezing me in. So my question is on the DVD market. Given the latest data points, it seemed like they fell through the segment actually, falling off a cliff there.

So, to what extent -- I know you guys have said that sell-through actually performs relatively better for you, given the nature of your titles, so I wanted to get a sense how much this is a factor in your quarterly results? I know there was some difficult comparisons, but beyond that, any commentary in terms of how your titles might actually be performing, would be helpful. I also saw that you called out Blu-ray pricing, which you haven't done in a while. So if you can provide any color as to how your Blu-ray titles are performing vis-a-vis the standard DVD, it would be helpful. Thank you.

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

Tuna, on your first question vis-a-vis how this affected the quarter, and then I'll turn the rest of it over to Bob. The major driver and the number of units sold is the timing issue that I spoke about in my prepared remarks, where, in Q2 of last year, we released *Up* in most international markets. And this year time around, in Q1, *Toy Story* was released in Q1. So that was the majority of the driver in terms of what you saw affecting our quarter.

We also, in prior-year, re-released *Toy Story 1* and *2* in anticipation of the theatrical release of *Toy Story 3*, and had that out in the market, which had an impact on the quarter as well.

In terms of what we see in the future, I'll turn it over to Bob, but we've seen very good results for *Tangled*. And our conversion, while, of course, it's impossible for us to avoid the overall secular decline in DVD sales, our conversion still seems to be holding on the right titles for sell-through.

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

By our estimates, our title conversion has exceeded other studios for eight of the last 10 quarters. And we exceeded the conversion rate for the other studios in Q2 that we just reported, nicely, by about 25%, actually. And that was primarily because of *Tangled*, which did very well from a conversion rate perspective.

We continue to believe that this is a business that is undergoing secular change. We've been saying that probably for two or three years. We continue to believe that's the case. We believe, though, that our titles tend to be titles that people would prefer to own than to rent. And that's because their kids watch them so many times.



That doesn't mean that every one of our titles works. We, at times, make films that don't convert as well because they're not considered a film that a family must own, or they don't convert as well because they're not very good films. And we've certainly had our share of those. When we have a decent Disney title, though, that is aimed at essentially the entire family audience; our conversion rates are really stellar. And that was the case with *Tangled*.

As to Blu-ray, Tuna, I think we continue to see encouraging results, where Blu-ray continues to creep up in terms of percent of total sales, as does the multi-format concept that we're in the marketplace with, with the downloadable file and, ultimately, what I'll call the streamable file. And we're encouraged by the buy rates on those as well.

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

Very helpful. Just a quick clarification on the debt situation. So, you have about \$4 billion of debt due in next year. You talked about your leverage; your disciplined financial management. So I'm just wondering here, Jay, what you're thinking -- should we expect that that's going to be refinanced? Or you're actually going to pay that down substantially, in which case that creates even more room for sizable capacity? Any thoughts would be helpful. Thanks.

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

You know, we're very happy with the strategic positioning of our balance sheet. We like where we are. We don't see any fundamental changes in terms of vast reduction in our debt or for a no-reason increase in our debt. So, I wouldn't read too much into what you see between the shift between long-term and current.

You probably know, we just re-upped our long-standing -- second half of our long-standing facility, and are very happy with the pricing on it. And I just, Tuna, I just wouldn't look too much into the shift in accounts between debt categories.

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

Thanks a lot.

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

Thank you, Tuna. Thanks again, everyone, for joining us today. Note that a reconciliation of non-GAAP measures that were referred to on this call to equivalent GAAP measures can be found on our Investor Relations website.



Let me also remind you that certain statements on this call may constitute forward-looking statements under the securities laws. We make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them, and we do not undertake any obligation to update these statements. Forward-looking statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results expressed or implied in light of a variety of factors, including factors contained in our Annual Report on Form 10-K and our other filings with the Securities and Exchange Commission.

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

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Forward-Looking Statements:

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

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

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

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

Additional factors are set forth in the Company’s Annual Report on Form 10-K for the year ended October 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.