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**The Walt Disney Company Fiscal Full Year and
Q4 2009 Conference Call**

NOVEMBER 12, 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. Welcome to the fiscal full year and fourth quarter earnings conference call.

[Operator Instructions]

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

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

Thanks, Britney. Good afternoon everyone and welcome to The Walt Disney Company's fourth quarter 2009 earnings call. Our press release was issued a few minutes ago and it's available on our website at www.disney.com/investors.

Today's call is also being webcast and that webcast will also be available on our website, as will a replay and transcript of today's remarks. Joining me in Burbank for today's call are Bob Iger, Disney's President and Chief Executive Officer and for his 46th, and as it turns out, final earnings call as Chief Financial Officer, Tom Staggs.

As I'm sure you saw, Bob made an important executive announcement this morning. He's going to begin with some comments about that announcement and then Bob and Tom will speak about earnings, and, of course, we'll be happy to take your questions. So with that, let me turn the call over to Bob and we'll get started.

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

Thank you, Lowell, and good afternoon.

As you know, we announced earlier today that on January 1st, Tom Staggs will assume the role of Chairman, Walt Disney Parks and Resorts, while Jay Rasulo, who currently holds that position, will become Senior Executive Vice President and Disney's Chief Financial Officer.

Jay and Tom are dynamic, experienced and versatile executives who've each been at Disney for around 20 years. They know and understand the company and its brands intimately and are very effective leaders whose backgrounds are well-suited for their new roles. Since I've been



CEO, they've been a critical part of the team helping implement the strategy that's led to our success.

They're also ready for some exciting new challenges that will benefit both them and our company. Tom, I think you'd all agree, is one of the best CFOs around. And over the last decade, he's worked closely with me guiding the company strategically and has played a big part in everything from the Pixar and Marvel acquisitions to reconfiguring our management incentive system, to helping ensure our team does the best possible job for its shareholders.

Throughout, he's done a great job of making sure our capital is put to the wisest possible use for long-term growth as well as managing costs across the company. He's also played a key role in managing the Disney brand and leading a very successful implementation of our company-wide healthy food and environmental policies.

Jay has had great success, he has great business skills and instincts and substantial creative experience as well. Under his leadership, the Disney park experience is reaching more people than ever before while enhancing its well deserved reputation for quality. Even while overseeing major expansions in Anaheim and Hong Kong, Jay has done a fantastic job over the last seven years of taking our Parks and Resorts business beyond the theme park gates, as we have built up our cruise line, vacation club and family tour businesses.

He's also successfully positioned our parks during the economic downturn through some really innovative marketing and smart management. Jay has also led our Shanghai park development efforts and we're very proud of the work he and his team have done.

From my perspective, it's incredibly valuable to a corporation like Disney to have executives gain experience in various parts of the organization. It gives them a new set of challenges, new perspectives and a great opportunity for continued growth. Over the longer term, the practice of motivating and developing executives by providing new or expanded opportunities will help us attract and retain talented people and will serve this company well.

Given that he's been CFO for over a decade, I know you'll miss Tom. As many of you can attest, Tom has done a great job providing information and perspective that has served both investors and the company well. And I know that Jay will continue in the tradition Tom has established, serving us all equally well. I'm really excited about continuing to collaborate with Jay and Tom in their new roles and feel these steps strengthen a management team that's already the best in the business.

Now I'd like to turn to our earnings. Over the last 18 months, I've spoken to you about how we've sought to maintain our strategic focus while reshaping the company to both withstand the weak economy and to tackle the many challenges facing our businesses. We believe we've delivered on those objectives, putting Disney in a strong competitive position while enhancing the company's ability to deliver long-term value to shareholders.



For the quarter, our earnings improved over a year ago, largely due to the performance of our Media Networks. While there are some signs of a recovery, the environment remains challenging and we are managing accordingly. Tom will speak in detail about our financial performance, but I wanted to highlight a few of the steps we've taken to advance our fundamental strategic goals of building on our position as a leader in the creation of high quality branded content, of using technology to make that content more compelling and to reach more consumers in more ways, and of making Disney an even more prominent a provider of entertainment globally.

As you know, last week the Chinese government gave its approval for a Disney theme park in Shanghai. And we're absolutely delighted this significant milestone has been reached and look forward to finalizing a deal with our partners in Shanghai to build a world-class resort where the people of China will be able to enjoy first-hand an amazing mix of characters, stories and experiences.

With 1.3 billion people, increasing affluence and one of the world's most unique and dynamic cultures, China is an important and promising country for us and will only become more so in the years to come. But we feel truly privileged to have this opportunity.

We are also working towards closing the Marvel deal. Since we announced the acquisition at the end of August, it's become even clearer to us just how well known and appealing Marvel characters are around the world. We are looking forward to increasing the visibility and value of Marvel's characters and stories across our businesses, platforms and global markets.

As our numbers indicate, our Studio had an extremely disappointing year in 2009. This is primarily due to the performance of our live-action slate, but we also see challenges to the motion picture industry business model and are taking steps to address them.

Our choice of Rich Ross as the new head of the Studio is designed to both redirect and improve its creative endeavors, as well as to immediately and properly address the secular changes we are seeing. This requires aggressive focus on the cost of producing, marketing and distributing our films. It also requires challenging the status quo of a business that is already witnessing real change in how consumers use their time and spend their money as entertainment sources proliferate and access to them becomes significantly easier. The Studio's restructuring announced yesterday is in keeping with this approach.

Additionally, the spread of faster internet connectivity will increase global piracy threats and it is imperative the industry address these threats with vigor, cohesiveness, and a real sense that the peril is both real and immediate.

By adding Marvel to our slate of Disney and Pixar films, we will in the coming year be making movies under three of the best known labels in family entertainment. These brands resonate



with consumers globally and give us a competitive advantage in a world of nearly limitless choice.

We will also continue to focus our investment on franchise properties like *Princess and the Frog*, *Cars 2*, *Toy Story 3* and *Pirates 4*. When our franchise films are successful, they create a wave across the company that can lift up all of our Disney-branded businesses.

While it remains a challenging time, it is also a very exciting one. Our Parks and Resorts business is expanding with the addition of attractions that bring together great creativity and fantastic new technologies at Disney's California Adventure, at Hong Kong Disneyland and at the Magic Kingdom at Walt Disney World. Work is well underway on our new family resort in Hawaii and on two magnificent new cruise ships, whose design we unveiled a couple of weeks ago in New York.

At ABC, we are off to a solid start in the fall season with several of the most watched shows, including new hits like *Modern Family*, *FlashForward* and *V* and favorites like *Grey's Anatomy* and *Desperate Housewives*. ABC Family is a real success story as well, attracting a growing audience through terrific original programming while Disney Channel has been posting its highest-ever domestic ratings. The launch of the boys-focused Disney XD has been successful in the U.S. and several key global markets while overall, Disney Channel continues to show impressive international subscriber growth.

Earlier this year, ESPN also made a major move internationally with its purchase of Premier League rights in the UK and has deepened its relationship with its most avid fans by setting up local sports portals in key cities including Chicago, Dallas and Boston, with New York and Los Angeles to come soon. In the fourth quarter, ESPN posted its biggest-ever audience numbers, helped in particular by college and pro football. Now thirty years old, ESPN remains an incredible innovator, both technologically and in the quality and scope of its content, bringing more great sports to more fans around the world in more ways than ever before.

ABC, ESPN and Disney Channel remain three of the most creative and valuable brands in entertainment. And all three of them are finding ways to reach new audiences in new ways and new places.

While it's been a very challenging period, the focus of our strategy has remained consistent: invest in great content and experiences, nurture an environment where creativity can flourish and innovate aggressively to maintain relevance and meet the needs of our consumers. By keeping this focus and executing skillfully, we believe Disney's value can only increase over the long term.

And now, I will turn things over to Tom. 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 take a few minutes to highlight the key drivers for Q4 and touch on some of the factors that are likely to influence our results in fiscal 2010.

At Media, Cable Networks' operating income was up in the quarter, driven by ESPN. ESPN benefited from the recognition of \$128 million more in net deferred affiliate revenue in this 4th quarter compared to the prior Q4. ESPN's operating income was also boosted by an extra week of subscriber revenue and higher subscriber rates compared to the prior year, partially offset by higher programming costs associated with new deals with the SEC, US Tennis Open and the English Premier League Football.

ESPN ad sales came in flat to the prior year for the quarter. However, adjusting for the effect of the 53rd week as well as the relative timing of major sports events, we estimate that ad sales would have been down by almost 3%. Despite the tough environment and the increased investment in programming, our combined cable networks delivered growth this fiscal year, which is evidence of their strong business models and position in the marketplace.

At Broadcasting, results improved on higher sales of ABC produced shows, including *Grey's Anatomy*. At ABC, favorable timing of pilot costs and the extra week in the quarter offset the impact of lower ratings.

Q4 ad revenue at our TV stations excluding the extra week of sales came in just over 15% below the prior year, although the local ad market has shown some signs of improvement.

We're seeing a number of encouraging signs elsewhere in the ad market as well. So far in Q1, network scatter pricing is running more than 20% above upfront pricing levels. Moreover, option pick-ups for our Q2 are the highest that we've seen in the last 10 years. We've also seen some improvement in ad sales trends at ESPN. Q1 comparisons at our TV stations are made tougher due to last year's political ad revenue.

Bob mentioned we're disappointed with results at the Studio, where operating performance was lower, driven by film cost write-downs. Music sales were also off somewhat compared to last year's Q4, which included strong releases from *The Jonas Brothers* and *Miley Cyrus*.

Looking forward, the Studio has a strong slate of upcoming films for 2010. Key releases include our animated film *The Princess and the Frog*, coming to theaters nationwide on December 11th, *Alice in Wonderland* on March 5th, and *Prince of Persia*, *Toy Story 3* and *Sorcerer's Apprentice*, all three of which are slated for release this summer.



At our Consumer Products segment, operating results reflected the difficult retail environment's impact on our licensing, stores and publishing businesses as well as the strength of *Hannah Montana* and *High School Musical* properties in Q4 of the prior year. Lower sales of merchandise across most categories drove a 20% decline in earned revenues at licensing for the quarter, in part because the impact of the downturn was not fully evident in our licensing business until the beginning of calendar 2009.

Turning to Parks and Resorts, whose results have recently taken on even greater significance in my mind, attendance at our domestic parks was up 10% in Q4, driven by the extra week in this year's fourth quarter and continued solid response to our promotional offers. Excluding the impact of the extra week, combined attendance was up 3%, with a 15% increase at Disneyland offsetting a 3% decline at Walt Disney World.

Walt Disney World's occupancy came in at 84%, 5 percentage points below the prior year, while Disneyland's occupancy was 4 percentage points lower than last year, also at 84%. Not surprisingly, our promotional packages led to greater room and admissions discounting which contributed to softer guest spending. Per capita guest spending at our domestic parks decreased by 10% and per-room spending at our domestic resorts was off by 7%.

Looking ahead, Q1 domestic bookings at our resorts are running roughly 5% behind this time last year but, as we saw in the last few quarters, bookings are tending to take place closer to actual travel dates. It is difficult to predict how long the downturn will impact consumer spending and travel. We will continue to gauge the market and respond with promotions we feel are appropriate, including our recently announced offers, which extend through March at Walt Disney World and through April at Disneyland. These promotions have been well received and there has been a pick up in the bookings pace since we announced them.

Our parks management has done a fine job of managing costs throughout this past year and those efforts continue as we enter 2010. At the same time, we remain committed to delivering the premium guest experience people expect from our parks and resorts.

As we enter 2010, we're pleased with some of the trends we're seeing, but we also expect that the economic environment is likely to continue to pose challenges. We expect our pension and post-retirement medical expense to increase by approximately \$270 million this year driven in part by lower discount rates. Approximately half of this amount will impact our Parks and Resorts segment.

The relative strength of our cash flow in 2009 provides evidence of our ongoing focus on closely managing our spending, especially during the current downturn. At the same time, we remain committed to allocating capital toward growth opportunities that maximize value for our shareholders. Our first priority is to invest in existing businesses or new growth opportunities that can generate attractive returns. These include selectively increasing our investment in sports programming and in other television, film and video game content.



In addition, we will increase capital expenditures in 2010 for key initiatives at Parks and Resorts including the expansion of California Adventure at Disneyland Resort, the construction of our new ships at Disney Cruise Lines, as well as new attractions at Walt Disney World and at our parks in Paris and Hong Kong.

We are also willing to pursue acquisitions to the extent we are convinced that they can enable us to sustain or build competitive advantage and deliver strong returns. The pending acquisition of Marvel illustrates well the type of opportunity that we believe can utilize our existing strengths to drive future growth from high quality branded content.

Additionally, we expect to continue returning capital to our shareholders through dividends and share repurchase. We purchased only a modest number of our shares during Q4 given constraints imposed by the pending Marvel acquisition. However, we continue to believe our shares remain attractive at current levels and expect to continue our repurchase activity.

Our strong balance sheet and diversified revenue base position us well to successfully navigate through the current economic conditions. More than ever, we are focused on managing with financial discipline while we continue to invest in Disney's brands by creating high quality content and experiences that can be leveraged across our businesses to maximize shareholder value over time.

I'd also like to thank all of you for your time and interest, not just today, but for the past 11 or so years. I'll miss my current position, but I'm excited by the prospect of my new role. Having worked with Jay for 20 years, I also know that he will do a fantastic job as CFO. As importantly, Jay and I both have the benefit of extraordinarily strong teams within our respective organizations. And that gives us great confidence and comfort in our new assignments.

With that, I'll turn the call back to Lowell for Q&A.

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

Thanks, Tom. Operator, we are ready for our first question.

Q&A

Operator

Thank you. [Operator Instructions] Our first question comes from Doug Mitchelson with Deutsche Bank. Please proceed.



Doug Mitchelson – Analyst, Deutsche Bank

Tom, well it looks like you should start your Chinese and Mandarin lessons right away. From the outside looking in, I would say this positions both you and Jay as potential CEO candidates down the road when Bob decides to hang it up in 10 or 20 years. So I'm just curious, what advice you gave or would you give to Jay and what advice he might have given to you as you trade jobs?

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

Well, I'm certainly not going to speculate what the future holds. And for the moment both Jay and I are focused on the roles that we're assuming. As I mentioned in my comments, Jay and I have worked together for 20 years and know each other well and I think that gives us both great confidence in the future for both organizations. I'd also just reiterate that because there's such strong organizations in place, that makes this transition that much easier. And so I think that we're both looking forward to it. And I think that neither one of us is going far. We'll both be there to give each other advice as we go. And I think that that will serve us both well.

Doug Mitchelson – Analyst, Deutsche Bank

If I could ask a follow-up in the movie write-downs for the quarter. Was this only for films already released or does this include Rich having a chance to review the prospects for the pipeline?

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

The write-downs you saw in Q4 are principally for films released to date. There are some film costs for projects that were in the works that we had previously decided to not pursue. However, it does not reflect decisions that Rich has made since the time he took over. That was actually after the balance sheet date.

Doug Mitchelson – Analyst, Deutsche Bank

Thank you very much.

Operator

Our next question comes from Jessica Reif with Bank of America Merrill Lynch. Please proceed.



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

Thank you. Good luck everybody at your new jobs. Bob, when you think about fiscal year 2010, I was wondering if you could give us some thoughts about where you think the bigger drivers will be. Will it be revenue, and if so, where? And can you discuss the outlook for cost? Is there any room for further improvement? And secondly, how different will the Shanghai theme park be and can you tell us what your share of costs will be, and what the expected structure will be? Thanks.

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

On the second part of the question, Jessica, since we've announced that the approval that we got from Beijing will enable us to proceed to conclude a long form agreement or formal agreement with Shanghai, we've decided with Shanghai not to release any more details about the nature of the park or the nature of the relationship until we conclude the final agreement. We are in a design and development phase, though, and are giving considerable thought to what the park will look like and will work closely with our partners in Shanghai in that regard, particularly once the agreement is finalized.

In terms of leverage, both on the cost side and on the revenue side for 2010, Tom cited some. Certainly on the movie side we're really excited about *The Princess and the Frog* and *Alice in Wonderland*, *Toy Story 3* and *Prince of Persia*. You can expect the titles we have coming into the marketplace for 2010 should outperform some of the titles we have in 2009. But the DVD release of a number of those titles won't come until the next fiscal year. So we won't benefit fully from that.

We are going to watch, obviously, very carefully results in our parks. Although, if you look back to prior economic downturns, we tended to lag in recovery a bit. That has to do in part with just the way vacations are planned. We're hopeful that we'll see a strengthening economy and therefore a strengthening business. But as Tom also mentioned, we don't have great visibility there.

I'd say the biggest area in terms of revenue, potential revenue improvement for fiscal 2010 will come on the advertising front, where Tom mentioned that sales are generally good at our Media Networks for the quarter that we're currently in. Again, we're not making any predictions formally about the rest of the year. We're taking more of a cautious approach. And with that in mind, because visibility is still somewhat limited, although signs are encouraging, we're continuing to proceed in terms of our vigilance on the cost perspective as though this is going to be a challenging economy and environment for basically the duration of the year.

I had the chance to speak with a few of our theme park executives this morning, and they talked pretty aggressively about continuing to look at costs. And I think that's a prudent thing



to do. And as I said, we'll see exactly how the year progresses. I also want to remind you that there are some sports rights issues from the comparison perspective that we'll deal with in fiscal 2010, the purchase of European premiere... of English Premier League, for instance, will have an impact on ESPN. And as you know, we're investing in a fair amount of initiatives that are designed to create long-term growth and the costs for some of those initiatives will also kick in in 2010. A lot of that comes on the Parks and Resorts front with our cruise ships and the expansions that we've mentioned. And some of it is in some other businesses as well. Although, the dominant expense increase comes on the Parks and Resorts front, particularly in an area like Cruise, for instance, where there will be increased spending as the year progresses. But since the boat won't be launched until fiscal 2011 we won't see the benefit of that in the revenue coming in until fiscal '11. So, we're looking at a year that at least at the beginning is showing some potential signs of improvement. But I want to emphasize that visibility is somewhat limited and we're going to continue to address the cost side, particularly with the economy being somewhat uncertain.

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

Thank you.

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

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

Operator

Our next question comes from the line of Spencer Wang with Credit Suisse.

Spencer Wang – *Analyst, Credit Suisse*

First, congratulations, Tom on the new job. I wanted to ask one question on the park margins and cost structure. Looks like costs were down about 4% or so for the full year. And I recognize that part of the cost structure is variable. But just given the pension costs that Tom that you mentioned, if revenues at parks are kind of flat to up maybe a little bit in 2010 how should we think about the cost growth in that context? Thanks.

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

Well, Spencer, thank you. We've discussed a little bit the nature of the actions on cost that the parks have taken in the year, and really the bulk of it was designed to be the kind of thing, the kind of cost cuts that were structural and that could be sustained. And so I think that bodes well for us. Now, getting something like half of this increase in the pension and post-retirement



medical costs, that clearly is going to have an impact on margins versus where they would otherwise be. I'd also say that this is a group that consistently looks for efficiency and productivity measures. But at the same time some of the actions that we've taken over the last year are in the way of cost deferral, and so as time goes on, some of those will find their way back into the cost base, including to a certain extent in 2010, a good part of the employee base did not take raises in '09, etc. There were certain park hours that were turned back that we'll have to take a look at in the context of overall demand. So there is a chunk of it is variable and will come back in. There's a portion of the cost savings that are permanent. But there's also a portion that I expect will resume some upward pressure on growth just as time goes by in the natural course of things.

Spencer Wang – *Analyst, Credit Suisse*

Thank you.

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

Thanks, Spencer.

Operator

Our next question comes from the line of Scott Davis with JP Morgan.

Scott Davis – *Analyst, JP Morgan*

Hi, good evening. I never thought I would say congratulations on the call because it usually makes me sick. But in this case, congratulations, not on the earnings, but on your new role, Tom, it's very exciting.

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

Thank you.

Scott Davis – *Analyst, JP Morgan*

My question is, you mentioned that you expect further ad improvement at ESPN. And I know you don't want to give guidance but maybe you could just give us some things to think about. Because I'm looking at it and saying, well, ratings look like they're just, you know, doing really well. Scatter pricing is improving. Auto is picking up, and I think NASCAR has been a bit of a drag. So I'm just trying to figure out the trajectory of how those dynamics play themselves out.



And then recognizing there would be difficult comps in the last year with the loss of the extra week. Is there anything else I should be thinking about?

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

Well, you know, the numbers for ESPN from a ratings perspective, as you mentioned, Scott, and as Tom and I both addressed, are fantastic. They've just had a great quarter. And the numbers continue to be strong. And as obviously impacting them from a sales perspective, aided by a marketplace that is definitely showing some signs of recovery. But not only won't we give guidance, ESPN would be the first to admit that while they're experiencing a strong market now, there's still no guarantee that will continue. And we'd prefer not to predict that it will. They are seeing strength across multiple sectors. You mentioned automotive; men's grooming is up; insurance is strong; there's good business from the movie studios; retail also very strong. Those are all good signs.

The other thing that's interesting is that ESPN's strength in ratings and the marketplace in general in terms of avails, particularly in prime time, is getting ESPN to compete for dollars beyond sports dollars, and that's a pretty unique position for a sports cable network to be in, and a position that ESPN has not found itself in very often in the past. And so it's clear that the investment that ESPN has made in its programming and the strengthening of its brand is having an interesting impact, not just on the ratings, but on the way ESPN is perceived from a marketplace perspective.

The other thing I want to add that's also encouraging, and I realize I'm going to caveat all of this by saying again no guidance and don't necessarily take this to the bank for the whole year, but ESPN is showing some really encouraging growth on the digital front. Both their dotcom performance, their mobile performance, also their ESPN360 is all improving. And they're turning that into advertising revenue as well. And a small example, but there are four million downloads of the ScoreCenter app on the iPhone. And of those four million downloads, two million of those users are using ScoreCenter regularly, and it's advertiser supported. So it's starting to generate some real revenue. Small when you compare it to the total. But some pretty encouraging signs in terms of digital advertising growth there as well.

Scott Davis – *Analyst, JP Morgan*

Very helpful. Thank you.

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

Scott, the only thing I would add is when you think about it, what ESPN has been doing is continuing to build out its position. So Bob mentioned ESPN360, where subscribers have more



than doubled in the past year. Similarly, ESPN subscribers have more than doubled in the past year. So these other businesses that they've been quietly building, I think, bode well for ESPN's future and for their overall position. So we're encouraged by the near-term signs as Bob said. We're also feeling good about how they're positioning and investing for the long term.

Scott Davis – *Analyst, JP Morgan*

The one thing that I mentioned that you didn't comment on or take the bait on is NASCAR. So I'm assuming that's been a drag that's going to go away by the end of November. Is that a fair characterization?

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

Well, you're right. They had some softness in their advertising and in their ratings for NASCAR. And I guess when the season ends they'll obviously turn to doing what they can working with NASCAR to strengthen both the ratings and advertising for next season.

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

Thank you, Scott. Operator, next question.

Operator

The next question comes from Michael Morris from UBS.

Michael Morris – *Analyst, UBS*

Thanks. So retransmission consent and getting paid for the broadcast networks and stations is a topic that's been around for a while but certainly heating up lately. Wondering if you can give us an update on your thoughts. You have fewer stations, of course, but still a pretty sizable footprint. Is seeking compensation for your network content through retransmission something that you are looking to explore and is it something you'd rather do at the network level or at the station level? And then just one other thing, Bob, you talked about, with a little more emphasis I feel like on this call, a need for vigilance for IP as broadband increases, is that something you're kind of stepping up and can you speak to any significance on comments on this call versus prior calls? Thanks.



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

On the piracy front it's definitely something we're more interested in and more worried about. And as we watch with great interest the growth and penetration of high speed broadband connectivity, not just in the United States, but in markets across the globe, it's clear that while that creates some real opportunity for us in terms of robust means of distributing our content to consumers on new platforms, it also, I believe, raises the threat in terms of piracy. And in certain markets, South Korea is a great example, where broadband connectivity is really high speed and is ubiquitous, the piracy issue is far greater. And I think that while this industry has talked a lot about piracy as an issue, and has done certain things, it needs very much to galvanize around this issue as probably not only its biggest threat, but one of its most critical and important strategies going into the future. And we are at the table with others in the industry looking for solutions, attempting to create a cohesive approach, and really trying to attack this on a multiple or multi-layer, in a multi-layer way. And I think it's the most important thing usually in dealing with a threat is to recognize its existence. And so our articulation of this issue is in part designed to do just that.

On the retransmission front, look, we have ten great stations and a very successful network and have long believed that the value that those stations and that network creates, not only for consumers but for multi-channel providers, is significant. And we are intent on getting paid marketplace prices or fair market value, I should say, for those stations and that network.

We've had a good relationship with multi-channel providers over the years that have created great value for us and paid us well. Just as well, they've been paying us well and we've been continuing to increase value for them by investing in our programming and our brands.

ESPN's probably the best example of that, but Disney Channel, ABC family, we could name a bunch. We obviously are watching very carefully the dynamic in the marketplace about retransmission consent and fully expect to participate in the trend, however it goes, and continue to work as closely as we possibly can with multi-channel providers to not only derive value and preserve and protect shareholder value for us, but to make sure that the business or the business model of multi-channel service continues to create real value. It's very, very important for us.

Michael Morris – *Analyst, UBS*

Great. Thank you.

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

Thanks, Mike. Operator, next question please.



Operator

Our next question comes from the line of Jason Bazinet with Citi.

Jason Bazinet – *Analyst, Citigroup*

I just had a question on ESPN deferral for Mr. Staggs. Maybe I have this wrong. I always thought the number sort of trued up between what you deferred and what you recognized for the year. And I had a deferral last year of 390, or a recognition in Q4 of last year of 396. And I was sort of expecting something less than that in this quarter that you reported. Can you just elaborate on that a little bit?

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

Sure, the number that we cited, the 128, is the net differential in the deferred revenues that were recognized in this quarter, versus the number of, or the amount of deferred revenues in the prior year quarter. So as I recall it was, as you mentioned 396, something like that, fourth quarter last year. So we recognized net deferred revenues of 128 million more than that in this year. And that is driven by primarily the normal increase in subscriber rates. Now, it was also driven this year by a difference in the timing of the recognition. In other words, there was a key threshold that we met in Q3 of last year that we met in Q4 of this year. So that made the differential in Q4 that much larger, but the differential for the year, by and large, is only going to reflect the changing rates.

There's a very small anomaly this year that has to do with the 53rd week, because the calendars for accounting for us don't sync up exactly with what the calendars for the contracts, and so there's a small amount of revenues that were in the 53rd week that will be deferred that will in fact be recognized in 2010, but that's less than \$10 million.

Jason Bazinet – *Analyst, Citigroup*

Do you mind if I ask just one follow-up?

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

Sure.



Jason Bazinet – *Analyst, Citigroup*

Can you elaborate just a bit on the operating income losses at the interactive segment? In other words, I would think that most of the revenues that were generated there were sort of paid for in some other part of the ecosystem and therefore it's hard to generate smaller losses or gains, is it a function of the crappy display market that we're in?

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

No, there are two things to think about in this regard, in regards to the [Interactive] Media group. We're making an investment in video games, that's taking place there. I talked about the fact we're investing there, currently it's in a loss situation. It's something we'd like to see in the next few years reverse itself as we build out to scale in that business. So that's going on there. On the other side you've got the online business and the multi-player games business. And in that I think that arguably there's some of that activity which is marketing other parts of the business in Disney in general. So surely that portion of the loss there is in the efforts to better market our properties broadly. But if you look at the online business, you know, we've continued to see growth in advertising revenue there, especially in the video side of the equation. And we've also seen nice growth in the MMOG business delivered by Club Penguin where the subscribers have grown quite nicely. That's really how you break down the business and what's driving that.

Jason Bazinet – *Analyst, Citigroup*

Okay. Thank you very much.

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

Sure.

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

Thank you Jason. Operator, next question, please.

Operator

Our next question comes from the line of Michael Nathanson with Sanford Bernstein.



Michael Nathanson – Analyst, Sanford Bernstein

Thanks. I had a couple. Let me start with Tom first – and congratulations to you too.

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

Thanks.

Michael Nathanson – Analyst, Sanford Bernstein

Tom, in the past few calls you've talked about weakness in the licensing business, and I just wonder how that market is looking right now and is perhaps your content cycle helping that market? And then, what's been the reaction of your licensing partners to the Marvel deal, and how have those conversations gone?

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

In regards to the license business I would say this - I mentioned in the prepared remarks that we didn't really see the full effect of the downturn until we got to the beginning of calendar 2009, and so that's still going on in the backdrop. So on a relative basis, we still see some year-over-year softness there. Also, even though I think we've seen some encouraging news on the advertising side that Bob cited, etc., this holiday period, of course, much of it was determined by the extent to which people were ready to place orders over the last few months, and so that's going to impact us to a certain extent. Now, the question is what will come in terms of reorders, the pace of that, etc., and so that remains to be seen.

In regards to the content cycle, I would say we saw a little bit of softness due to tough comparisons to *Hannah Montana* and *High School Musical*. Now as we look forward, I like the trend in the content cycle and I like the refresh that's going on there, *Toy Story* being probably first and foremost, but also some of these other properties that we have high hopes for. And it will be interesting to see whether we continue to go Fairies which we'd like to do, we have *Princess and the Frog* which is another Princess to add to that line up, which as I think you know is an important set of franchises for us. We have *Cars* coming a little bit later on - another year down the road. And *Cars* of course has been one of our most important franchises and the prospect of a sequel to that film really bodes well. So we like the way the content cycle is going from here. Marvel clearly is an augmentation of that overall, and I don't know that we have any specific reaction from licensees at this point. But I think that, as Bob said earlier, as we've gotten closer to it we think the prospects for Marvel are at least as good as we thought at the time that we entered the transaction.



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

You're right. We haven't gotten much direct reaction other than to hear from certain licensees just how much interest there is out there both in the US and in international markets about Marvel properties, and there's real excitement about the films that they have coming up or that are being made by others, including *Iron Man 2* and another sequel to *Spiderman*, and some of the other properties they have on the marketplace. We think it's going to be a great opportunity for us down the road and we're excited about it.

Michael Nathanson – *Analyst, Sanford Bernstein*

Bob, can I ask you a question, let me follow up with something different. In the past weeks you're seeing some real discounting at retail for new Blu-Ray and DVD disks. And if your company is investing in premium content, premium brands, I wonder how do you respond? How do you view the heavy discounting going on at retail for DVDs? And did it have anything in their deals that precludes that kind of discounting that could possibly hurt some of the franchises that you invested in?

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

First of all, no, the pricing is determined by retailers, not by us. We sell them our goods and they determine how to price. And as we've seen in the past, typically when they discount, they discount on new titles anyway to create traffic and there's some good titles in the marketplace to use to do that. However, there is discounting beyond new releases, particularly on library products. And I think that's a sign of what we have been talking about, which is both downturn in the economy and also real secular change in the business.

One of the interesting things, by the way, is in talking with our home video guys, in prior economic downturns, library typically held up better than new release products and this time around we're finding that library is down as well, which suggests to us that some of the secular change that we're seeing might be evidencing itself in how library is being sold. It's a pretty interesting trend, and we continue to believe that there's just greater competition for people's time and money in the marketplace, just more things for people to do. We don't see people building libraries as much as they did when DVD came along after VHS. A lot of those libraries have already been built. And it causes us to really reconsider not only what we're investing in our films but how we market and how we distribute them. All the changes that we made in the Studio are indicative of concerns we have about the marketplace that go beyond just the economy. They're not temporary.

Michael Nathanson – *Analyst, Sanford Bernstein*

Thank you.



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

Thanks Michael. Operator, next question.

Operator

The next question is from Ben Swinburne from Morgan Stanley.

Benjamin Swinburne – *Analyst, Morgan Stanley*

Thanks. Good afternoon, guys. Two questions, one on cable margins, which came in better than expected, at least on my end this quarter. I think there was a Jetix rebrand and also the UK launch. Could you just help us, Tom, if you can quantify how much those two buckets were in the quarter and whether those two continue on into Q1. And then on the film side, I wanted to ask about *Christmas Carol* and *Pirates 4*. What's your reaction to *Christmas Carol* box office numbers so far, and how do you think about 3D in that movie and future holiday periods? And what's the timing on *Pirates 4*?

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

Okay, Ben, I'll take the question about *Pirates 4* and *Christmas Carol*. First of all on *Pirates 4*, we are close to naming a director. Johnny Depp is very much on board. We expect to commence shooting with *Pirates 4* sometime in the spring. So that's all good news. On *Christmas Carol* we believe we have a good film. We would be remiss if we said that we were elated with the results this past weekend. We actually would have liked it to have done better. But it's early in the season. We are very encouraged by the numbers yesterday. It did \$5.3 million in the United States. It was Veterans' Day, but it's an interesting sign. There are many examples of Christmas films coming out in that early November period that played extremely well for longer periods of time as you near the Christmas holiday. And we hope that this film follows that pattern. Also, the cinema score, or the results for people who saw this film in 3D was quite positive. And in fact, much more positive than people saw it in 2D. Not that people that saw it in 2D didn't like it. But the people who saw it in 3D liked it even more. And we're fortunate that even though there's competition coming in the marketplace, we think we'll have a pretty good hold on 3D screens, at least until *Avatar* comes out in, I guess, mid-December. So this was a costly film, and obviously that has to be taken into account. And it got off to a slightly slower start the first weekend than we would have liked, but we're continuing to spend in the marketplace to support this, and as I mentioned we're pretty encouraged by what we saw yesterday.



Benjamin Swinburne – Analyst, Morgan Stanley

If I could quickly follow-up, are there any plans with *Christmas Carol* and the home video front that you might go to market differently - obviously you don't have 3D in the homes, do you think about marketing there or how do you go to market or retail position or using digital downloads, is there anything different with this film given the unique nature of it?

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

The only thing different about it is we're going to go to the market much later and wait until Christmas next year, instead of putting it out for President's weekend or Easter. I was going to say Passover, but that would have been a bad joke. We like 3D in the home, by the way, but I think it's going to take a while for that technology to penetrate. The demonstrations we've seen are pretty compelling. But it's way too early to predict or indicate just how far that will go, and how valuable it will be. We do believe that for the right film 3D offers the moviegoer a better experience which is reflected in the pricing and reflected in the reaction we're getting from moviegoers.

And when you see a film like this in 3D, it's a good way to appreciate the technology, because I think it's quite compelling.

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

With regard to Cable margins, if you look at - let's look at the year as a whole for a second then we'll talk about the quarter. The year as a whole, we saw nice growth at ABC Family. ESPN, despite the difficult ad environment, was able to maintain margins roughly. And in fact they did maintain margins. But we did have this crossover from Jetix to XD and in some instances Disney Channel and there were some costs associated with that. What you're left with is really the key driver of growth for the year, which was ESPN. But in the quarter itself, the lion's share of the cost for the changeover had been earlier in the year. So we had some of that left and we're pretty much through that part of the equation. And so that helped the quarter.

I thought ESPN had impressive performance. Now clearly the deferral of the revenues, the affiliate revenues helped us in that regard. But given the fact that they also absorb some start-up losses in England from the new service, ESPN over there, I thought that they turned in strong performance and that overall it's probably one of the biggest things that might have led to what you would have expected. But not having looked at your model I can't tell you for sure. And here again the Disney Channels worldwide in the quarter also saw some margin expansion, in part because of the 53rd week, but overall good performance.



Benjamin Swinburne – Analyst, Morgan Stanley

Thank you very much.

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

Operator, next question, please.

Operator

Our next question comes from the line of David Miller with Caris & Company.

Dave Miller – Analyst, Caris & Company

Yea, hi. Congratulations on the stellar results. Tom, two questions for you. First of all, what was attendance at Disneyland and Disney World, including the extra week? I apologize if you said it and I missed it. And also obviously over the last 20 years or so, lateral movement of senior executives at Disney is nothing new. I'm wondering why you chose to go the way of the parks and what opportunity you see to sort of make your mark at the parks that may be Jay Rasulo has not made?

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

I'll tell you, I'm getting the chance to go over to the parks at a time when they have a very exciting period in front of them. In large measure because of the leadership that Jay has shown over the last seven years there. And so my goal is to go in there, get down the learning curve as quickly as I can and hopefully continue a lot of the great work that Jay has put in place. So that's what I'm focused on right now. By the way, to your first question, Disneyland was up 23% including the 53rd week, and Walt Disney World was up 5% including the 53rd week.

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

I want to be sure you understand I didn't give Tom multiple choices in terms of where he was going to go. And I made both Tom and Jay offers that I felt they couldn't refuse. I also had the benefit with Tom and Jay of two executives that I thought would thrive in their new changed positions and they were also both very right from a timing perspective to make this move having been in their current positions for quite a long period of time.

And so I have great confidence in both of them, obviously, in their ability to accept and thrive in their new roles. Again, there weren't multiple choices. These were kind of perfect for both of



them. And having benefited myself from being given new opportunities over the years, in some cases going to places and businesses I had not been in, I think I can particularly appreciate what a real opportunity this is for both of them and long term, what a great opportunity it is for the company. Not only to provide these two executives with new and different challenges and responsibilities, but to continue to do that for other executives. As we just did with Rich Ross who had spent a career in television and as we did with Anne Sweeney years back when we gave someone who had been in cable broadcasting responsibility. And we recently moved an executive who ran Latin America to run Europe, etc. and so on. And this is a unique move in many respects because of its significance, given the importance of these jobs. But it's not necessarily the first time we've done this, as you cited. And it won't be the last time we do it.

Dave Miller – *Analyst, Caris & Company*

Thank you very much.

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

Thanks, David. Operator, next question, please.

Operator

The next question comes from the line of Tuna Amobi with Standard and Poor's.

Tuna Amobi – *Analyst, Standard and Poors*

I certainly share the view Tom is one of the outstanding CFOs out there. Well done. I've got a few questions, first one seems like you got a pretty good bump, attendance bump from the promotions. And with regard to your decision to extend it, I think you said March and April next year for the two domestic parks. Can you talk about the thought process with that and why you kind of decide to - seemed like the Easter holiday weekend falls in between those two dates for extension dates for those two parks. I kind of wanted to get more sense about the thought process there and why you decided to kind of end them on different dates?

And secondly, I think, Bob, your prepared remarks talked about the sports right. And I don't recall, I didn't hear you mention the Olympics. South American rights, which seems you just picked up for the 2010 Vancouver and 2012 London Olympics. Can you talk about that in terms of the cost that you might expect to incur in 2010 and beyond, associated with those rights, and does that kind of presage a wider Olympic bid? And lastly a quick question on your Keychest initiative and how it dovetails into your studio marketing changes that you just announced. Any color there would help. Thank you very much.



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

Wow, Tuna, I gotta go to school to learn all...

Tuna Amobi – *Analyst, Standard and Poors*

Hopefully they're quick.

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

First of all, the Olympics. ESPN continues to look opportunistically at picking up rights for sporting events that they can distribute outside of the United States. They've done a good job of that. They distribute a lot of U.S.-based sports to international markets. Recently the World Series is a good example of that. They had an opportunity to buy the rights to these upcoming Olympic games, I guess in London, to distribute on their Latin American channel. It's a very, very modest investment. I won't get into any specifics but it's not material by any stretch of the imagination.

The discounting at the parks in terms of process, first of all, I believe that the Easter holiday falls outside of the window to extend the discounting. The parks spent a fair amount of time watching the marketplace very carefully and waiting before they essentially implemented or extended a discount. And they also spent a fair amount of time figuring out exactly what the discount should be. And they ultimately concluded that the marketplace warranted maintaining the promotional offer because obviously the marketplace wasn't responding as much as it would have liked when we didn't have a discount in place. The point Tom made about bookings trends, booking trends have actually picked up significantly since we announced the discount. And they had been somewhat sluggish before we did. This has been the case in the past as well. We look at this very carefully. I would like to emphasize that in the past, when we've had discounts, we have not had a problem weaning consumers off the discount. As economic conditions improved in the past, we've managed to maintain volume while reducing or removing the discount.

I also want to point out that the discount that we have in the marketplace today is slightly less of a discount than the discount we had in the marketplace the last few quarters by a little bit; both on the room and ticket side, but also on the dining side, where it's been changed somewhat. By the way, the marketplace has reacted very well to it. There's also a strategic value to discounting and maintaining volume as we see it in that the park experience that we provide is unique and special guest experience and research we do suggests that people who come love it. That improves return visitation as well as extends word of mouth and that's a very valuable part of our marketing process. And so when the marketplace basically warrants discounting, we believe that it's a good thing for us to do, even though it results in slightly less revenue, maintaining volume is very important.



On Keychest, won't get into too much detail there, but what we're really trying to do here is serve the consumer with technology that we're helping to develop by basically giving consumers the ability to buy something once and then watch it on multiple platforms and devices and not face a lack of interoperability, not face barriers of basically managing IP that they've bought in a way that makes it much less attractive to buy. It's a complicated technology, but the premise is as simple as this. It's really taking a look at the big picture from a consumer perspective and the consumer faces a somewhat daunting task when they make a decision to buy something digitally, because often what they buy is not portable to other platforms.

Tuna Amobi – *Analyst, Standard and Poors*

Would that be your answer to the TV everywhere, would you say?

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

Well, there's a yes and no to that. Look, TV everywhere is maybe an example of what we've talked about often, and that is digital technology providing us with more opportunities to reach consumers and consumers more opportunities to consume our product. And to the extent that TV everywhere serves consumers better, we're in favor of it. However, when you serve consumers better, when you provide more convenience or more utility, you should be able to charge for that and charge an appropriate amount. And some of what we've heard about TV everywhere suggests that interest in charging the consumer for greater access is not necessarily a priority, and we believe it should be. We also believe that we should still have the ability, if we go to a world where there's authentication and TV everywhere for the multi-channel subscriber, we should not be precluded from offering our product directly to consumers who may not be subscribers to multi-channel services, because we believe that would - and even though there aren't many of them - that wouldn't necessarily be good for consumers. And while we realize we're trying to serve many masters, the master that is most important to serve for us is the consumer.

Tuna Amobi – *Analyst, Standard and Poors*

Thanks.

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

Operator, we have time for one more question.



Operator

Our final question comes from the line of Doug Creutz with Cowen and Company.

Doug Creutz – *Analyst, Cowen & Company*

Thanks, I wonder if you could talk about your distribution deal with Dreamworks and what we could see from them in the coming fiscal year?

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

Probably very little in the coming fiscal year, because they're really just gearing up in terms of, not only their development, but their production.

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

Vis-a-vis our deal.

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

Exactly. So I think it's possible we'll have one film in 2010, although that's not a guarantee. And they'll start it in 2011. We still feel really good about this relationship. We're certainly encouraged by what we see in their development pipeline and certainly have great faith in their executives. We thought this was a great way to use our distribution infrastructure to increase our revenue and to grow our company without a significant capital investment.

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

Thank you, Doug.

Doug Creutz – *Analyst, Cowen & Company*

Thanks.

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

Thanks again everyone for joining us today. Note 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 fourth quarter conference call. Thanks, everyone, for joining us and have a good afternoon. Bye.

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