CORUS ENTERTAINMENT

Moderator: John Cassaday
April 10, 2008
8:00 a.m. CT

Operator: Good day and welcome to Corus Entertainment's Q2 analyst and investor conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. John Cassaday, president and CEO. Please go ahead, sir.

John Cassaday: Thank you, operator. Good morning everyone. It's John Cassaday. Welcome to Corus Entertainment's second quarter report and analyst conference call. Thank you for joining us today.

I'll take a moment to run through the standard cautionary statement before we begin. This discussion contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1955. Some of these statements may involve risks and uncertainties. Actual results may be materially different from those contained in such forward-looking statements.

Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the company's filing with the U.S. Securities and Exchange Commission.

We'd now like to introduce you to the Corus Entertainment team available on this call – Tom Peddie, our senior vice president and chief financial officer; Paul Robertson, president of Corus Television; John Hayes, president of Corus Radio; and Doug Murphy, president of Nelvana Enterprises.

Before we review our results, we would like to advise everyone that we have a series of PowerPoint slides that accompany this call. The link to the slides can be found on the investor information page of our Web site, corusent.com.

And so let me begin by saying that we are very pleased with our results. As slide three and four show, we had a record second quarter with revenue up 2 percent, and segment profit up 5 percent. Segment profit was up 9 percent, excluding our content division.

Our net income was up 81 percent, with 42 cents basic EPS versus 23 cents year ago. We would like to spend the next few minutes providing some additional context to these results, starting with television on slide five.

Our revenues on television were up 4 percent, and our segment profit was up 7 percent. Our margins on TV improved from 40.7 to 41.7. Specialty advertising rebounded nicely in the quarter, up 8 percent. The strong specialty advertising growth was driven by W Network, and Telelatino, both showing strong double-digit gains. (CMT) is performing well, and our local TV stations are stable.

Our kids advertising on YTV and Teletoon was also up single digits, but these brands are down overall due to a reduction in the adult ad spend, due largely to the loss of a key show on Teletoon, which was Family Guy – which we lost to a competitor.

There were three areas of softness in our business this quarter. First, our Corus Custom Network business has been soft thus far this year, due to a format change, but should return to growth in Q3. Second, (Maxtrax), our digital audio music business, is fighting tough year-over-year comps as the market rate has been adjusted due to new competitive music offerings.

And third, the premium TV business subscriber count, while up by 2 percent, or 7,500 subscribers versus year ago to 884,000 subscribers, was a little below our expectation, but happily moving in the right direction.

New programming and focused marketing efforts are expected to result in subscriber growth back to more historic levels. We estimate that there are over 150,000 households with HD set top boxes that do not currently subscribe to Movie Central. Our efforts will focus on converting this group of subscribers, and we have a direct mail campaign scheduled for this month.

Looking ahead, we are very enthusiastic about the prospects for growth in advertising directed to the women's demographic, and we see continued high single digit growth overall for specialty through fiscal '08 and fiscal '09.

The overall specialty ad market is up 7.5 percent year to date. Within specialty, advertising targeted to women, which represents 35 percent of the total segment, has grown at 10 to 12 percent year to date.

We are in the midst of developing a strong portfolio of women's services to capitalize on this sub-segment growth. We launched Cosmopolitan TV on February 14th, focusing on women 18 to 35. We are currently in over 3 million households. We are awaiting decisions from (Rogers) and (Cojicko) regarding carriage. If they offer the same carriage provisions as Shaw and Bell, Cosmopolitan TV will be available in over 5 million households.

With distribution in excess of 5 million homes, Cosmo will be able to attract a significant ad base, and compare favorably to analog channels with similar distribution. For example, the Food Network is in 5.2 million households, and delivers $20 million in ad revenue annually.

We also recently acquired (CLT), if approved, we will re-brand and reposition this network to target women 35 to 54. We believe this network that currently does less than $1 million in advertising has the potential to generate over $6 million of advertising within the first 36 months. We are pushing for early approval of this network so that we can ready it for repositioning in Q1 fiscal '09.

Finally, as strong as our results were on TV at plus 7 percent increase in EBITDA, this increase was achieved including costs associated with the launch of Cosmopolitan Television.

Turning to slide six – radio continued its strong performance with revenues up 4 percent, and earnings up 3 percent. We were particularly pleased with our results in Vancouver, Edmonton, Calgary and Ontario overall, although we saw some softness in Toronto, which was ratings related.

Margins on radio were down slightly to 16.7 percent from 16.9 percent year ago. Quebec continues to be the major challenge for us due largely to market conditions, not poor execution. The Montreal radio market is down 2 percent year-to-date. Excess low-priced TV inventory, along with poor economic conditions in general in Quebec are the reasons behind this softness.

We had a (BBM) rating period reported on this Monday, Monday, April the 7th. Overall, the results of the survey were neutral to positive for Corus. Montreal was a (saw off) with gains at CHMP, our news talk station, offsetting losses at (CKOI).

We saw some strength in Ontario with Toronto essentially flat, but nice gains in London and Hamilton. Vancouver, Calgary and Edmonton were also experiencing good books, while our Winnipeg station was a little bit soft.

On slide seven – our content business experienced its fifteenth consecutive quarter of profit, but well below year ago. This business, as you know, is lumpy, but there are no market or internal factors to suggest that we will do anything less than we did last year by year end at Nelvana.

(Backugon) and Backyardigans continue to perform well, both in terms of ratings and merchandising sales. (Backugon) was recently picked up by the Cartoon Network in the United States, and in selected markets internationally, and they are a strong partner with a stake in the success of this brand.

(KidsCo) is also looking promising. In the quarter, we expanded distribution from Eastern Europe to the Middle East and Asia. We launched in the Philippines and Singapore on March 20th, we’re now available in approximately 4 million households. We understand (KidsCo) has been valued recently at a conservative $10 per sub, valuing this venture at $40 million currently.

Finally, net income benefited from a change in the federal tax rate. We continue to buy shares averaging around 15,000 shares purchased today since we were able to begin buying again on February 19th.

We would now like to turn the call over to you for any questions that you may have.

Operator: Ladies and gentlemen, if you’d like to ask a question, press star one on your touchtone phone. To withdraw your question, press the pound sign. If you use a speakerphone, lift your handset before entering your request. Please stand by for your first question.

Your first question comes from Jason Jacobson, GMP Securities. Please go ahead.

Jason Jacobson: Hi, good morning.

John Cassaday: Good morning.

Jason Jacobson: Just on the – on the pay TV side, I know you had talked previously about a 5 to 6 percent growth rate for the year. I was wondering if you could be a little bit more specific, and update that guidance. And perhaps talk about some of the dynamic as to – I know you were talking about free view and some other programs, you know, having a bigger impact on Q2. Just wondering what the dynamic was in the market.

And then secondly, just on (CLT), I was just wondering if you could provide us with a little bit more detail onto its performance in '07. I know the (CRTC) only has the '06 numbers out. And then just finally on radio, what the outlook is heading into the second half of the year.

John Cassaday: OK, thanks, Jason. On the pay TV business, Paul will give you a little bit of color on some of the programs that we got for the back half. But we're running ahead about 2 percent year-to-date. So achieving an overall growth rate of 6 percent for the year is going to be a – is going to be a tough challenge. We do, however, think that we're going to start to see better growth rates moving into the back half, because of the programs that we have in place.

Paul, do you want to elaborate?

Paul Robertson: Sure, John, thanks, it's Paul. The – in the back half, I think what we've been able to do is to more clearly target on the opportunities that give us the highest up side. So when we look at, John mentioned earlier the HD box subscribers that don't currently take Movie Central, and there's 150 of these, and we can identify them by household, then we can go in and target them in particular, and we have them on an up sell campaign that – during the month of April.

So by understanding exactly where the greatest potential is, and going in specifically against those groups, we believe that we can get a stronger growth track that we've had recently. What's been happening in the last few months is there's lots of new digital subs being created, with lots of new boxes being deployed. But those boxes, general speaking, are being sold without the pay television subscription part of it.

So clearly we want to link the sale of digital with pay television subscription more fully, and then also go in and up sell those homes that we can identify that don't have the service.

So we think that in combination with the improvements in the service, like the series on demand services is now in all the major markets in the West, and the return to stronger programming post strike that we'll be in good shape to increase the growth rate.

John Cassaday: Jason, just in response to your question about (CLT), excuse me, first of all remember we don't own it yet. So it's very hard for us to tell specifically how it's performing year-to-date. But just to give you some direction on it, you can model this by assuming we paid 10 times earnings. You can keep in mind the fact that there's virtually no ad base, less than a million dollars. So all of the revenue is coming from subscribers, and there has been no change in the subscriber rate.

So from a directional point of view, I think you could, like we, assume that it's pretty much steady as she goes, and the opportunity for us, of course, in the weeks and months to come, assuming we get approval from the (CRTC), is to improve the quality of the program, begin to attract larger audiences, and bundle the selling with our other women's networks, and we think that we have the makings of another winner on our hands with (CLT).

Jason Jacobson: John, could you just give Jason and the rest of the analysts on the call a bit of flavor for your outlook on radio?

John Hayes: Sure. We have experienced a lumpy pacing so far on a monthly basis. September was a little bit off, and that affected Q1. January turned out to be less than we expected, and we experienced that again in March. Having said that, April looks even, and May looks like it's pacing pretty well.

The good news is, we have stable ratings, we're dominant in our – in our demographics, our target demographics in our major markets, except for Montreal on (CKOI), which John discussed. Our forecast is looking good for the rest of the year, there's a lot in our pipeline internally. However, having said that, our pace is about even to last year in Q3, and a little bit ahead in Q4. We do expect the pace for Q3 to pick up for May and the end of April, following the release of the (BBM) earlier this week.

I think looking ahead, Quebec will continue to be weak, the West will continue to be strong as a region. And we feel in Ontario that things are slowing a little bit, although we do expect the market as a whole to be maybe 3 to 4 percent ahead of last year in Q3 and Q4.

Jason Jacobson: OK, thank you very much.

Operator: Thank you. Your next question comes from Scott Cuthbertson of TD Newcrest. Please go ahead.

Scott Cuthbertson: Yes, thanks, and good morning.

John Cassaday: Good morning, Scott.

Scott Cuthbertson: Just wondered a bit, radio costs a little bit, they were a little bit higher than I was looking for. I just wondered if this was a trend. And while we're talking about costs, in contrast your corporate costs were a bit lower, which helped things. And I just wondered if that's something that we can sort of model going …

John Cassaday: I think – I think on the radio costs, and John may have some additional comments, the one thing to keep in mind is you've got two additional stations in the mix when you're comparing year-over-year the news station that we acquired, the smooth jazz station in Winnipeg, and rhythmic station in Kitchener, so that's one factor.

Secondly, we've talked in the past about an effort that we made last year to really lock up our talent for the long term, so we had some incremental programming expense, and the impact of that when you think about it on a year-over-year basis will be neutral going into next year, but represented a reasonably sharp increase in our programming costs for this year as compared to year ago.

John, anything else to add on the cost side?

John Hayes: Well I'll just add that the same station costs year-to-year were just under 5 percent. And I think the context too, Scott, is that remember, last year our fixed cost increase was less than 1 percent. So we did have a little catching up to do in terms of salaries, and certainly talent costs.

Scott Cuthbertson: OK and …

Tom Peddie: Scott, it's Tom.

Scott Cuthbertson: Yes.

Tom Peddie: With respect to the corporate costs, as you know, there are two components to that. One is the incentive based compensation stock option expense, and the other one is the overall fixed costs. The overall fixed costs will probably be in the $11 million range for the year, and then with the stock-based compensation, you're looking at a total number that would probably be anywhere from 23 to 25 million, which is kind of consistent with what we've talked about before.

Scott Cuthbertson: OK, so it's more of a timing thing. It should even out by the end of the year?

Tom Peddie: Yes.

Scott Cuthbertson: OK. The other thing I just wondered, Tom, maybe you can just remind me of what the main items are in your $18.7 million line item on the balance sheet that you have in investments.

Tom Peddie: Yes, hang on just a minute on that.

Scott Cuthbertson: Maybe while you're digging that up, I just had one …

Tom Peddie: Oh, Scott, it's mostly the equity accounting for (Qbow) and (KidsCo).

Scott Cuthbertson: OK. And the other thing I just wondered about, just digging a little further on the – on the pay TV subs, they did seem a little tepid. And I've just been kind of wondering if – I know you can't speak for Shaw, but given (Tellis') moves into TV in Western Canada, I was kind of musing about whether or not Shaw may decide to step on the gas a little bit in terms of their efforts in that regard. Is that a reasonable assumption?

John Cassaday: Well I think first of all, they're continuing to grow digital subs at a pretty good rate, we just haven't been penetrating at the same level that we have historically. And we met with them yesterday, and I think it is fair to say that we will – we will expect to see better penetration going forward, I think there's certainly a commitment to continue to grow that business along with us in the future.

Scott Cuthbertson: OK, and …

John Cassaday: But all of our customers in the West are showing some growth, so it's not like anybody's given anything up at this point in time on the – on the digital side.

Tom Peddie: Scott, it's Tom. The other thing I should add, when I mentioned investments, don't forget, we have Food Network in there as well.

Scott Cuthbertson: Right, OK. All right. And I guess finally, if I may, just you know, (Maxtrax), the conventional TV stations, you know, they were – you say they're running a bit of headwinds on (Maxtrax) conventional TV was stable. Would these both seem a bit non-core, especially as the organization sort of grows in other areas? Any plans for those in the short-term?

John Cassaday: It's true, they are – they are non-core, the reason we mentioned (Maxtrax) this morning is that we just – we just felt it was important to remind everybody that in running a business like this with a range of assets in our portfolio, sometimes there are things that are impacting you in a negative way, and sometimes they are out of our control. In the case of (Maxtrax), in particular, we saw dramatic reductions in our rate per sub as a result of satellite radio operators being able to offer music to our subscribers who – to our (BDU) customers.

You saw people like Yahoo with music services, they're – the music business became commoditized in the past 24 months, and I think it – really we wanted to bring it to everybody's attention, because it just demonstrates how strong the real core brands are when you're offsetting major declines in certain parts of your business.

We are always looking at ways of improving our assets and increasing the strength of our core properties. If there are opportunities to swap out a certain assets, and improve our position, we would do that. I think that we continue to work hard at making these business contribute positively to our corporation, and certainly the (Maxtrax) and conventional television over the last number of years have made a significant contribution to the success of Corus.

But they are – they are not businesses that are core to our strategy in TV, which is to focus on kids and women, and of course with our strong pay presence, but they are good contributors to our overall growth prospects, usually, just not in the first half of this year.

Scott Cuthbertson: OK, thanks very much.

Operator: Thank you. Your next question comes from Drew McReynolds of RBC Capital Markets. Please, go ahead.

Drew McReynolds: Thanks very much. Just a couple of follow-ups here. First, on the radio front, I guess for John, do you still expect an increase in radio margins for fiscal '08 just based on the first two quarters?

John Hayes: I would say that our margins will be consistent with where they've been in the past. You know, maybe a little bit of headroom on the – on the up side, but generally don't think that margin improvement would be substantial going forward.

Drew McReynolds: OK, and a question for Tom. Just could you give us a normalized EPS number when you strip out the tax recoveries?

Tom Peddie: We calculate that number at about approximately 27 cents, compared to, I guess, 22 cents last year.

Drew McReynolds: OK, that's great. And I'm not sure you've given out a closing date for (CLT), if you known that.

John Cassaday: We do not know, that is really in the hands of the (CRTC). We have filed our submission, and we're hopeful that they will look at it in an expeditious way. It has been reviewed on a couple of occasions, so we don't think it's a very complicated transaction, but they do have a heavy workload now with the hearings that are under way. So we'll see what happens.

I think best case scenario is we've got it tucked in for the beginning of the fourth quarter, I'm hoping worst case scenario is the beginning of the fiscal year.

Drew McReynolds: OK, that's helpful and just two other questions. Just first on your programming costs, obviously kind of tracking 8 percent up in Q2. If you look out towards fiscal 2009, and you factor in kind of Cosmo into the equation, you know, based on your kind of subscriber performance year-to-date in '08, can you give us any sense of what you expect on the programming cost increase in '09?

John Cassaday: I think generally it'll be running around the same. The thing you have to keep in mind is that as we continue to improve our top line, our Canadian content expenditure requirements move up commensurate with that. And in addition, we would expect – I don't know, we won't see the same – we won't see the same rate increases on an – on pay that you've seen in the past as a result of stepping up into those new contracts. But the same amount of tonnage and (amwork) will be there.

So it's hard to give you a precise number at this particular pint in time, but I certainly wouldn't project that you'll see programming expense reduce going forward.

Drew McReynolds: OK, well that's helpful. And my last question, with respect the ancillary revenues for both radio and TV, can you give us an indication as to kind of what percentage contribution these are to each segment on a revenue basis?

John Cassaday: They're very, very modest. You know, I'd say in broad terms 1 percent or less. They're not big parts of our business. You might see things in there like service work on Handy Manny – that kind of thing. Drew, it's just not a major part of our operation. Our big business is selling ads, and generating subscriber revenue by penetrating our (BEU) customers.

Drew McReynolds: OK, thanks very much.

Operator: Thank you. Your next question comes from Aravina Galappatthig of Cormark Securities. Please, go ahead.

(David McFadden): It's actually (David McFadden); I just have a couple of questions. The first question regards the guidance. So if you expect the radio margins to kind of be consistent with 2007, how confident are you in the guidance? Because I thought the guidance, how it was always somewhat based upon an improvement in Quebec radio business, and what would make up for the shortfall there?

John Cassaday: Well we are confident in our guidance, so we are holding to our guidance, and we've never missed, and we're hopeful that this year will be a continuation of that stellar record.

(David McFadden): OK. So is it just television I guess will make up for that? Or have I interpreted it incorrectly in terms of that?

John Cassaday: Well we have a portfolio of businesses, and each and every year it's like a stock portfolio, you've got things that are doing much better than you had anticipated, some things that are doing a little worse. But we feel we have three strong businesses that are all capable of making a positive contribution to our growth. And at the end of the day, the numbers will add up to something in the range of $255 million to $265 million in EBITDA.

(David McFadden): OK, that's great. Could you just comment on the – in terms of television, the outlook for kids advertising?

John Cassaday: The outlook for kids advertising is in our minds still promising. We have said in the past that I don't think you can expect high single digit growth any longer. But we do continue to believe that there are a number of categories that continue to value strongly the work that we do on our network.

So we're very positive, as we pointed out today, because we wanted to make the illustration that the kids sector, or the kids segment of our advertising, was in fact demonstrating positive growth, we provided a little more color on the fact that it was in the area of our adult spend where we suffered the major decline, and it was largely in response to losing a show that was a real driver in our adult-skewing programming on Teletoon, Family Guy.

So notwithstanding the societal issues that you're hearing about, and some of the other issues that our toy companies had experienced earlier in this year, in our discussions with our customers, we continue to see continued enthusiasm towards, you know, advertising to kids.

(David McFadden): OK.

Paul Robertson: This is Paul. I just had an anecdote – that in the second quarter, the two categories that hade been problematic for us earlier in the year and late last year, kids and toys, were both up, they were really kind of a leading category.

John Cassaday: Toys and the other one, Paul?

Paul Robertson: Toys and food. Sorry.

(David McFadden): OK. So just continuing on the television – in terms of television. The programming costs in Q1 and Q2 were up about 8 percent. What's the outlook for the latter half of 2008?

Paul Robertson: It's Paul here. The – it's because of the year ago comps where last programming costs were kind of on a higher level than the front half, we expect that the percent increase to year ago in the back half will be less than (somewhat).

(David McFadden): OK. And so what would be the full year outlook then?

Paul Robertson: Well it's still – it's still in that kind of mid single digit area.

(David McFadden): OK, so nothing's changed there. OK, and then just lastly on G&A, it's been trending down. Do you think that's going to continue in the latter half of the year in terms of television?

Paul Robertson: Yes, it's Paul again. Yes, those – we've made operational changes that are driving lower costs on a systematic basis. So the consolidation of the Edmondton operation into Toronto was very significant, which we talked about earlier. And then also at the start of the year in September, we announced additional changes in terms of typing up our organization and reducing our staff overall.

The combination of both those changes, you're now seeing those nicely impact on a reduction in G&A, and in fact, is trending something like, you know, mid single digits down from year ago.

(David McFadden): OK. And then – and then just – sorry, I'll just throw in one last one. What's the – what's the environment like out there for other M&A transactions?

John Cassaday: I think it's pretty quiet at this particular point in time, but the (CLT) transaction I think is indicative of what you'll see going forward, and that's tuck-ins – companies like ours assessing the portfolio of other programmers and trying to find the orphans – the things that don't really fit that might fit better with us – and it's quite possible you'll see more activity in that area going forward. But I think from the standpoint of major M&A, I think we're into a period for at least the next two years of relative comp.

(David McFadden): OK, thank you very much.

Operator: Thank you. Your next question comes from Tim Casey, BMO Capital markets. Please go ahead.

Tim Casey: Thanks. A couple of things. John, I know you can't speak for them, but I'm just curious as to why you think that Corus can drive the revenue growth at (CLT) better than (CTV). It's not like (CTV) doesn't have a portfolio of channels, and you know, the ability to sell into the same demographic, and the ability to go probably by program. So I'm just wondering what you can bring to the table that they couldn't.

And second, on the regulatory outlook, I mean obviously there's a lot of posturing and provocative theme that's going on at the (BDU) hearings. But there is like a characterization out there that Corus could be at risk based on some of the noise regarding (drama) protection, and these type of things. Just wondering if you could comment what your position and, you know, why you think Corus is not at risk on that – on that part. Thanks.

John Cassaday: OK, Tim, just in response to the first question, the simple answer is that quite frankly, I don't think we can do any better than (CTV) could have, but you have to remember, they just acquired it themselves. If you go back in history just a few months, you'll recall that (CLT) was packaged with the (A) channel in a sale to (Rogers), and then the commission reversed that transaction and forced (CTV) to sell (Citi), which of course caused (Rogers) to walk away from the (A) channel acquisition, and in its place acquire (Citi).

So we just opportunistically looked at it and said hey, if (CLT) was available for sale last week, could it be available for sale this week? So we called (CTV) and asked if that was in fact the case, and they said well, assuming you're willing to pay what they were willing to pay, I guess so. We could fix this thing, just like I know you can fix the thing, but we've got lots of other things on our plate right now. So if we can do this quickly, if we can do it in the same price range as we were talking about with the previous purchaser, then we'll go ahead and conduct this transaction with you.

So that's the history of that. And the answer to your question, I think, quite frankly, is that you know, you're right, we couldn't have done it any better than they can. I think they could have done it just as good, they just felt that given the fact that it was going to require a fair bit of work from a repositioning and a programming point of view with everything else they have on their plate, they were prepared, as they were with (Rogers) to let it go to us.

Does that answer your question on that one?

Tim Casey: Thanks, John.

John Cassaday: OK, on the – on the (BDU) hearings, there's basically five areas that they are going to focus on. And I think the – there's three areas that probably you and others would look at as saying might have a impact on our business, and the specialty cable programming business in general. And that relates to genre protection, fee for carriage. And ad avails for (BDUs).

So just in the interest of time, why don't I just focus on those three specifically, Tim?

First of all, as it relates to genre protection, we would say that there is a very, very, very low probability of foreign services being allowed into this country. The reason for that is that these Canadian services all have significant Canadian obligations, both in terms of content and in terms of expenditure requirements, and are making a significant contribution to the Canadian system as a whole. If you are to let these foreign services in, it's a four-point game. We lose access to their programming, and they come in and begin to erode our ad base.

And the question you have to ask is why on earth would you do that given the fact that the Canadian viewer is being served so well and affect every major – and every top performing show in the United States is available in Canada. Conditionally there's zero trade pressure, there's not a single Canadian service on the air in the United States, so there's certainly no requirement for reciprocity here. I think that there is a less than a 5 percent chance, and truth be known, I put this one at zero. But just why have a hearing if it's zero.

So let's say less than 5 percent chance that they are going to let foreign services into this country. It is possible there'll be more competition amongst Canadian players, and this may be the offset from a consumer point of view, breakdown the rules of genre exclusivity as it relates to Canadian programmers, and if there's a need for two cooking channels, why not.

So we've taken the view that we would be in favor of the elimination of genre exclusivity amongst Canadian services, but we are adamantly opposed to U.S. services for the reasons that I mentioned.

On the subject of fee for carriage, I think the big issue here is not the need – the financial need of the conventional operators – but rather the commission's willingness to take the risk that there is enough resilience in the system to sustain a significant price increase to the consumer, one that will not drive consumers to black boxes, black dishes, the black market. And quite frankly, I think that's a risk that's too great to take.

So our view from a business point of view is that whatever you want to do on fee for carriage, (CRTC), that's up to you, but make sure that it's not a zero sum gain, that whatever increases you award to (CTV) in global, and (CBC). It doesn't come out of the hides of the specialty operators who are doing a superb job in introducing Canadian programming to the system, and serving customers in a niche way. And we think that's a very compelling argument, and again from a personal point of view, I think the risks are way too high to impose this kind of a price increase, and my guess is that they will not allow a fee for carriage for conventional operators.

And then finally on the (BDU) avails, we have – we will present evidence that if cable was provided access to local avails, that it would remove as much as $110 million from the ad market currently available for local radio and television. I think the (Rogers) Group indicated that they felt local avails were worth about $60 million to them, so that's pretty consistent, you know, on a ramp up basis to what the whole country would look like if those (BDUs) were – if (BDUs) had access to those local avails.

Again, our argument here is that there is some risk to local radio if you allow the (BDUs) to have access to that inventory. And we think that there is sufficient – I think empathy amongst the commission to protect local radio, particularly protecting AM radio stations in these markets that they will not be allowed access to local avails in programming. There will probably be some relaxation of the rules as it relates to on demand, and we would support that, but we would not support access to avails in programming on the – on the linear channels.

So net-net, we think that there will not be a tremendous amount of change coming out of this system, we think it's constructive that we look at this again, I think it was 1993 that the system was last looked at. But we from a strategic point of view are not concerned about these three factors that I touched on, and for the reasons that I mentioned. And I believe that our logic is sound, and we'll just have to wait and see. But, you know, again I would not be overly concerned if I were you, and perhaps after my description, you'll agree with my conclusions.

Tim Casey: Thanks for that, John. Just out of curiosity, what are the other two areas of focus that you didn't go into?

John Cassaday: Well, the size of basic, and whether or not programmers should be guaranteed access. And, you know, our view on that is that there are certain services that do deserve guaranteed access, so we've essentially recommended a two-tier system. And on the size of basic, we don't have a firm point of view on that, quite frankly I would like to think that the commission will not get into regulating that, I think that that's one area where telcos, cable companies and satellite operators can differentiate themselves.

And I think if you want to instill a competitive environment here, then there has to be certain areas where they can position themselves differently, and the size of basic is clearly one of them. So why on earth would you want to regulate that area?

Tim Casey: Thanks, John.

Operator: Thank you. Your next question comes from Adam Shine, National Bank Financial. Please go ahead.

Adam Shine: Hi, thanks. Most of my questions have been asked, but just maybe a few extra. In terms of your (cubo) stake, can you just remind us what that is?

John Cassaday: Twelve percent.

Adam Shine: Twelve percent? And in regards to content, and the optimism in terms of profitability I guess coming in at the fiscal '07 level. I mean you're tracking about 2 million below the (H1) level of last year. And you're not necessarily heading into a seasonably stronger period for retail. So maybe you can maybe just address that dynamic, and just confirm what you said earlier in that you expect profitability to be in fiscal '08 at the same level as '07.

John Cassaday: I'll ask Doug to comment on it. But, Adam, basically we have – we have a number of different components of the business, and it's largely related to timing of contracts and deliveries. But, Doug, why don't you just talk about your plans for the back half?

Doug Murphy: Thanks, John. Hi, Adam, Doug here. That's actually correct, we use a lot of end market agents to manage our brands in foreign markets. As we discussed in the past, for example, Nickelodeon is our agent on Backyardigans, and now Cartoon Network is our agent on (Backugon).

And so the process is that you don't want to look at a calendar year per say to forecast sort of seasonality, as you might with a retail operation, there's lags of, you know, quarters – a couple quarters typically in the business. So it is very likely – and we're very confident that our business year-over-year will be moderately growing, and we're seeing all kinds of good news in the merchandise side of our business here with our recent success of (Backugon), and we're very,

very pleased with Backyardigans' performance. So we're comfortable that the number as year raps up will be a good one.

Adam Shine: OK. And just – and just going back, John, to your comments regarding guidance. I mean you're sounding very confident, and it's nice to hear that. At the same time, you know, just looking at for example the potential timing of the closing on (CLT), you know, it could be anywhere between I guess, you know, towards the end of this month, and then, you know, ultimately the end of Q4. And that's about a million or $2 million right there in terms of a profit swing. So in respect of the timing of (CLT), still confident that you get into that 255 to 265 range?

John Cassaday: We conduct projection meetings on a monthly basis. They're bottoms-up. We go through it business by business. It's a very disciplined process. And at this particular time, we are still projecting to be within our range.

We are in a business where 60 percent of our revenue comes from selling ads, and ads are without a doubt subject to the vagaries of the economy, and the economy is a little bit uncertain right now. So all things taken into account, we still are confident that we can achieve our guidance. However, like everybody else that's in the business of selling anything to anyone right now, a lot depends on whether or not the Canadian economy continues to operate in positive growth terms. We are currently anticipating it – well, we are not anticipating that we will fall into a recession with the United States. And if our assumptions are wrong on that part, then I guess our game plan is at risk.

But all I can tell you is that we've got people on the street day in and day out across the country selling, and at this particular point in time, we continue to believe that we can make our number.

Adam Shine: Super, thanks a lot.

Operator: Thank you. Your next question comes from Randal Rudniski of Credit Suisse. Please go ahead.

Randal Rudniski: Thank you. I wanted to touch on (CLT), and the regulatory review as well. And first of all, for (CLT), I believe that one of its conditions and licenses that over half of its programming schedule has to be geared towards sort of formal education and preschool topics. And if that's true, can you sort of reconcile the, you know, women's 25 to 54 sort of focus, with that conditional license?

John Cassaday: Well, it's actually 35 to 54, so a little – a little bit older. And of course the – there's still lots of room in that to target specifically to women. But I think the thing that we looked at the schedule and found – or not the schedule, the conditions of license and found so attractive is that essentially it's got be curriculum based. And across the country, there is virtually everything from forensics to gardening to cooking to real estate courses, we think that there is a very, very flexible view of those (COLs), which will allow us to program an exciting, dynamic, interesting program schedule for women.

And, you know, if you think back to the time that we bought W, and W was, I think, if memory serves me right, the number-eight television network for women. YTV and (TSM) were attracting more women than was W, and we said hey, there's a terrific opportunity here to add some style to this network, to make it more interesting and appealing to women, and we did. And women are now voting yes on W, and it's consistently the number-one women's rated network in Canada.

This network, if memory serves me right, has an average quarter hour audience of around 8,000 – which is about a third of – well not a third, well below (CMTs), so we think there's just huge upside for us to program this more competitively and attract females to that service, and we think the (COLs) are very conducive to the imagination of our programmers to do that job.

Randal Rudniski: Terrific. That's helpful. And regarding the specialty (BDU) hearings, you touched on one of the five points, being the access rules. And I think in your proposals or submissions, you suggested, you know, sort of a two-tiered system, and also potentially harmonization of the (CPE) requirements within those two baskets. Has that latter point seemed from your perspective to get much traction with the (CRTC)? Like should we expect a harmonization, or do you think it'll be more kind of looking at the individual services going forward?

John Cassaday: Well we think we have a bit of a unique opportunity, because we're coming up pretty much at the very end of the hearing. And we're hoping that we can use that positioning as an opportunity to help wrap things up, and perhaps without sounding arrogant, to try to, you know, bring some order to what's been heard over the previous couple of weeks.

But one of the argument that we're going to make is that there has to be some advantage to being a bigger player. And in the particular cases of the Coruses and the (Asterils) and the (CPBs) of the world, if you really want to make a difference in terms of the contribution that we make to Canadian programming, allow us to be more strategic in our direction of the Canadian program expenditures.

So instead of thinking about this in a truly linear way, and thinking – OK, whatever expenditures you generate as a result of the revenue, you make on (CMT) if Corus – if you guys want to be the best kids player in the world – why should we tie your hands to developing programming in a genre that you don't have a dominant position in? Why don't we let you really do a great job in kids?

And I think if the (CRTC) wants to make a contribution to Canada beginning to get the kind of breakthrough shows, this is an easy one for them to go to, and simply say to (CTB), global, Corus and the others that generate large amounts of (CPE), OK use your judgment, make a difference. And we're all supportive of that.

The other thing we're going to say to them is that we think you made a mistake in introducing these telecom type rate of return obligations for programmers. Don't punish broadcasters for being successful. The way to get more programming made is to allow for us to prosper, and the better we do, the more we spend. So we're going to continue to pound away at that, and hopefully we'll eventually see some light on that one. But I think the logic of allowing for groups to look at their total Canadian program expenditure in a way that they can be strategic and make a difference – as opposed to seeing that money fragmented, and perhaps not making the impact that many critics would like to see is a compelling argument – and one that we hope they will agree with.

Randal Rudniski: That's terrific. Thank you.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions, please press star one at this time. You have a follow-up question from Scott Cuthbertson. Please go ahead.

Scott Cuthbertson: Yes, thanks. Just a quick follow-up. Prior to the (BDU) hearing, I'm expecting them to lift the cap on advertising for – especially like they did for conventional. I just wanted to get some color on this, I mean I know you have unsold inventory, do you think that you can – if that were to happen, do you think you could benefit in the short-term, or do you think that that would just kind of, you know, erode rates a bit?

John Cassaday: You know, the elimination of the cap on specialty was – or on convention television was only a benefit to I think maybe the top five shows in the country. And really the only benefit was allowing them to put more high-priced inventory into the shows that really have the potential of attracting a lot of demand.

Outside of those top five shows, the incremental advertising is probably benign, and our view is that there is probably not a lot of upside for the elimination of ad limits on specialty anymore than there is for anything after the top five shows on conventional. But the reality of it is, is that this is not an area that they should be regulating, so we suspect it will be relaxed. Truth be known, we probably – this is probably one area where we like the regulation as it is. But I do think that there will be a relaxation of ad limits for specialty as there was for conventional, and I think it will be as benign for us as it was for them.

Scott Cuthbertson: Thanks very much.

Operator: Thank you. There are no further questions at this time.

John Cassaday: OK, thanks, everyone, we look forward to talking to you throughout the third quarter, and again on our third quarter analyst call. Bye for now.

Operator: Ladies and gentlemen, this concludes the conference call for today. You may now disconnect your line, and have a great day.

END