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Q1 FY06 Earnings Call

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PRESENTATION

Bob Iger - President and CEO, The Walt Disney Company

Before I talk about our results I want to cover a few broad-ranging subjects. First, a week ago yesterday two journalists from ABC News were severely injured while covering the war in Iraq. While I realize that thousands of people, American servicemen and other journalists are putting their lives on the line there, this one hit particularly close to home and so our thoughts go out to the families of Bob Woodruff and Doug Vogt.

Turning to Pixar, which obviously has occupied a tremendous amount of our time and has gotten a significant amount of attention, I want to say just a few things about the deal - some consistent with what was said earlier, some a postscript on the announcement. As you know, feature animation is clearly a cornerstone of The Walt Disney Company. We talk about our primary strategic priority as being the creation of great content. Buying Pixar is extremely consistent with this strategic priority given that they are so incredibly successful at feature animation.

We are also very happy with the talent that comes along with this deal, led by Ed Catmull who will run animation for both Disney and Pixar, and of course John Lasseter who is an incredibly talented director. John will also have a role as a creative advisor to Walt Disney Imagineering, putting his very talented eye on a lot of the creative activities at our parks. We believe that the combination with Pixar provides us with great promise for the future across not just our studio business, but a number of our businesses. Clearly it strengthens our asset portfolio, it improves our ability to attract and retain talent and it enhances our ability to deliver technically sophisticated and engaging content. We're going to be releasing *Cars*, the next film from Pixar, on June 9. I'm pleased to say that we screened *Cars* for a number of people in Detroit over the weekend on the evening before the SuperBowl, to rousing applause and we're really excited about the release of that film. *Ratatouille* will be the next Pixar release, probably in the summer of 2007.

Turning to my scripted remarks about our earnings, I mentioned earlier that creativity and innovation is our number one priority as a Company, from a strategic perspective. Our other two priorities are applications technology, which is used to make our product better and also to enhance its distribution. Then, of course, growing the Company globally, and a lot of things have happened at the Company against those strategic priorities since our last earnings release back in the latter part of 2005. Our Company's focus on creativity and innovation, much of it behind the Disney brand has led to strong consumer response across our businesses. By directing more resources to producing Disney branded content we reinforce our overall brand strength in family entertainment, and provide more opportunities to expand Disney in global markets.

At the Walt Disney studios we released the first installment of the *Chronicles of Narnia: The Lion, the Witch and the Wardrobe* in partnership with Walden Media to great commercial success globally. To date this film has become one of the largest grossing Disney live action films in history with a worldwide box office of $649 million to date. These box office results reflects the enormous franchise potential of this property which we expect will continue with the release of our second film in the series, which is called *Prince Caspian, slated* to hit theaters in December of 2007.

Beyond the studio, our video games unit experienced strong results with its *Narnia* offering last quarter, selling 2.2 million units at retail. And because it is part of our strategic shift to self-publishing, we're capturing a much higher percentage of the gross receipts than we did under previous licensing relationships. Again, with universally appealing content driving *Narnia*, the long term potential of franchises like this for existing businesses including our parks and consumer products, in addition to emerging businesses like the iPod and HD DVD, is significant.

Our media networks group continues to record strong performance driven by outstanding programming. ABC tied for first place among Adults 18-49 during the November sweeps, due to the quality of its programming which is driving both critical and commercial success. Series such as *Desperate Housewives, Lost, Grey's Anatomy, Extreme Makeover: Home Edition,* and more recently *Dancing with the Stars*, demonstrate the value of great content. And, we own these scripted dramatic series, which provide us with enormous opportunities to pursue new business models domestically and internationally.

ESPN also enjoyed strong ratings during Q1 with the last week of the quarter becoming ESPN's highest rated week in history, underscoring the ongoing incredible appeal and value of the network to consumers, distributors and advertisers. In all of 2005 the combined audience for ESPN's four-most widely distributed networks reached a record high and we're very pleased to see fiscal 2006 off to a solid start as well. However, as strong as our first quarter was, it is important to note that we're managing our businesses for the long term, not quarter by quarter. This means our decision-making in some instances may challenge well-established business models or practices in the near term so that benefits can be captured over the long run. The Apple iPod deal that was announced during the quarter is a clear example of our vision for the digital future.

Our relationship with Apple positions our Company in the forefront of emerging distribution platforms that satisfy people's demand for our content in an entirely new way. Given our first mover position with Apple, and the strength of our ABC, Disney Channel and ESPN content, our long-form programming is among the top video purchases at the iTunes store, with over 2.5 million downloads to date. Our early success clearly illustrates how valuable content is when married with great platforms and great consumer electronics.

Distributing our content on iTunes was also the right deal for Disney based on the platform's environment and protection for our content, the economics of the deal, and the consumer experience, all of which remain key factors as we look to new means to apply technology, and extend the distribution for our content. While these results are encouraging, we believe the real benefits of our leadership position will likely be realized in the future, when handheld wireless devices will be more widely adopted and as we strike new deals that potentially yield additive revenue streams for our content. You should look for us to be active in this area.

Along these lines, we're furthering our multi-platform approach to extending the ESPN brand with our MVNO initiative, Mobile ESPN, which began its wide national launch on the SuperBowl. Mobile ESPN is the first mobile phone offering with Internet access designed to meet the specific needs of sports fans, by giving each fan real-time access to personalized scores, stats, breaking news, audio and video highlights, and unique ESPN content. We do not take responsibility for putting any marriages in jeopardy with this phone in the marketplace. This venture is an important step in the direction of getting closer to our consumers, as we will have a direct relationship with our Mobile ESPN users versus through a distributor. In addition to diversifying our overall revenue mix at ESPN this relationship opens the door to significant opportunities to market new products and services directly to our consumers based on their interests, and generate new revenue streams well into the future.

An important component of ESPN's ongoing success is our ability to deliver fans the best in sports programming. To that end ESPN, along with ABC sports, struck a content-rich agreement with NASCAR in December and extended their long-term relationship with World Cup Soccer. In a competitive environment where rights fees are on the rise it's critical that we are selective and strategic in our approach to content acquisition. In addition, it's essential we serve our fans with great sports programming when and where they want it. ESPN is a brand that extends across multiple platforms from TV to print to broadband and wireless. Therefore, our programming deals include a broad array of rights to provide content to power all these businesses.

Disney also ended the quarter on a high note in our parks segment, with our domestic resorts setting a record for holiday season attendance. This was due to the strength of our industry-leading theme parks propelled by the ongoing excitement of our 50th anniversary celebration which continues throughout this fiscal year. Going forward we're enhancing our parks with innovative entertainment experiences in a balanced, measured way that keeps capital expenditures manageable while driving increased attendance and higher margins. Furthermore, having John Lasseter as the principal creative advisor in the creation of new attractions worldwide will put us in a stronger position to more fully develop our franchises from the movie screen to a more immersive 3D entertainment experience at our parks.

For its full quarter of operation, Hong Kong Disneyland also experienced very strong attendance during this December holiday period, and extremely successful results for last week's Chinese New Year holiday, including four consecutive days in which the park was sold out. With guest satisfaction measurements at the Hong Kong Disneyland resort extremely high, we have a strong basis to build affinity for the Disney brand in the region. And our efforts are not limited to the park. We also are increasing our investment in local content with our recent announcement of our first Disney branded live-action film produced entirely on the mainland, in partnership with The China Film Group, as well as further content development through our consumer products and wireless offerings.

Lastly, as discussed in the past, our radio business is among the best managed in the industry, and has generated great results. However, given our strategic priorities, the merger of these assets with Citadel Broadcasting makes sense for Disney. Together, ABC Radio and Citadel Broadcasting are a perfect strategic fit that will create one of the country's largest radio station groups. Our proposed combination of the ABC Radio business with Citadel Broadcasting underscores our commitment to maximizing the value of our assets for shareholders, while focusing our capital and management resources towards our core businesses. Looking to the future, we'll continue to carefully monitor and analyze consumer behavior and new technology developments to assess how best to evolve our businesses, either by adapting current business models or creating entirely new ones.

More and more consumers are demanding content across multiple platforms and to drive growth we know it is essential that we deliver our content on a well-priced and well-timed basis to our customers globally. Although it's difficult to predict what models will prevail in a digital world, as a Company we won't let traditional practices get in the way of best serving the interests and demands of our consumers, and we're committed to innovation and experimentation as is relates to new media developments. This means we fully understand the value of taking intelligent risks when a compelling new opportunity arises, just as we did with Apple's iTunes. We do not intend to watch consumer behavior change while our business models lag.

In closing, we believe that adopting a consumer-focused, long-term approach is the best way to manage and grow our businesses and deliver strong and consistent returns on invested capital. It enables us to keep our eye on the horizon, thereby building real growth and creating true value in the years to come. And now to provide the financial details, Tom Staggs.

Tom Staggs - Sr. Executive Vice President and CFO, The Walt Disney Company

Thanks, Bob. As Bob mentioned, the ABC Radio group represents a great set of assets and, under the leadership of John Hare and his team, this business has consistently delivered industry-leading performance. Last year ABC Radio generated $200 million in operating profit for us. That said, we believe we have the right strategic partner and an efficient deal structure that allows us to optimize the value of this business for our shareholders.

As part of the transaction, we anticipate leveraging the ABC Radio business and retaining the proceeds from that $1.4 to $1.65 billion in borrowings. In addition, our shareholders will receive stock in the radio business that will equate to approximately 52% of Citadel's total post-transaction shares. We'll distribute this new stock to our shareholders either through a spin or a split-off, depending on market conditions at the time the deal closes. The combination of debt that we expect to raise on the ABC Radio entity and the stock we will receive based on Citadel's current price comes to roughly $2.7 billion. Assuming that we receive regulatory approvals and a positive IRS ruling, we expect the transaction to close some time this fall.

The ABC Radio and Pixar transactions are obviously separate decisions and events. But the two transactions are both evidence of our focus on allocating capital towards our strategic priorities and especially those endeavors that can enhance our long term competitive advantages. The benefit of this capital allocation approach is also illustrated by our theme parks performance, where investments we have made in new hotels, attractions and entertainment - most recently in connection with our 50th anniversary celebration - are paying off.

Our parks’ performance in Q1, which included record holiday attendance, was a highlight of the quarter. On a fully consolidated basis, theme parks revenues were up 13% and profits rose 51%, with double-digit increases coming at both our domestic and partially-owned international resorts. The 50th anniversary celebration is resonating especially well at the Disneyland resort where attendance for the quarter was up 18%. We saw increases in each guest segment, with local and domestic visitation both up by more than 20%. Per capita spending at our Disneyland parks was also up by 18%. On the hotel side, West Coast occupancies increased by over 6 percentage points to roughly 96% and per room spending grew by 11%.

At Walt Disney World, we also saw positive trends. Attendance grew by 5% for the quarter, led by 15% growth in international visitation. Per capita spending at our Florida parks rose by 3%. Hotel occupancy was up modestly to 83%, with per room spending up 9%, due primarily to increased room rates.

Looking ahead, rooms on the books at our domestic parks for Q2 are trending slightly ahead of last year, however it's worth noting that the later timing of Easter this year results in 8 fewer vacation days in Q2 this year than last.

As Bob mentioned, Hong Kong Disneyland also contributed to this quarter's favorable performance, especially since last year at this time we were recording pre-opening expenses for Hong Kong that dampened our results.

At Media Networks, the continued creative success at the ABC Network in Q1 is showing in viewership as well as financial results. For Q1, primetime revenues came in at more than 35% above Q1 last year, driven by ABC's strong ratings, last spring's successful upfront and scatter CPMs that were up high single-digits versus upfront levels.

The ad market has remained strong so far in Q2, where we're seeing CPMs trending low double digits ahead of upfront pricing. Ad sales at our TV stations increased by 3% for the December quarter and for Q2 so far, our TV stations are pacing 8% ahead of last year driven by SuperBowl ad sales. Our cable networks continue to deliver robust ratings and we saw double-digit growth in ad revenue at both ESPN and ABC Family in Q1. Total revenue for the cable group was up only modestly, as ESPN’s carriage agreements caused us to defer more than $100 million more in affiliate revenue from Q1 versus what we deferred last year.

As the preeminent brand in sports media, ESPN continues to build value for our shareholders. The March quarter for ESPN has gotten off to a good start with this year's college Bowl season, and ad sales so far in Q2 at ESPN are running mid single-digit percentages ahead of the prior year. At our other cable channels, we continue to invest in programming and we are seeing this investment pay off in solid ratings, even though that spending has dampened current results somewhat.

For calendar 2005, the Disney Channel was rated the #1 basic cable network in primetime with kids 6-11 and Tweens 9-14, for the third consecutive year. At ABC Family, as I mentioned, we generated double digit ad growth again in Q1, although our programming investment more than offset those gains.

At the studio, as anticipated, we faced difficult comparisons to last year's December quarter which included the theatrical release of *The Incredibles* and *National Treasure* and a relatively stronger slate of home video releases. Those differences showed up in our financial results. Nonetheless, Q1 was a success creatively for Disney-branded titles at the studio, led by the tremendous performance of *Chronicles of Narnia* and strong results from *Chicken Little*.

We believe that two of Disney's key advantages are the strength of our brands and our ability to leverage successful content across a range of businesses. These advantages were evident at Consumer Products this quarter, where operating profit at Buena Vista Games increased substantially in Q1, due to the success of games based on *The Chronicles of Narnia* and *Chicken Little*. We're pleased with our progress in video games and see this business as another area where we can leverage our brands and content to generate future growth.

The start of fiscal 2006 has been exciting and gratifying for us in many ways and going forward, we believe we are well positioned to continue delivering growth and improving returns for our shareholders. With that goal in mind, I'd like to touch on some of the key drivers and swing factors that will likely impact the rest of the year.

As we mentioned during our last earnings call, we expect our growth in fiscal 2006 to be heavily weighted toward the latter half of the year due in large measure to a number of factors that will impact our second quarter. At ESPN, we expect to defer a little over $40 million more in revenue from Q2 until later in the year versus what we deferred last year. At ABC, the SuperBowl will generate a net operating loss of approximately $20 million given the impacts at both the Network and our stations. In Consumer Products, you should recall that in last year's March quarter, we booked $40 million for the recognition of license guarantee revenues from Mattel, which, together with our increased investment in video games will create difficult comparisons for this segment in Q2. At the studio, fiscal 2006 will benefit from a solid creative start, with *Chicken Little* to be released on home video on March 21 and *Narnia*, to be released on home video on April 4th. However in Q2 home video comparisons will be challenging again as Q2 of last year included the release of *The Incredibles*, which was the best selling video title of 2005, plus *Bambi* and *The Village*. Beyond Q2, we look forward to two of the most anticipated films of the year including *Cars*, which opens on June 9th, and *Pirates of the Caribbean: Dead Man's Chest* on July 7th. Of course, no one can predict box office performance with certainty - and market dynamics could impact our studio performance - but overall we expect meaningfully improved results for 2006 due to a better-performing theatrical slate, as well as lower spending at Miramax.

In the second half of the fiscal year we expect robust growth driven by a successful summer at our Studio, continued momentum at ABC and ongoing strong visitation at our theme parks. The fundamental growth at ESPN, coupled with recognition of the revenues deferred in the first half of the year will have a significant positive impact on the second half as well.

With so many positive prospects ahead and barring a change in our outlook for the economy, we look forward to delivering our 4th straight year of double-digit earnings growth in fiscal 2006. Assuming continued strength in the climate for our businesses, we also remain confident in our ability to deliver double-digit compound average EPS growth through at least 2008 off the strong base we established in 2004. Consistent with our confidence in the future, the Disney Board recently increased our total available share repurchase authorization to 400 million shares. Given our current expectations, we intend to repurchase in excess of $5 billion worth of Disney shares over the next 12 months and target buying as many shares as we're issuing in the Pixar transaction by the end of fiscal 2007. In the December quarter, we repurchased 49 million shares at a cost of roughly $1.2 billion.

This is an exciting time for our Company. We are taking bold steps to create powerful, high quality content and new opportunities to distribute that content. At the same time, we remain focused on operational excellence and efficiency and, most importantly, on building on the unique relationship that we enjoy with our customers while creating lasting value for our shareholders. With that I'll turn the call over to Wendy for Q&A.

Wendy Webb - Sr. VP, Investor Relations and Shareholder Services, The Walt Disney Company

We're ready to take the first question, operator.

Operator

Our first question is from the line of William Drewry with Credit Suisse.

William Drewry - ***Credit Suisse - Analyst***

Tom, could you talk about what the total incremental investment spending will be this year for MVNO, and for video games? And then I'm also wondering if you could talk further about the second half of the year. You still sound pretty bullish on the parks. Should we expect to see incremental margin growth at the theme parks as you continue to price up, and drive volume gains?

Tom Staggs - Sr. Executive Vice President and CFO, The Walt Disney Company

With regard to MVNO, we had said at the outset of the year that we expected in excess of $130 million of investment spending in MVNO. My gut right now is that it will be something a little north of that, although it's difficult to know until we've launched both products, but I would expect a number somewhat higher than our expectation at the beginning of the year. With regard to video games, we'll be spending over $100 million in the development of video games, which is roughly double what we spent last year. With regard to parks, we do expect margin growth for the year as a whole. And, obviously, in the first quarter we took a good step in that direction. The 50th Anniversary has really been a powerful celebration for us and we assume that it will continue to work which bodes well for the park for the remainder of the year.

Wendy Webb - Sr. VP, Investor Relations and Shareholder Services, The Walt Disney Company

Thank you. We'll take the next question please.

Operator

Our next question is from the line of Lowell Singer with SG Cowen.

Lowell Singer - ***SG Cowen - Analyst***

Thanks, good afternoon. Two questions. First, Bob, can you talk a little about what you think ABC needs to do in preparation for the upfront. It seems like you've had some nice successes this year, but you've also had a couple shows that have gotten off to good starts and then faded a bit. I'm wondering what the key steps are that ABC needs to take? And Tom, can you talk a little bit about the domestic/international split at theme parks? I notice you didn't put that data in the release, and I'm wondering if that is something you'll continue to release? If you can give us that data on the call, that would be helpful. Thanks.

Bob Iger - President and CEO, The Walt Disney Company

Lowell, right now ABC is experiencing double-digit increases over the upfront in every day part with primetime up in the neighborhood of 11% to 12%. And we believe that what's driving this is the delivery of great, upscale demographics. For instance, ABC is the number one network in households with an income of $75 thousand, households with income of $100 thousand, four years of college, et cetera. A lot of the shows that are on ABC, particularly *Home Makeover* and *Dancing with the Stars*, are universal in appeal. What ABC has managed to do, primarily by programming quality programs, is to deliver demos that advertisers feel they must have. So, in speaking with the ABC sales group, they are extremely bullish about where they will stand in the upfront.

Now, it's still early to predict what the upfront is going to look like but they at least feel great about how they are positioned going in. They are at the front of the line when it comes to getting calls from sponsors seeking to buy spots, again because of the upscale demos. It also doesn't hurt to have shows that are getting as much attention for their quality like *Lost* and *Desperate Housewives,* and so I think they're in great shape. If we can add to that with the shows we've got coming up, which I'm hopeful we will, it will be icing on the cake.

Tom Staggs - Sr. Executive Vice President and CFO, The Walt Disney Company

Lowell, I wasn't sure whether you were asking about the international parks' operations or international attendance so, I guess I'll give you a "two-for." At Walt Disney World, international attendance was up in the mid-teens and so we continue to see nice growth there. Disneyland was up high single-digits in international attendance. So again, strong, although the greatest growth at Disneyland was really in domestic attendance and residents, as I mentioned.

With regard to the international operations, if you just look at the consolidated income statement you'd see a little over $400 million in revenues coming from Euro Disney and Hong Kong Disneyland, and about $16 million impact to the operating profit line, with $388 million of expenses. So that will give you a sense of the drivers there. As I mentioned in my prepared remarks, we saw very strong double-digit growth from our domestic parks, and that was aided by the improvements we saw in our international parks.

Wendy Webb - Sr. VP, Investor Relations and Shareholder Services, The Walt Disney Company

We'll take the next question, please.

Operator

Our next question is from the line of Doug Mitchelson with Deutsche Bank Securities.

Doug Mitchelson - ***Deutsche Bank Securities - Analyst***

Thank you very much. Bob, you mentioned that sports rights fees are on the rise, and Disney needs to be selective. In Q1, cable network revenue growth slowed a bit to 9%, after you add back the $105 million from the ESPN deferral. So, with slowing revenue and rising costs, investors are worried that ESPN might not be able to grow profits next year. Any clarity you could provide as to ESPN's growth prospects next year?

Bob Iger - President and CEO, The Walt Disney Company

Yes, we're still looking for double-digit growth from ESPN, not just the next year, but in the next few years. We have been aggressive but selective in the rights that we've gone after. Our eight-year deals for NFL, NASCAR and World Cup Soccer along with baseball and NBA, all position ESPN to use this great programming to really strengthen the brand. As ESPN's subscription fees continue to rise, and their brand strength grows because of the affinity for all of this great programming, we believe that we'll be able to grow advertising by delivering better ratings. And the ratings for ESPN last year, as I mentioned in my remarks, were quite strong. So, double-digit growth is what we're anticipating from ESPN. We're pleased with how they're positioned both from a programming perspective, from a brand perspective, and in terms of their use of new technology.

Tom Staggs - Sr. Executive Vice President and CFO, The Walt Disney Company

The one thing I would add with regard to ESPN growth, is that I think there had been some concern when we talked about ESPN growth that would average double-digits through 2009. Just so people understand; if we thought that one of those years was going to be dramatically off that pace, we would try to indicate that in our guidance, so it's exactly as Bob said. We still believe that the way those years will roll out will be generally consistent with that pace, depending, of course, on the relative strength of advertising and other impacts during the course of those years.

Wendy Webb - Sr. VP, Investor Relations and Shareholder Services, The Walt Disney Company

We'll take the next question please.

Operator

Our next question is from the line of Anthony Noto with Goldman Sachs.

Anthony Noto - ***Goldman Sachs - Analyst***

Thank you very much. Bob and Tom, two questions. First, Bob, do you see ABC being as strategically important today as it was in the past? And if not, what could have caused that to change, to make it not as strategically important as it has been in the past? And then, Tom, I was wondering if you could update us on the home video market? I know that were a lot of comments that you had back in the September timeframe, and I was wondering when we may see a bottoming on what the current trends are, both for The Walt Disney Company and then at the industry level. Thanks.

Bob Iger - President and CEO, The Walt Disney Company

Well, first of all, Anthony, I would be remiss if I did not congratulate you on the birth of your twins. That's what I would call true double-digit growth. So congratulations. Rather than talking about the strategic value of ABC's past, let me talk about current or future value, because ABC has been part of different companies over the years. I believe that ABC Television - the network combined with the television stations - is a very valuable strategic asset for the Company. The reach of the stations and the network in combination enables us to invest in great content and then to distribute that content, not just on those platforms but on new technological platforms (iTunes is a perfect example), and also to grow the Company outside the United States. So, when *Desperate Housewives* launches in China, to me, that's a great step from a strategic perspective. So, we're really looking at a three-pronged brand approach for the Company. That's Disney, which is clearly first and foremost in our minds in terms of value, ESPN, obviously a huge profit driver and a very, very important brand for the Company's long term, and then ABC Television. The reason I'm saying 'television' is to differentiate it from ABC 'Radio.' Our intention is to focus on these core assets of the Company and to use our capital allocated aggressively to build up the Company's portfolio of great programs, and then exploit them aggressively outside the U.S. and on new platforms domestically.

Tom Staggs - Sr. Executive Vice President and CFO, The Walt Disney Company

With regard to the question on home video, clearly our total units were down somewhat for the quarter, which drove the tougher comparisons, and that had to do with the slate that we had in the marketplace for the quarter. If you look at industry conversion rates, they actually looked to us like they improved modestly in the fourth calendar - our first fiscal - quarter. So, we're cautiously optimistic about that. Last year, the overall home video market was roughly flat with the prior year, and it looks like the first quarter was not inconsistent with that trend. So, overall the market seems reasonably stable and conversions are up a little bit. Our quarter suffered because of the slate that we had out there.

Bob Iger - President and CEO, The Walt Disney Company

And just to add to that - I'm actually bullish about next generation DVD. I realize that it's going to go through a bit of a challenging period because of the competing platforms and the fact that we have to penetrate the market with new players and new software or movies. But I saw it at the Consumer Electronics Show and I've seen a fair amount of demos here at the Disney lot recently. When you watch one of our movies or a TV show on a high definition DVD it is a great experience. I have to think that it's going to be, one, good for our business and also great for consumers. It is something that I think will ignite the marketplace. And I think the DVD side of it -even though we're programming a lot of live programming and HDTV - is going to go a long way to stimulate penetration of HD in general in the marketplace.

Wendy Webb - Sr. VP, Investor Relations and Shareholder Services, The Walt Disney Company

We'll take the next question, please.

Operator

Our next question is from the line of Aryeh Bourkoff, with UBS.

Aryeh Bourkoff - *UBS - Analyst*

Good afternoon or good evening. Just a few questions. One, I was wondering if, for the film division, you could give us a breakdown of the performance in the quarter for theatrical versus home video? And within home video, maybe a breakdown between new releases and library titles? Secondly, I was wondering if you could give us an update on ESPN's negotiations with Comcast and Time Warner? Last, any sort of Internet assets out there that you are looking at or targeting for enhancing the growth profile of that division? Thanks.

Tom Staggs - Sr. Executive Vice President and CFO, The Walt Disney Company

Well, what I will say about the breakdown at the studio is that the biggest driver of the year-over-year change came in the theatrical area, but we also saw lower results at domestic home video. International home video was up just a little bit. With regard to the home video marketplace we had very strong results from *Cinderella*, which compared reasonably well to *Aladdin* last year, and so those are the biggest pieces of the library. But there was greater depth in the new releases last year than there were this year, and so that was a bigger part of the driver there.

Bob Iger - President and CEO, The Walt Disney Company

On the cable front, a lot of details have already been worked out between Time Warner and Comcast and Disney. But there are still some details to go. Because we're talking about long term deals with many moving parts, in a world that technology is making more and more complex, there are some pretty interesting issues on the table, in terms of the role of the distributor versus the role of the programmer. While I'm a little bit frustrated at the pace, because it's taking a long time, I'm not concerned about the ultimate outcome.

Wendy Webb - Sr. VP, Investor Relations and Shareholder Services, The Walt Disney Company

What about Internet?

Bob Iger - President and CEO, The Walt Disney Company

Sorry, we wouldn't comment about anything specific we'd be looking at in the Internet category. We, obviously, are aware of developments in that business, and consider a lot of possibilities. That's an ongoing process.

Tom Staggs - Sr. Executive Vice President and CFO, The Walt Disney Company

I think what we have said in the past is that we are open to acquisitions along those lines and that we would be looking for reach in audiences that we think are consistent and compatible with our existing operations, and that are leverageable across the range of content activities that we have but, as Bob said, I don't think we'd point out anything in particular at this point.

Wendy Webb - Sr. VP, Investor Relations and Shareholder Services, The Walt Disney Company

We'll take the next question then please.

Operator

Our next question is from the line of Jessica Reif Cohen with Merrill Lynch.

Jessica Reif Cohen - *Merrill Lynch - Analyst*

Hi, thank you. A couple questions. On animation, could you go through again what the expectations would be for Disney animation per annum versus Pixar? At what point will Pixar actually ramp up? It sounds like '07 for sure is one film, so I'm just wondering when you really expect there to be two films a year. And then on the divestiture front, Bob mentioned that TV stations are kind of hand-to-hand with the network but you have ten stations versus everyone else's significantly larger station group. Do you think you have enough? Sounds like you need to keep them, but do you think you have enough stations? And then finally, given the success of Hong Kong, just wondering if there's any movement on another China theme park?

Bob Iger - President and CEO, The Walt Disney Company

Theme parks first - nothing to report there. By the way, Jessica, I congratulated Anthony, I would be remiss if I didn't congratulate you on the birth of the new Disney princess, Vanessa, so congratulations. On theme parks, we've had ongoing discussions with the Chinese Government about a park in Shanghai, and have nothing new to report there.

On the TV station side - we have ten stations. They're all in great markets, some of them are in bigger markets than others and they are powerhouses in terms of ratings, performance and economics. While I think it would be nice to have more, we don't feel it is essential. And, every time we've looked at potential acquisitions in that space we felt that the prices being paid were just a little bit too high. Since our relationship with our affiliate base is relatively healthy, there doesn't seem to be a need to own or control more.

In response to your first question on Pixar and Disney animation - we're not being specific in terms of numbers, except to say that the goal is to release approximately two films a year. There will be some ebb and flow in that regard as we focus on the sequels that we plan to make, after the deal closes. We expect, for instance, when the deal closes, that Pixar will take over the production of *Toy Story 3*. And we know that there will be some other development activity at Pixar, in terms of sequels. We are going to focus on quality, particularly in this space, as it's incredibly important. While I think we'll be satisfied with the quantity that we produce, the focus is making sure that we're making the right films and releasing them at the right time, particularly because these films tend to have such an impact on people's perception of the Disney brand.

Wendy Webb - Sr. VP, Investor Relations and Shareholder Services, The Walt Disney Company

We'll take the next question please.

Operator

Our next question is from the line of Kathy Styponias with Prudential.

Kathy Styponias - *Prudential - Analyst*

Hi, thanks. I have a couple questions as well. First, Tom, if you can clarify whether the ABC Radio transaction does not include the ABC Radio networks? Second, Bob, since monetizing content over new platforms is a key strategic priority for Disney, I was wondering if you can give us a sense of how much you're currently generating in revenues from these types of platforms and how big you think these could grow over the next three to five years? And then finally, with respect to rights as it relates to your film library for areas like broadband, does your agreement with Starz preclude you from making certain titles of your catalog available on iTunes, or is it considered a completely different animal? Thanks.

Tom Staggs - Sr. Executive Vice President and CFO, The Walt Disney Company

Well, on the first question - the proposed combination with Citadel does include the ABC Radio networks and formats. With regard to ABC News content, it's by way of a license agreement, whereby they would, for at least ten years, be distributing on terrestrial broadcast radio the ABC News content. It’s possible that ABC News would be distributed elsewhere via a different mechanism.

Bob Iger - President and CEO, The Walt Disney Company

Regarding the two questions about content over new platforms, we don't get into much detail about the agreement with Starz publicly but I can tell you that we have the ability to make available to the public, on a VOD basis, movies that are also available through the Starz platform in a period of time before the Starz window kicks in - again on a VOD basis.

In terms of monetizing content over new platforms, and how high or how big that could be, my sense is that it can be very big and very high. We're not going to be specific about it. We're already starting to see some relatively decent revenue flow from some of the activity in this space. I think today that while we say they are significant, like, 2.5 million downloads on iTunes, in reality it's still baby steps as these new devices and these new platforms penetrate the market. It's clear that consumers are going to use new platforms and new devices to access content all over the world. And the more they do that, the more opportunities we have to move that content on new platforms to these consumers. In some cases it will be incremental revenue to the Company, and in other cases it won't be. What is clear, and this is something we're learning from the iTunes experience, is that people will pay for the convenience of access to content that they missed before, or for mobility. That is very, very clear. I think you're going to see that pattern continue, particularly as new generations of people move into the marketplace that are much more used to adopting these new technology platforms than their parents' generations were.

So I'm very, very bullish. It speaks volumes about great content, but it's also important that we put that content out on the right platform. That means not only well-timed and well-priced to market, but a platform that provides us with a very user-friendly environment - user friendly for the consumer, user friendly for the program provider - and one that really respects the value of intellectual property, and one that, generally speaking, has a really good chance of succeeding. We could make dozens of deals in this area right now but quite frankly, a lot of entities that are coming forward are providing us with opportunities that we feel will be short lived, because we don't think their platforms are going to survive.

Wendy Webb - Sr. VP, Investor Relations and Shareholder Services, The Walt Disney Company

Next question please.

Operator

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

Michael Nathanson - *Sanford Bernstein - Analyst*

Thanks, I have one for Bob and one for Tom. Bob, I was wondering, what impact do you think the new NFL Network is going to have on ESPN ratings and advertising? And then for Tom, when I look at your income from affiliates line it was down year-over-year, and cable networks is a big part of that, so could you just give me some color on what happened in the quarter?

Bob Iger - President and CEO, The Walt Disney Company

I think, in all likelihood, the NFL channel is not going to have any impact on ESPN ratings or advertising. ESPN will have *Monday Night Football*. It will be extremely well programmed and positioned and promoted on the ESPN platform, and so I'm sure that ESPN is going to do quite well with it. I don't see the eight games that are on the NFL channel impacting ESPN negatively at all.

Tom Staggs - Sr. Executive Vice President and CFO, The Walt Disney Company

With regard to the equity and affiliates line, far and away the biggest part of that decrease is in various channels, many of them international where we own minority stakes. The big channels, A&E, History Channel, Lifetime and E! had slightly softer results year-over-year, but weren't different by very much at all. So, at the end of the day we're still very comfortable with where those channels sit, and the fundamentals underneath them.

Wendy Webb - Sr. VP, Investor Relations and Shareholder Services, The Walt Disney Company

We'll take the next question, please.

Operator

Our next question is from the line of Douglas Shapiro with Banc of America Securities.

Douglas Shapiro - ***Banc of America Securities - Analyst***

Okay, thanks. Also one for Tom and Bob. It may be obvious, but Tom I'm just wondering, should we assume that this $1.4 or $1.65 billion is already earmarked for the buybacks that you've already discussed? And then for Bob, you mentioned that you don't intend to let existing business models stand in the way as consumer tastes change. I was just wondering if maybe besides the iTunes deal, you can talk more specifically about what you might see on the horizon with regard to windows? Thanks.

Tom Staggs - Sr. Executive Vice President and CFO, The Walt Disney Company

Well, we haven't earmarked those funds for anything other than operating the businesses and reinvestment in the business. The share repurchase decision is one that we've made separate and apart from that transaction. We obviously take into account our overall liquidity and debt position when making those decisions but those specific funds haven't been earmarked at one specific place or another.

Bob Iger - President and CEO, The Walt Disney Company

In terms of other deals that we're looking at, there are many. We're really looking at everything. Some could be quite significant, but I don't want to get much more specific.

In terms of windows, it comes down to one very obvious thing. I hate to sound cliché but we're watching consumer behavior change right before our eyes, and technology is causing that. And yet, a lot of businesses are very wedded to old models and practices and habits and relationships. It behooves the whole industry to really look at what consumers are doing and how they are changing and not let these other models get in the way of it. It's tricky, because you are putting relationships on the line, and in some cases we're putting current business models on the line, so there's risk associated with it. We're trying to find a balance. I know that I have been fairly outspoken on the subject of windows. I actually believe that you are going to see a fair amount of change in windowing of product, whether it is movies or television product. iTunes is one example of that. Where it is going to come, when it is going to come, I'm not 100% sure, except I believe that there's an inevitability to it.

I really hope that when it comes to the theatrical window for motion pictures, I'm clear when I say that that window creates a lot of value. The experience of going to a great movie in a great theater on a big screen is a memorable experience, and we'd like that to continue. But the world is getting a lot more competitive than ever before. People's experiences watching movies in the home has changed a lot thanks to these new technologies, big flat screen TV's and HD television. So, I think the industry has to pay heed and make sure that in a more competitive market we're serving the consumer better, either by getting product to market faster, or by making the initial experience better. When it comes to movies, I think it would be important for the whole industry to make sure that the movie going experience is enhanced. It's one of the reasons why we're as supportive of digital cinema as we are – so that the great experience is preserved because ultimately if it is not, there will be that much more pressure on windows.

Wendy Webb - Sr. VP, Investor Relations and Shareholder Services, The Walt Disney Company

We'll take the next question, please.

Operator

Our next question is from the line of David Miller from Sanders Morris Harris Group.

David Miller - ***Sanders Morris Harris Group - Analyst***

Bob, two specific questions for you. In your conference call with Steve Jobs a couple of weeks ago, I'm not certain that the question was answered regarding the fate of Disney's current CGI slate post *Chicken Little*, which includes *American Dog*, *Rapunzel Unbraided*, et cetera;

projects that you guys gave major lip service to at last year's analyst meeting. What is the fate of those projects? Do you see outsourcing those to Pixar, or do you see keeping them in-house as Disney-owned projects?

And then with regard to *Monday Night Football* next year; there are some reports that Al Michaels may not want to join Joe Theisman in the ESPN booth this fall, and instead may prefer to stay with John Madden, who I believe is going to NBC in that Sunday night package. Given your sports background with the old Cap/Cities, does this matter and do you see this at all affecting CPMs and ad rates going into the June cable upfront? Thanks very much.

Bob Iger - President and CEO, The Walt Disney Company

The intention is to release *Meet the Robinsons* sometime next Christmas season and then a year later *American Dog.* We don't intend, unless there are unforeseen circumstances, to change the release schedule for those films. Once the deal closes John Lasseter and Ed Catmull will take a good look at everything we've got in animation - both films that are in production and our development slate - and make decisions about what ultimately gets made and when it gets released. One of the things that is obviously attractive to us about this deal is that the talent at Pixar, including John and Ed, and the technology that can be applied in a variety of different ways to Disney animation. When you think about the Pixar deal you have to think about it in terms of movies themselves, and three specific categories. One, the fact that we will own 100% of the Pixar films, starting with *Cars* should the deal close in time, which we hope it will. Two, in all likelihood it will be Pixar that will be making the sequels and since they made the original films we like the fact that they will be making the sequels. We think that's the right place to make them, by the right people. And three, the talents of John Lasseter and Ed Catmull and others, when applied to Disney animation should improve the prospects for our Disney films. On top of all of that is the impact of great animation on the Company, because animation is such a wave maker for Disney, either perception of the brand or the ability to exploit it across so many platforms. So all of this is still up in the air in terms of what gets released, except for the two films. But we're very, very bullish about the prospects of Disney animation going forward with Pixar under the leadership of Ed and John.

In terms of Al Michaels, he just finished the SuperBowl yesterday where I thought he did a great job. I worked with Al for years at ABC Sports, he is a friend and a neighbor and his future with the Company is under George Bodenheimer who runs sports for the Companies, and any decisions that are made regarding Al will be made by George.

Wendy Webb - Sr. VP, Investor Relations and Shareholder Services, The Walt Disney Company

We have time for just one more question, operator.

Operator

And our last question is from the line of Spencer Wang with JP Morgan.

Spencer Wang - *JP Morgan - Analyst*

Thanks, good afternoon. Two quick questions. Bob, some broadcasters have been getting cash for retransmission. Can you just walk us through your current thinking about using the ABC stations for that? And then secondly for Tom, capital expenditures in the quarter were about $200 million. Is that a good run rate for the year? Thanks.

Bob Iger - President and CEO, The Walt Disney Company

We give MSOs the opportunity to pay cash for retransmission and basically the retransmission deals only. In almost all cases they opt for an omnibus deal that includes distribution of all of our other content, and in some cases in new technologies. The relationship that we've managed to strike with these MSOs is, I think, beneficial to both sides economically and otherwise. We've managed to grow our businesses, both the multiple system operator business and cable and satellite business as well as the program business. I don't want to comment about what others are doing, but we like the way our negotiations have unfolded in the past and are unfolding in the future, where we're actually getting value from retransmission, even though it's coming in another form. Whether in the future there will be a time when there's a charge directly for it by us, I'm not 100% sure. It’s certainly possible, but by and large we're quite comfortable with the balance we've struck with these operators.

Tom Staggs - Sr. Executive Vice President and CFO, The Walt Disney Company

With regard to capital expenditures, you may have noticed that our domestic parks were down in terms of their capital spending by about $50 million in Q1 this year versus Q1 of last year. Part of that was timing. I think the best assumption right now is that for our domestic theme parks, the capital expenditures for the year as a whole will be not that different from what you saw for the year as a whole last year. Of course, the international parks will be down considerably having finished the initial build out of the Hong Kong park, as we told you to anticipate. Capital expenditures will be up a bit at media networks, so for the year overall we might be up little bit in capital there and then we'll be down with our international parks operations for the year as a whole. So that puts you a little bit above the run rate you saw in the first quarter, due to the timing on the theme parks domestically.

Wendy Webb - Sr. VP, Investor Relations and Shareholder Services, The Walt Disney Company

Thanks for joining us today. Note that a reconciliation of non-GAAP measures referred to in this call to equivalent GAAP measures can be found on our Investor Relations website. Let me also remind you that certain statements on this conference call may constitute forward-looking statements under the Securities laws. These statements were made on the basis of management's views and assumptions regarding future events and business performance as of the time the statements were made and management does not undertake any obligation to update these statements. These statements are subject to a number of risks and uncertainties and actual results may differ materially from those 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.

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