



## **Q3 FY09 Earnings Conference Call**

**JULY 30, 2009**

**Disney Speakers:**

**Bob Iger**

*President and Chief Executive Officer*

**Tom Staggs**

*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 Walt Disney third quarter 2009 earnings conference call. (Operator Instructions). I would now like to turn the presentation over to your host for today's conference, Mr. Lowell Singer, Senior Vice President of Investor Relations for The Walt Disney Company.



---

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

Thanks, Michelle. Good afternoon, everyone, and welcome to The Walt Disney Company's third quarter 2009 earnings call. Our press release was issued a few minutes ago. It's now available on our website. Today's call is also being webcast and the webcast will also be available on our website, which is [www.Disney.com/Investors](http://www.Disney.com/Investors). After the call, a replay and a transcript of today's remarks will be available on our website.

Joining me in Burbank today are Bob Iger, Disney's President and Chief Executive Officer, and Tom Staggs, Senior Executive Vice President and Chief Financial Officer.

Bob and Tom will lead off with brief comments and then we will happily take all of your questions. So with that, let me turn the call over to Bob and we'll get started.

---

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

Thank you, Lowell, and good afternoon.

While the challenging global economy impacted our performance in the quarter, we remain encouraged by the relative strength of our businesses. The Disney brand continues to differentiate us in the global marketplace. Our business strategy, with its emphasis on creativity, technology and international expansion to grow shareholder value, is working. And we've proven our commitment to making our operations more efficient while preserving quality. We do see signs of economic stabilization, but the pace and strength of recovery remain uncertain and we are managing accordingly.

At our movie studio, *Up* is an artistic triumph and a big commercial success around the world, with many important international markets yet to open. And, we are very enthusiastic about our upcoming animated films *The Princess and the Frog* and *Toy Story 3*. Like *Up*, these films embody the strengths of classic Disney movies – solid storytelling, memorable characters, wonderful artistry and heartfelt emotion. And on the live action front, Disney's *A Christmas Carol*, *Alice in Wonderland* and *Prince of Persia* are shaping up to be amazing movies by visionary filmmakers that display great creativity with cutting-edge technology.

Our media networks also performed well during the quarter despite the tough economic environment. ESPN maintained its strong appeal across multiple platforms, solidifying its status as the number one media destination for sports fans. And Disney Channel delivered impressive ratings growth during the quarter and continues to find and develop new talent and creative franchises that benefit many of our businesses.



We are also very excited by ABC's fall schedule, with drama *Flash Forward* and comedy *Modern Family* already winning critical acclaim and potentially adding to our slate of proven hits like *Dancing with the Stars*, *Desperate Housewives*, *Grey's Anatomy* and *Lost*, which enters its sixth and final cliffhanger of a season. Although it has yet to conclude, we are comfortable with how this year's advertising upfront is playing out. And I'll let Tom fill in the details.

Our parks and resorts have clearly been impacted by the weak economy. We've sought to sustain attendance through a number of promotions that offer great value to families and we've sought to reduce costs while continuing to offer an exceptional guest experience. And over three million people have signed up to enjoy their birthday at our parks through the "What Will You Celebrate?" campaign.

I'm proud of what we've been able to do - the strong levels of attendance and guest satisfaction at our parks during this period underscore the tremendous affinity customers and consumers have for Disney.

Throughout this period, we've been mindful of the need to invest in our future while sticking to the strategic priorities we've followed over the last three years. I'm pleased to say we've concluded an agreement to expand Hong Kong Disneyland, adding unique and compelling attractions that we believe will draw more visitors and keep them staying longer. Work is also well underway on the expansion of Disney's California Adventure, on our two new cruise ships and on our Hawaiian resort.

We are also pursuing new opportunities. After a successful test in Chicago, ESPN is aggressively expanding local coverage to serve sports fans in several major cities, including New York, Los Angeles and Dallas. In Europe, ESPN has substantially enhanced its profile by purchasing rights to English and Scottish Premier League football matches.

Our opportunity to grow obviously extends to online platforms. We have ample evidence from both traditional and new media that people are willing to pay for quality, to pay for choice and to pay for convenience, and they are willing to pay for what they perceive as value. We are developing services that meet these criteria using the amazing range of entertainment content we've created over the years.

We will continue to look for ways to substantially grow our businesses and to build long-term shareholder value even as we manage through this downturn. And any investment we make must promote our brand strategy, add to our offerings of high-quality content and experiences and be relevant across technological platforms, as well as geographical and cultural boundaries.



It's a challenging time, marked by rapid technological change and economic dislocation, but I like the way we are positioned and I like the opportunities it presents to companies like Disney that have a clear strategic focus, that embrace innovation and aren't afraid of change.

And with that, I'll turn things over to Tom.

---

**Tom Staggs** – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

Thanks, Bob and good afternoon everyone.

Before we turn to your questions, I'll discuss the key factors that drove last quarter's results and some of the trends in our businesses.

Operating results at the Studio were off considerably this quarter. Home video sales were down, as this year's new releases did not match those in last year's Q3, which included *National Treasure 2* and *Enchanted*. We also recognized lower net revenue per unit in home video this quarter driven largely by shifts in our product line-up and distribution channel mix. Across the home video industry this year, transactions appear to be down modestly due to lower sell-through volume, partially offset by an increase in rental and VOD transactions. Our TV distribution revenue for Q3 declined in the face of a relatively stronger slate of titles last year. At the same time, we are extremely pleased with the theatrical performance of *Up* and *The Proposal*.

At our Consumer Products segment, the economy continues to impact our licensing and Disney store results. The difficult environment, coupled with very tough comparisons in our tween properties, *High School Musical* and *Hannah Montana*, resulted in Q3 earned licensing royalties being down by approximately 14% vs. the prior year. Our results at Disney Stores North America reflected a full quarter of operations compared to the prior Q3, which only included 2 months of ownership.

At Interactive Media, revenues were somewhat lower due to the difficult comparison to the *Narnia* video game last year, but lower marketing and product development costs helped lead to better results for the quarter.

We noted last quarter that we were seeing signs of stabilization in the ad market and that continues to be the case, as reflected in our Q3 results at Media Networks.

The local ad market remains soft, resulting in a 26% decline at our TV stations in Q3, which is consistent with the trends we saw last quarter. Ad sales at the ABC Network were down by mid single-digit percentage points compared to prior year, driven in part by lower ratings. As anticipated, programming and production costs at ABC were up



versus last year's Q3 due to the timing of pilot development write-offs and more scripted programming in the current year given last year's writers' strike. These higher costs were partially offset by increased international sales of our shows.

The timing of affiliate revenue recognition at ESPN was a key driver of our results at Cable Networks. Revenue recognition for a portion of our affiliate fees is dependent on when we fulfill covenants related to the quantity of live sports programming. Last year, we achieved certain programming commitment levels during our third fiscal quarter. This year, we reached those levels early in the fourth quarter. As a result, we had an effective year-over-year increase in net affiliate revenue deferrals for Q3 of \$116 million. We will recognize all previously deferred revenues for the fiscal year by the end of Q4.

Excluding this deferral, our cable networks continued to perform relatively well this quarter as higher affiliate rates and subscriber growth at ESPN, the Disney Channel, and ABC Family would more than offset lower advertising revenue. ESPN's ad sales trends were generally consistent with what we saw in the first half of our year, due to continued softness in several categories, particularly automotive and financial services. Ad revenue was impacted somewhat by our airing 4 fewer NBA playoff games in Q3 this year compared to last year. On a comparable basis, ESPN's Q3 ad revenues were just under 10% below last year.

As Bob noted, we continue to invest in ESPN on a local, national and international level. We have new rights deals starting in Q4 for college football and for the United States Tennis Open. Additionally, our new deals for Premier League rights in both England and Scotland will commence in Q4, which betters our position in this important market, but also will impact our costs as we build that business.

While advertising trends appear to have stabilized across our media networks, ad buyers continue to make decisions and place orders closer to the date their ads run.

As Bob mentioned, we're still in the midst of the upfront process and we're comfortable with the rates ABC has been achieving. At the same time, we anticipate selling less of our inventory in this year's upfront than in recent years. Given the strength of our programming and the fact that some major advertisers remain on the sidelines in this upfront, we expect to be well positioned for the scatter market.

At Parks and Resorts, our promotional activities helped drive strong attendance at our domestic parks despite the challenging environment. The promotions also resulted in higher room and admissions discounting, which, together with softer guest spending, impacted our operating income in Q3.



Attendance at our domestic parks was up 3%, helped by the favorable timing of the Easter break. Walt Disney World attendance was flat to prior year while Disneyland was up 10%. We estimate that the Easter shift added approximately 3 percentage points to our combined domestic parks attendance.

Overall, per capita guest spending at our domestic parks came in 6 percent lower than Q3 last year. Hotel occupancy in Orlando was 91%, which is actually within about a half a percentage point of last year's Q3, driven partly by the "Buy 4, Get 3 Free" promotion. In Anaheim, occupancy came in at 83%, down by 8 percentage points. Per room spending at our domestic resorts decreased by 9%.

At our international parks, lower guest spending and hotel occupancy at Disneyland Paris drove a decrease in operating income.

Our Parks operating team has continued to do a good job of offsetting a portion of our revenue declines by reducing costs. There is a limit to those opportunities, given the relatively high volume of business we've been achieving, but we will continue to carefully evaluate and act on opportunities for efficiency while ensuring that our guests get the great experience they have come to expect from Disney's parks and resorts.

Looking ahead, room reservations at our domestic resorts for Q4 are up slightly compared to last year. As you know, our fiscal Q4 includes an extra week this year due to our accounting calendar. If we exclude the impact of the extra week, Q4 bookings are running 7% behind last year.

As we have stated in the past, the economic downturn does not change our fundamental strategy. We are striving to closely manage our costs and will continue to do so. At the same time, we are focused on executing against our long-term strategy and identifying opportunities to invest in high quality branded content and in initiatives with strong potential to grow our diverse set of businesses around the world.

With that, I'll turn back to Lowell for your questions.

---

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

Okay, thanks. Operator, we will take the first question.



## Q&A

---

### Operator

(Operator Instructions). Your first question comes from the line of Jessica Reif-Cohen from Bank of America-Merrill Lynch.

---

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

Thank you. You have impressive margins at the theme parks and you said there is a limit as to how much you can cut, but you do have another promotion coming up and if could you discuss the difference in economics between the dining promotion and the “Buy Four, Get Three Free,” and then just talk about where we can expect margins to go over the foreseeable future.

---

**Tom Staggs** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Sure. The fact is that the parks folks are obviously making an ongoing effort to make sure they’re managing costs as closely as possible. Now, a number of efforts they have made and they focused on are what we call “back-of-house,” which should be sustainable cost increases, but some of them have had to do with what the park hours are, the hotels that are open, etc. So they’ll continue to go through that process, but that did mitigate the potential decline in the quarter to a decent extent. I wouldn’t highlight a dramatic difference between the Dine Free promotion versus the “Buy Four, Get Three Free” in terms of percentage discount or bottom line impact. The fact is both have been successful for us and they both work well and we’ll use them and any potential future promotions as we see the market unfold. So those decisions, we will continue to make based on what we see in the environment.

---

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

Could I just ask one question to Bob? It sounds like you’re investing heavily in your brands and different businesses. Can we take that to mean that as a company right now, you’re more focused on a build versus a buy strategy?

---

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

Well, we’re definitely focused on a build strategy and the buy strategy remains the same. We look opportunistically for the right assets at the right price, at the right time.



And I'll just leave it at that. I don't preclude the possibility, of course, but it has to be the right fit, the right time and the right price.

---

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

Thanks, Jessica. Operator, next question, please.

---

**Operator**

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

---

**Spencer Wang** – *Analyst, Credit Suisse*

Thanks. Good afternoon. Just a question on ESPN and the advertising performance. I was wondering if you guys could talk a little bit about if the advertising performance got better or worse over the course of the quarter, or has it remained the same and can you speak to maybe how ESPN is pacing for the September quarter? And then one quick housekeeping question for Tom, can you size for us the film write-downs of the studio in the quarter? Thank you.

---

**Tom Staggs** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

On ESPN ad performance, the market has been pretty much as we described, relatively stable. We haven't noted a dramatic change either in terms of what categories are weak or strong or what the overall market looks like. I would say that with regards to Q3 versus Q2, I think Q4 looks right now a lot like Q3. So we do not see dramatic shifts. Bob noted at the outset that we continue to see the signs of stabilization overall in the businesses but that it's a little early for us to call signs of recovery or to make any predictions about the pace of that.

---

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

And buying patterns continue to be late, meaning advertisers are buying closer to the time that their money is going to be expressed and that has certainly been the case in the quarter that we're in, where it's solidified as the quarter has progressed. Now part of that is a function of the fact that a lot of what ESPN is out selling is football and that commences in a relatively short period of time.



---

**Tom Staggs** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

And now you asked about studio costs in the quarter. Other than what we said, the one thing I would note is that we had a very strong opening of *G-Force* last weekend, which is obviously something that came shortly after the end of last quarter. And in fact it's been doing very, very well in the mid week. So we're gratified that it's a quality film and it's been very well received. And it's also a very expensive film and some of the costs of *G-Force* do show up in Q3 results because of that. And it's nothing we've broken out and quantified, but the fact is that if you're seeing extra costs, some of those would be associated with *G-Force* versus what you might have expected.

---

**Spencer Wang** – *Analyst, Credit Suisse*

And you took those in the June quarter, Tom, just to be clear?

---

**Tom Staggs** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Q3 has costs in it associated with *G-Force*, yes.

---

**Spencer Wang** – *Analyst, Credit Suisse*

Thanks.

---

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

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

---

**Operator**

Your next question comes from the line of Jason Bazinet of Citi.

---

**Jason Bazinet** – *Analyst, Citigroup*

I just have one question for Mr. Iger. I guess, you guys have made a lot of traction focusing on the tween market for girls. And you've also spoken in the past about focusing on brands. When you think about building brands or buying brands, do you focus on particular demographics or it's sort of independent, you don't start with a certain customer segment and work backwards, you just try and find and build good



brands, independent of where they fit in the overall mapping of the demographics.  
Thanks.

---

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

Well, we tend to look for businesses that fit under the Disney brand umbrella, and therefore being basically family-friendly. We certainly know of our strength among girls and the fact that we've been strengthening among boys and tweens and we would, to some extent, look to continue to strengthen in both categories, or all categories - families, boys and girls. If it fits, it doesn't necessarily matter to us whether it is attractive to one gender or the other. It's the question first of "does it fit?"

---

**Jason Bazinet** – *Analyst, Citigroup*

Understood. Okay. Thank you very much.

---

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

Thanks, Jason. Operator next question, please.

---

**Operator**

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

---

**Doug Mitchelson** – *Analyst, Deutsche Bank*

Great, thanks very much. Tom, just a clarification - those *G-Force* costs, were those P&A or production write-downs? And then, a question for Bob. And my question is, how do you intend to manage the ratings seasonality of the broadcast TV business? I think in the past you've commented that you still feel there is a business model for quality broadcast programming. I think the level of investment at ABC follows that philosophy. But we've sort of been here early this decade before and if ABC doesn't have substantial success this fall, you could argue next season could be pretty tough for profits. So, you manage the business for margin in that situation or do you take the lumps and run the network at losses until it finds some hits? Thanks.



---

**Tom Staggs** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

So I'll start with your question on *G-Force*. As I alluded to, *G-Force* looks like it's a big hit with audiences. It's going to be less of a financial success and as a result, we have costs that go above P&A in Q3.

---

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

I think the answer on the second part of the question is "yes." We're managing the network obviously to create successful programs because we know, as you suggested, that that's what drives the revenue. We actually feel very good about the schedule that is coming up, particularly the new shows that we're adding to it, and the fact that we're owners as well as renters of programs. And we like both. But we certainly love owning, particularly when they're successful. And in fact, *Flash Forward*, which is a drama that is getting a fair amount of buzz, and is a show that is produced by ABC Studios. If we find ourselves in a year where success is elusive to us, we obviously would have to address our cost side pretty quickly. But you also have to understand that what happens when you experience failure in that business is you made your significant programming commitments already. And while there might be some continued infrastructure efficiencies to be gleaned, those are things that we typically look at any way, success or failure. So you pretty much get stuck having to live with the failure from a cost perspective, without much flexibility.

Does that answer your question?

---

**Doug Mitchelson** – *Analyst, Deutsche Bank*

Yes, it does. It does. Thank you.

---

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

Okay. Thanks, Doug. Operator, next question, please.

---

**Operator**

Your next question comes from the line of Michael Nathanson of Sanford Bernstein. Please proceed.



---

**Michael Nathanson** – *Analyst, Sanford Bernstein*

Thanks. I have a couple of questions for Tom on the cable networks. Tom, we're trying to figure out just the affiliate free growth from an apples-to-apples basis without the deferrals. And I was going to ask you the question, if you look at the first two quarters of this year in terms of what you disclosed in the Q, your current run rate for affiliate fee growth was running at about 90% of last year's run rate, ok? I know this quarter you had some deferrals, but when you look at this when the year is all done, do you think a range consistent with the first half is an appropriate estimate for the full year growth rates in affiliate fees?

---

**Tom Staggs** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well, you know, we don't give out specific growth rates on our affiliate fees. I will say that in terms of the contracts in place in the first two quarters, there were no differences driven by the timing of programming in terms of what we deferred in the first two quarters.

So, therefore the first two quarters' affiliate fees is apples-to-apples with each other between the years. So that gives you a decent indication of the change in affiliate fees at that point in time.

As we sit here today, I've deferred \$138 million more in affiliate fees than I had sitting here at this time for the first nine months in total than where I was sitting here this time last year.

---

**Michael Nathanson** – *Analyst, Sanford Bernstein*

And secondly, when you look at equity income from your cable networks joint ventures, it declined this quarter by about \$20 million. But it had been growing quarter over quarter. So, I'm wondering, what happened to Lifetime and A&E maybe this quarter that you didn't see the first half of the fiscal year?

---

**Tom Staggs** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well, the equity in the income of investees in total has a number of things going on in it. There was some one-time items last year, as I recall. All in all, though, some of what you saw in the other businesses, a difficult ad environment, etc., does show up in those numbers. So, we have that going on too, but there is a little bit of noise in the system that's probably why it looks odd to you.



---

**Michael Nathanson** – *Analyst, Sanford Bernstein*

Okay. Thanks.

---

**Operator**

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

---

**Benjamin Swinburne** – *Analyst, Morgan Stanley*

Thank you. Good afternoon. If I could ask two. One, what are your thoughts on the strategy in the U.K.? Obviously this is a big move into that market. But in many ways you could argue Sky Sports is sort of the ESPN of the U.K. So, you've got a pretty powerful incumbent there. How do you think about building this business over time. You have got some soccer rights over the next three years but maybe looking past that, how big does this become? What are your thoughts moving into continental Europe? And then second, Bob, you've been more cautious on the idea of authentication or TV Everywhere or however you want to describe it. There's been a lot of momentum on that this quarter. Maybe you could update us on how you're thinking about that and those initiatives in general?

---

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

The opportunity for ESPN in the U.K. was pretty unique. And while we are looking at a number of opportunities in markets beyond just continental Europe, but across the world, I have to say that there aren't others that are as obvious or attractive as the one that we just took advantage of. We ended up, as you know, buying the rights to Premier League at a number that we had submitted a while ago and got passed over, or beat out, by Setanta. And then in their struggles we ended up with a package that, you know, we bid a certain amount for and ended up getting it for that amount, which was great. We're working very closely with Sky in the U.K. as a distribution partner because we respect their market position both in terms of their brand, but also in terms of the distribution leverage and the relationship that they have with consumers. So we think we actually have a situation where we can coexist in that market with Sky, both as a brand and as an entity that gets distributed by them.

You know, the bottom line is that we think there is room for both of us in the market and we think this is a really unique opportunity for ESPN, and we're encouraged by it. We've wanted to enter that market for a while. But we knew that it would be a very



difficult thing without having access to the Premier League and it was available and we ended up with it. So we're pleased.

On the authentication front, I know so much has been said about this. And I will start by saying we do not want to do anything strategically in that business that puts at risk or in jeopardy the value that is created in our multichannel business, which we know is pretty obvious, particularly when you look at the Media Networks performance even in a difficult economy. That said, we have certain questions about the viability of what is being contemplated and we do worry that it could create issues for the consumer that could end up doing more harm than good. We don't know whether it works, we don't know how consumer-friendly it's going to be and so on. And so, while we're open minded about the notion of delivering our product more broadly to consumers, including through third-party distributors, we want to make sure that when it's distributed, it's distributed in such a way that is very consumer-friendly.

And the last thing that I think is important is that our product is extremely valuable. It's valuable as a service to the multichannel distributors. It's valuable to the consumer. And if we are offering it on another platform or another location for the consumer to access it, then I believe that that's more value that we're delivering, either to a distributor or to a consumer, and we should get paid appropriately for that. There's been a fair amount of talk about simply adding it onto, rather building it into the current offering, or entities that are worried about giving things away for free and that have criticized us for doing similar things with our product online, we find it pretty interesting that they're willing to give this away for free, as simply another part of the service that they're getting paid for. So, I'd say we've got a healthy amount of skepticism about it, but we're also open-minded about it.

---

**Benjamin Swinburne** - *Analyst, Morgan Stanley*

Thanks for your help.

---

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

Ok, Ben, thank you. Operator, next question, please.

---

**Operator**

Next question comes from the line of Anthony DiClemente of Barclays Capital. Please proceed.



---

**Anthony DiClemente** – *Analyst, Barclays Capital*

Thanks, good afternoon. One question for Tom and one for Bob. Tom, I was wondering if you could help us in modeling capex for the next few years given your investments in the parks. And then, Bob, the question is, for longer term investors in Disney, I think people are trying to figure out, can your growth outpace the earnings growth for the S&P 500? So I was just wondering if you could give us your longer-term view of which of your business segments are more likely to enhance excess growth over and above the S&P, and which of those business segments in the next few years might detract from that growth. Thanks.

---

**Tom Staggs** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Sure. So with regard to capital - I think the best way to think about it is in terms of the projects that we have in the pipeline that will impact what we're spending. And the biggest user of capital in the company is clearly Parks and Resorts. And that's where the biggest ongoing projects are. We have two new cruise ships that get delivered starting at the end of calendar 2010, the expansion of Disney's California Adventure, the expansion of Hong Kong that we talked about, just signed, and there is some detail in that in the Q this quarter. And of course our resort in Hawaii. Those are the biggest pieces that are over and above the normal pattern of our capital expenditures for the parks.

---

**Anthony DiClemente** – *Analyst, Barclays Capital*

So would it be more than double-digit growth, or is it growing as a percentage of revenues? Is there a way you can help us quantify the growth in capex?

---

**Tom Staggs** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

To be honest with you, I'm not sure I would encourage you to look at it that way because, first of all, it is kind of lumpy. We've got the cruise ships coming on, those are not percent of revenue kinds of things. They'll come through, we'll make the payment, and then they'll go into service and start to earn what we think will be very attractive returns. Really overall, these are projects that we all think can deliver attractive returns for the company over time. And so if you look at the way we are managing, and this is not just the parks but some of the digital initiatives that we've taken on, the media networks, especially ESPN, they tend to be the kind of projects that are sometimes more one-time oriented. There is an ongoing level of capacity at the parks that you all have become relatively familiar with. And to varying degrees, we've talked about the size of



these things. And it's a little bit lumpy, and it's hard to talk about in terms of the percentage and that sort of thing.

But look, we've been obviously really closely managing our costs but we're also closely managing our capital. We're looking at the timing of initiatives and to the extent that we believe that we can, without sacrificing value, put off capital, we're doing so. And we'll continue to manage that.

We're managing our balance sheet closely. As you all know, we haven't been returning capital to shareholders during the downturn through share repurchase. I would note, by the way, that given the relative stability that we're seeing in the environment, and the capital markets, we're likely to be back in the market for our shares in the relatively near future. So in terms of our capital needs, and our cash flow, we feel very good about our ability to maintain the strength of our balance sheet, fulfill those capital requirements, and be in the business of returning some capital to shareholders.

---

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

And the second part of your question, first of all, I don't know what growth trajectory the S&P 500 is going to be on, so...

---

**Tom Staggs** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

I do, it's going to be...

---

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

Except I can say that we've got some of our own compensation specifically linked to how we perform versus the S&P. So we're certainly motivated to outperform the S&P as a senior management team and focus on that a fair amount.

We've articulated our growth strategy a fair amount, but I never mind continuing to do it, I just fear being repetitive. But we could just talk about some of the things that we've done even in the last quarter, during a pretty difficult economic environment, and it suggests that we believe we have opportunities to grow.

On the ESPN front, we've talked about what we've done in local, which is stunning in terms of the result. An experiment in Chicago that has ended up so successful that it serves as a model to do it in other markets. We haven't taken ESPN in a local direction. We know it's a phenomenal brand. That's one example of basically taking a brand that



many people feel has maturity and whose growth trajectory is going to slow down and investing modestly to find an opportunity that can create some interesting growth.

Obviously what we talked about in the U.K., another example of that, international growth. What we're doing at ESPN in the digital space, we have commitments now to roll ESPN360 out to 42 million homes, and we just launched 17 million homes in Comcast markets - another example of a space that one of our brands had not been in, with a very, very interesting opportunity.

On the Disney front, I really believe that there is a lot of room to grow our Disney-branded businesses. Starting with the strength of our IP, continuing to invest in it, but then looking for all kinds of opportunities. We re-launched Toon Disney into Disney XD, aimed at going at a more boy-oriented audience. The ratings have been pretty substantial in terms of improvement, albeit off a low base, we have more room to grow but we think there is more opportunity there.

The various things we're doing under the Disney brand umbrella in the parks and resorts that Tom just talked about, from cruise ships to Hong Kong to California Adventure, to the potential of other site-based entertainment opportunities outside of the United States that we've all talked about.

I think there are digital opportunities and I know a lot has been talked about in terms of monetization, we actually believe in it. Some of the work we're doing out of the Ad Lab that was written about the other day in Texas, that suggested that what's ahead in terms of behavioral targeting online and the ability for us to really create value for advertisers gets really interesting.

So, I see a world where there will be more importance on brands, more opportunity for our brands and an ability to monetize, greater consumption of media and international growth. And if we hit it right, not only in terms of being opportunistic but keeping the pipeline really rich from an IP perspective, I think that the growth perspective of this company is pretty robust.

---

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

Thanks, Anthony.

---

**Anthony DiClemente** - *Analyst, Barclays Capital*

Good answer. Thank you.



---

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

Operator, next question please.

---

**Operator**

Your next question comes from the line of David Bank of RBC Capital Markets. Please proceed.

---

**David Bank** – *Analyst, RBC Capital*

Thanks very much. I guess I have two questions I'm going to try to slip in. The first one is, can you clarify when the new ships actually go into service, when they start generating revenue, and can we expect an unusual ramp up of costs surrounding that? And the second question is, *Up* has been a real success theatrically. How would you compare the *Up* opportunity versus the *Toy Story* opportunity with the ancillary markets, besides the theatrical, the licensing side, the video game side? How do you compare what you expect from a big 2010 event versus *Up*?

---

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

I'll start with the second question. *Up*, obviously a tremendous success, already roughly \$285 million in US box office. The markets that it's opened up in internationally, although limited, have been very successful and we have big markets yet to come from now through - actually this weekend is a big weekend - but all the way through October, when we launch in the U.K. and I think December when we launch in Japan. So we definitely have a hit on our hands. But *Up* is not the kind of movie that is going to generate the multi-platform franchise success of movies like *Cars* or *Toy Story* or other movies that we have in the pipeline like the princess movies, starting with *Princess and the Frog*.

We're very proud of the film from both a commercial perspective and an artistic perspective, but we don't put it in the franchise category because of the nature of the film. And that's fine with us. We can't set out to make every film, whether it's Pixar or otherwise, to set up as a franchise. We'll take a great film though, a film which could be the second highest grossing Pixar film of all time.

*Toy Story 3* by the way, which will be out in fiscal 2010, that's a real franchise. You see *Toy Story* attractions at every one of our parks worldwide, a big consumer products platform, real opportunities I believe for *Toy Story* and other forms from video games to



online, and also the possibility of sequels beyond *Toy Story 3*. So, just a completely different category.

The first question, the first of the two cruise ships we're building will come online around the second quarter of fiscal 2011, so the very end of calendar 2010, beginning of calendar 2011.

---

**Tom Staggs** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

It will be in service in the early part of the 2011 calendar year.

---

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

So we would not really get revenue from it until 2011 calendar year, but early in the year. And you'll see a ramp up of costs in that business associated with both building, but also associated with operating, that will actually come before we launch what will be our third ship.

---

**Tom Staggs** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes. And the second ship is fiscal 2012, so the cost builds up. It doesn't take long to get the ships up and running, in service and producing revenue obviously. But there is some ramp up in cost and the bulk of the capital hits in the year of delivery.

---

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

And our target - right. Our target there, we've had double digit returns on capital in the two ships and we believe we'll be able to sustain that in the two ships that we're building. They're gorgeous. And we'll reveal their design sometime in the fall. Substantially larger as we talked about, and real state-of-the-art on a number of different fronts. And we're very excited about them. They will be very, very unique.

---

**David Bank** – *Analyst, RBC Capital*

I think you should host for a party for the analysts on the ships. That would be a good idea.



---

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

Well if you like, the first crossing will be a mid-winter crossing in the North Atlantic. One thing we know is you'll be able to save on sunscreen.

---

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

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

---

**Operator**

The next question comes from David Miller of Caris and Company. Please proceed.

---

**Dave Miller** – *Analyst, Caris & Company*

Hi. Good afternoon. A couple of questions. Tom, just outstanding attendance numbers at Disneyland. I mean the demand curve there just continues to sort of move to the right here. We know that there is a "Five for Three" promotion. We were hearing that the promotion was going to end sometime in mid-September. Just given these kind of numbers, do you see it ending beforehand or do you see sort of continuing that "Five for Three" promotion until the end of the year? And then I have a follow-up for Bob. Thanks.

---

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

Actually, I'm going to take that, Dave. You know, we've announced the Free Dining, but we haven't made any announcements about to what extent we'll continue the other promotions. We're obviously dealing with a marketplace where there is not all that much visibility, but it's a challenging marketplace and we do expect the challenge to continue.

And so we're going to be really strategic in terms of the discounting that we're doing. And we feel strongly that to date the discounting that we've done has actually been quite good for our business. Our business would not be as strong without it. And we have some interesting research that really validates what we're doing.

First of all, there's a real spike in reception of price-to-value ratio of people who go to our parks. They believe they're getting a better value for the price and that's a good thing because we know that we are providing a great experience and we also know the



value of word of mouth from people who go, and the ability for us to bring people back who have come for the first time. So I think that it's been a good thing for us.

And I also know from some of the research that we've done that we're attracting people today that would never have come before. And that's really interesting. So we're obviously making product available under affordable circumstances for people who, even in tough times, are willing to go because they either couldn't afford it before or they believe it might not be affordable later on. This is great product. We know that. No matter what park you visit, it's a great experience. So, I'm pretty confident that we'll be able to wean ourselves off the distribution as the marketplace solidifies, but we haven't made any specific announcements yet just in terms of how much of a discount, and whether and what discounting will continue.

---

**Dave Miller** – Analyst, Caris & Company

Okay, great. And then, just a quick follow-up. That's three hits in a row if *G-Force* carries over from an outstanding opening weekend. So you have got *Up*, *The Proposal* and then *G-Force*. Again, three hits in a row. What would you say to your critics out there who continue to claim that Disney is in creative stagnation?

---

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

Well, I don't get to talk to our critics all that much, so I just -- Disney is not in creative stagnation. The pipeline is pretty rich at the studio right now. 2010, I'm really excited about - both live action and animation. I talked about the titles earlier from *A Christmas Carol* to *Toy Story* to *Princess and the Frog* and the *Prince of Persia* and Johnny Depp and Tim Burton's *Alice in Wonderland*. The trailer was a real sensation when it was released last week as was the presentation at Comic-Con. And we're really pleased with *Up* and *The Proposal*, which was really good value for the money. And Tom already talked about the economics as it relates to *G-Force*. We like being number one for the weekend in the U.S. and we liked the performance to date. But it's got some challenges from an economic perspective. So the studio, we think, is in great shape creatively.

---

**Dave Miller** – Analyst, Caris & Company

Thank you.

---

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

Thank you, David. Operator next question, please.



---

**Operator**

The next question comes from the line of Rich Greenfield from Pali Capital. Please proceed.

---

**Rich Greenfield** – *Analyst, Pali Capital*

Thanks for taking the question. Sony signed a deal last week and there seems to be quite a bit of interest in the industry that some are interested in working with Redbox and some are against Redbox without putting rules around working with Redbox. And I'm curious, Bob, how you think about it and the potential impact on your important home video business. And then, two, just to clarify on Cable Networks – forgetting about the full year revenue deferral, just looking at the revenue deferral in the quarter which I think went from like \$79 million of deferral last year to \$37 million in the quarter this year - it looked like revenues were actually still down in cable networks and I thought Tom said that revenues were actually up in cable nets if you backed out this quarter's revenue deferral, and I was hoping you could clarify that for us. Thanks.

---

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

You're obviously are extremely interested in Redbox, Rich. We actually did a deal through third-party distributors a couple of years ago to supply product to, I'll call it kiosk-type rentailers, Redbox and others. This is still relatively small, by the way, a small part of the business, sell-through as you know still dominates. But the deal that we did well before all of the noise that is in the marketplace today essentially made available to the rentailers our product at a reduced price in exchange for an agreement to limit the number of copies that are put into the marketplace on a resale basis of basically previously-viewed DVDs which we had some concern about.

I know because you asked the question that you're also interested in the impact of this type of rental business on the overall business and so I might as well take a moment to address that as well. As you know, I mentioned in a previous call that we saw trends in the home video business that went beyond just the impact of the economy, although I think the economy is definitely having an impact. And this is one area that we were focused on. There has been growth in the industry, at least over the last three quarters in rental, both on the digital side and the rental of physical goods. And there's been a slight decline over that same period of time, in sell-through. This is industry. And again, I think that some of that is economically driven, but I also think that you have a marketplace where people are not looking to build library as much as they once did, and as the convenience factor changes, meaning as product gets more convenient on a rental basis, I think you're likely to see that affecting rental, meaning in a positive way.



Certainly digital is convenient. And if people, while they are going to shop on a weekly basis at a big box retailer, leave and rent a DVD for a relatively low price, then that's, I think, viewed as very convenient and with a high price-to-value relationship. And if they're not looking to build library any more and they're more value-oriented from a shopping perspective, then I think you're going to see growth in that area and we're contending with it in two ways.

First of all, it underscores our strategy to make films that people are not only more likely to own than rent, but are better off owning versus renting because of the value they deliver. If you want to watch a Pixar film, or you want your kids to watch it 50 times or a Disney film, then owning it is a lot more convenient and more valuable than renting it.

---

**Rich Greenfield** – *Analyst, Pali Capital*

So do you start making fewer films like *The Proposal* which might fall into the other category versus an *Up* movie?

---

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

Our strategy is obvious in that regard. We're focused on more family, Disney-branded films and fewer non-Disney-branded basically, because as we've said, the return on investment in those films, whether you look at the recent returns or a longer-term, are better than non-Disney branded films, and that's our focus and it's going to continue to be.

Additionally, because you're seeing some pressure in the marketplace, whether it's from the economy or from secular trends that we cite, it's an industry that has to continue to look at the expense side of the equation. And our studio is very, very focused on this and committed to it and I think doing a good job in this regard. It's in the production side, it's in the distribution side and the marketing side of the business, basically at every level. It's not as forgiving as it used to be. And what is really interesting is that the old notion that there was a market for everything isn't necessarily the case anymore. It has to be good, and the price-to-value relationship has to be really high. It has to be something people really want. It's not just enough to make a movie and expect there is a real business out there for it.



---

**Tom Staggs** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

So, Rich, on the cable revenues, if you look at the press release you see a \$29 million decline in the reported revenues for cable in the quarter. Now this quarter we had a net deferral of \$37 million dollars of affiliate revenue. Last year's Q3 had a net recognition of previously deferred revenue of \$79 million. So it was a net recognition of \$79 million last year, a net deferral of \$37 million this year, for a difference of \$116 million, which is obviously much more than the \$29 million decline. And so therefore, if you backed it out, you'd obviously be in a situation where revenues would grow.

---

**Rich Greenfield** – *Analyst, Pali Research*

Got it. Thanks for clarifying.

---

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

Thank you, Rich. Operator, next question please.

---

**Operator**

The next question comes from the line of Michael Morris of UBS. Please proceed.

---

**Michael Morris** – *Analyst, UBS*

Hi. Thank you very much. Want to go back to the question of attendance and promotion at the parks. Maybe get a little more detail there. Can you help us understand what percentage of your attendance right now is taking the promotions and maybe back to the point you made, Bob, about incremental attendance as a function of the promotions? Can you quantify that for us in any way? Can you also -- you mentioned one of the promotions in the timing there, but can you remind us when the current major promotions will roll off? And then I guess maybe more importantly, do you have any visibility into attendance trends beyond the promotions as they stand right now? And I guess can you give us any feedback on maybe what you're seeing in bookings beyond the current promotional period? And then just in terms of -- sorry to go over to ESPN, the deferral, can you share with us the profit impact of the deferral and just I guess affirm that all of that would come through the profit line in the fourth quarter? Thanks.



**Tom Staggs** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

So I'll start with the ESPN question. It's only a deferral of revenue. No costs are deferred with that revenue. So they flow straight through.

So let me see if I can try to help you on your question with regard to the parks. The promotions, as you know when you look at them, are principally aimed at resort guests. Not all of our attendance comes from our own resorts. So that's sort of the first factor. As you would expect, the promotions, whether it's the "Four for Three," or the Free Dine for the people who are having an extended stay, those are going to appeal, I guess first and foremost, to our domestic attendance base, to a certain extent to the international attendees, less so for the resident attendants, which tend to be shorter stays.

If you look at attendance in the third quarter across our domestic parks, there was pretty good relative strength in domestic attendance. International attendance was a little softer due, frankly, to some tough comparisons last year. If you look at our attendance base right now, we're running roughly a percentage point lower in terms of international mix of attendees versus where we were last year in that order of magnitude. So the question of how many people are taking the promotion is a pretty complicated one.

If you look at our resort base, and look at the net effective rates that we're getting across our categories of hotel rooms, the net effective rates discounts are pretty consistent across those various categories of rooms. And so that tells me that it's a pretty broad base take-up of our promotions and it also tells me the parks group is doing a pretty darn good job of managing the inventory of rooms as they think about how to book. So, we feel good both about the response of those promotions and the way that the promotions are being managed to maximize attendance.

In terms of the major promotions, "Buy Four, Get Three Free" at Walt Disney World went until about the middle of our fourth quarter, it goes until about the middle of our fourth quarter. The Free Dine extends until October 3rd of this calendar year. The "Five plus Three" at Disneyland goes until October 1st for travel dates. We've got some summer promotions and that sort of thing that have run their course or will run their course. And then we're going to, as Bob mentioned, we're going to take our cue from the economy in terms of what promotions we put in place and how long they run and what the extent of the promotions are. And so, those will be forthcoming from the parks group as we go along.



---

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

And we've done a fair amount of research of the consumer, both the consumer that has already come to our parks and the general consumer in the marketplace. And we'll know what is of interest to them from a discount perspective and react accordingly. And take into account obviously the cost to us. What's clear, and this is a quote from the CFO of that business who I spoke with the other day, is that the consumer is still shopping late and shopping hard. They're shopping late, they're making decisions late, and their shopping hard and they're still out there looking for value. And that's a factor that we obviously can't ignore.

I also want to say one more thing, I want to go back to the question about the rental DVD business.

---

**Tom Staggs** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Before you do, I want to clarify one thing, we just did announce we extended the Free Dine at Walt Disney World for travel dates to go through the middle of December. So we do have one that we've already extended as we look at the lay of the land.

---

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

The one thing I just wanted to mention on the DVD front that I forgot to mention as it related to our business and our strategy, and that is that our conversion rate of DVD sales to U.S. box office is still running nicely ahead of the rest of the industry, which suggests that the strategy to focus on the kind of movies that we're making, the bulk of the movies that we're making, is the right strategy.

---

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

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

---

**Operator**

Your next question comes from the line of Mark Wienkes of Goldman Sachs. Please proceed.



---

**Mark Wienkes** – *Analyst, Goldman Sachs*

Thank you. Back to the film business quickly. There are a lot of changes going on in the pay TV window for feature films. I guess, can you talk to how you think about how you think Disney can best monetize your product, not just pay TV, I guess, but through the life of a film, which distribution channels you might want to own more directly like the new stake in Hulu versus just third party?

---

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

We're obviously deriving a fair amount of value from third-party distributors in our TV business and in our motion picture business and I don't really see that strategy changing all that much in the sense that I think that value will continue to be mined. It's possible that there will be more distributors in the marketplace to distribute our product and I see that as a good thing. And it's also possible over time that there will be more windows to sell, more slicing and dicing of the spectrum, so to speak, both on the TV and the movie side. And while I think it's a little early to tell whether it's going to deliver more value, certainly competition among distributors should deliver more value.

In terms of owning, we thought Hulu was a good opportunity to own a platform that had far exceeded our expectations in terms of the aggregation play, and we thought it was a good opportunity for us.

On the movie side, the only thing that we're looking at right now that would be even slightly analogous to that is the creation of a subscription service online for Disney-branded content starting with movies. It's in a development stage and we've talked about it publicly as something that's coming but we haven't suggested when, nor have we been overly descriptive. But we think there is an opportunity given the strength of the brand and the advantage that we have as stewards of the Disney brand, to create an online destination for Disney-branded product only, starting with movies. And we're excited about that.

---

**Mark Wienkes** – *Analyst, Goldman Sachs*

Have you talked about the timing of where that window would land, relative to the other windows?



---

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

No, we haven't gotten specific about it. The fact that we believe we'll continue to see value from some of the existing windows, including the pay window, suggests that we would not do something that we think would necessarily destroy that value, although there are definitely opportunities from a windowing perspective. And there are also, well, what I'll call definitional opportunities, where you sell the one entity, the ability to exploit or to leverage our product in one way and you can either on your own or through another third party give them the ability to distribute it in a different way. Either from a timing perspective or streaming online or subscription versus video on demand and so on - or aggregated - play as part of a pay TV service, for instance. But we cannot get more descriptive than that.

---

**Mark Wienkes** – *Analyst, Goldman Sachs*

Right. Thank you very much.

---

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

Okay, Mark. Thanks. And thanks 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 in our other filings with the Securities and Exchange Commission. This concludes today's third quarter call. Have a good day everyone.

---

**Operator**

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a great day.

###

The **WALT DISNEY** Company



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 September 27, 2008 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](http://www.disney.com/investors).