CORUS ENTERTAINMENT'S Q2 ANALYST AND INVESTOR CALL

Moderator: John Cassaday
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8:00 am CT

Operator: Ladies and gentlemen thank you for standing by. Welcome to the Corus Entertainment's Second Quarter Analyst and Investor call.

During the presentation all participants will be in a listen-only mode. Afterwards we will conduct a question and answer session. At that time if you have a question you may press the 1 followed by the 4 on your telephone.

If at any time during the conference you need to reach an operator you may press the star followed by the Zero.

As a reminder this conference is being recorded today Thursday April 14, 2011. I would now like to turn the conference over to Mr. John Cassaday, President and Chief Executive Officer for Corus Entertainment. Please go ahead sir.

John Cassaday: Thank you operator. Good morning everyone. I'm John Cassaday and welcome to Corus Entertainment's fiscal 2011 second quarter report and analyst call. Thank you for joining us today.

Before we read the cautionary statement we'd like to remind everyone that there are a series of PowerPoint slides that accompany this call. The slides can be found on our Web site at Corusent.com in the Investor Relations section.

We will now run through the standard cautionary statement. This discussion contains forward-looking statements which may involve risks and uncertainties.

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 filings with the Canadian Securities Administrators and the US Securities & Exchange Commission.

Now I would like to introduce you to Corus Entertainment Team. Joining me on the call today is Tom Peddie, Executive Vice President and Chief Financial Officer, Doug Murphy, Executive Vice President and President of our Television Division, and Chris Pandoff, Executive Vice President and President of our Radio Division.

On Slide 3 of the PowerPoint presentation you'll see that we are pleased with our excellent topline growth for the second quarter.

We finished the quarter with consolidated revenues of $191 million -- up 8% from year ago. Our strong revenue growth was driven by both our radio and television divisions.

Radio revenues were up by 5% led by Ontario which was up 11%. Television revenues were up 8% with specially advertising up 14% and subscriber revenue up by 6% compared to year ago.

Moving to Slide 4 our strong subscriber and advertising growth coupled with disciplined cost controls translated into superior segment profit growth for both our radio and television divisions.

We delivered consolidated segment profit of $61 million -- up 11% versus Q2 in the prior year which demonstrates the power of leveraging our top line growth into great results.

Our net income for continuing operations for the quarter was $27 million or 34 cents per share compared to 18 cents per share last year.

However last year's results did include $14 million in costs associated with our debt refinancing. The removal of this item results in adjusted earnings per share of 30 cents for last year.

Moving to Slide 5 and our radio division radio performed well in the second quarter with revenues up 5% reflecting continuing recovery in the overall radio ad market.

According to TRAM Corus outperformed the radio market in Calgary, Winnipeg, London, Kitchener, and Toronto.

Ontario drove our growth with segment profit up an exceptional 62% and revenue increases of 11% largely from our Toronto and Hamilton clusters.

While revenues in the West remained flat to last year Calgary and Winnipeg did post strong gains compared to prior year.

Radio delivered impressive segment profit growth -- up 18% from year ago. Ontario's strong revenues coupled with effective cost containment strategies enabled the increases to positively impact our bottom line.

It should be noted that our radio results exclude Quebec radio which was sold February 1, 2011. Therefore Quebec radio results have been retroactively restated as a discontinued operation.

Moving to Slide 6 our television division delivered excellent results in Q2 with revenues up 8% and segment profit up 11%.

A buoyant advertising market paved the way for continued growth in our specialty portfolio with an increase of 14% for the quarter led by our kid networks and CMT.

Subscriber revenue for the division also experienced strong growth -- up 6% versus prior year building on the growing subscriber base for our newer offerings, Cosmo Television, Nickelodeon, Sundance Channel, and W movies.

Our kids portfolio continued to perform exceptionally well with ad revenues up 21% in the quarter capitalizing on strong ratings growth and increased market demand for our co-view audience.

The kids portfolio also saw subscriber revenue increases up 6% compared to year ago. Our merchandising revenues saw significant double-digit growth this quarter driven by our boy's action properties Bakugon and BEYBLADE.

Bakugon continued to deliver good results particularly in Europe where it is one of the top five boy's action properties in a number of countries such as the UK and France.

We are also seeing significant traction from the BEYBLADE franchise in major international territories.

In Germany and Spain for example BEYBLADE is the number one toy brand in its category. It is also ranked among the top three brands in France and Australia in its category according to industry data.

Total revenues from our specialty and pay segment were up 3% versus prior year despite the closure of Corus Custom Networks and the associated elimination of that revenue source.

Specialty advertising revenues in this segment were up 8% largely driven by CMT which saw ad revenues up 25% year over year.

Our pay business saw a lift in paid subscribers for a third consecutive quarter to 989,000 households coming out of an aggressive three month preview campaign that ended in November.

The service benefited from a number of high profile series including Spartacus Gods of the Arena from Starz, the final season of the hit HBO series Big Love, and an exclusive slate of Showtime program launches that included the return of Californication and two new highly anticipated series Shameless starring William H. Macy and Episodes starring Matt LeBlanc.

Moving to Slide 7 and our outlook for the next quarter overall the ad markets are performing well. Our pacing remains strong and we are confident that the momentum from Q2 will continue into the next quarter.

For Q3 we are forecasting good growth from our radio division with mid-single digit revenue increases led by Ontario in particular from Toronto, Hamilton, and our London stations.

In the West we are anticipating continued growth in Calgary. In Edmonton and Vancouver we are implementing programming changes in response to extensive market research findings.

With these modifications we expect to see improvements that will deliver increased audiences and positively impact revenues going forward. With our exit from Quebec we are also expecting radio margins to meet our 30% target by year end.

Turning to our television division we expect to deliver a solid quarter with significant upward momentum expected from increases in our subscriber base, a strong ad market, and the launch of OWN.

The division will benefit from the continued strength in specialty ad revenues which are forecasted to achieve double-digit growth led by our kids brands CMT, Cosmo Television, and OWN.

In our kids portfolio YTB continues to rank as the number one specialty channel for kids 2 to 11.

Strong ratings on our kids services combined with the ongoing demand for our co-view inventory suggests a solid growth profile for our kids services.

On the merchandising front the re-launch of BEYBLADE is off to a great start. Early strength this fall in Europe has been matched by performance in the United States over Christmas and into the spring.

These early signs of success indicate that we are building a good foundation for the next Big Boys action hit.

Bakugon continues to perform well for us and our Babar brand has secured distribution in all major international markets.

The new Babar series debuted earlier this year in France and the UK and on Disney in the United States and has generated impressive early ratings.

We continue to leverage the advantages of our new Corus key facility making more of our content available in high definition most recently launching an HD offering of OWN following the successful launch of YTB this past January and Movie Central II in the fall.

Our IT-based broadcast facility allows us to compete in a fully digital IP-based media environment and positions us competitively with all of the players in the system both regulated and unregulated in Canada and around the world.

The March 1 launch of OWN in 6 million households across Canada represents a great opportunity for us to grow our women's portfolio. Along with W network we look forward to building OWN into a powerhouse brand.

The Canadian advertising community has responded very favorably to the service and we have a number of charter advertisers on board.

The indicators for growth are good. We are on target with our revenue projections and expect the service to deliver more than three times the advertising revenue in Q3 compared to VIVA last year.

With the brand equity of Oprah and more new original programming rolling out we are confident that OWN is a strategically vital addition to our women's portfolio.

Also we are very pleased to announce that subsequent to the second quarter we achieved a major milestone in pay TV at the beginning of Q3 reaching our goal of 1 million paid subscribers.

This accomplishment demonstrates the exceptional value that our customers place on premium television as a unique offering in the marketplace.

The extensive mix of exclusive original series from partners like HBO and Showtime as well as current theatrical titles and original Canadian series creates a strong value proposition and an unmatched viewing experience for our customers.

Our long term agreements with HBO and Showtime plus content and output deals with studios such as Warner Brothers, Sony, and Disney offer customers a range of original high quality content delivered in a commercial free environment on any platform.

We expect a great lineup of new premium content offered in Q3 will be very attractive to our pay subscriber base with a number of high profile launches including Mildred Pierce starring Kate Winslet and Guy Pearce, the HBO film Too Big to Fail based on Ross Sorkin's best-selling book about the Wall

Street financial crisis and starring William Hurt, Paul Giamatti, and James Woods, HBO's game of thrones from a series by best-selling author George R Martin, season two of the critically acclaimed series Treme about post-Katrina New Orleans, and new seasons of the Showtime series nurse Jackie starring Edie Falco and United States of Tara starring Eddie Izzard and Toni Collette.

In summary we expect solid top line growth in the third quarter driven by strong increases in specialty ad revenue in our television division and growth in our radio division led by our Ontario stations.

We hope that you have found our comments helpful and we will now take any questions that you may have. Operator, over to you.

Operator: Thank you. Ladies and gentlemen if you would like to register a question please press the 1 followed by the 4 on your telephone. You will hear a three-toned prompt to acknowledge your request.

If your question has been asked by another and you would like to withdraw your registration you may press the 1 followed by the 3.

If using a speakerphone we ask that you please lift your handset before entering your request. Once again that's the 1 followed by the 4 to register for a question.

Our first question comes from the line of Paul Steep with Scotia Capital. Please proceed.

Paul Steep: Hey good morning guys.

John Cassaday: Good morning Paul.

Man: Hi.

Paul Steep: So first off maybe why don't we start with over the top just in terms of post the Paramount announcement, maybe understanding the timing on your output agreements, you know, on movies and then TV just in terms of, you know, you’ve hit a big milestone in pay what that looks like in terms of securing the series content and then separately maybe the movie side going forward?

John Cassaday: Okay well first of all I would say that we do have a new a new competitor. We will have many more I'm sure in the future.

But it's important I think to remember that video consumption is not a zero sum game. We believe that there is virtually an insatiable appetite for consumers to consume more media on a multitude of platforms. And all of the data demonstrates that video consumption is in fact growing.

So point number one our belief is that new competitors will prove to be additive to the system as opposed to serving to carve up the pie.

Secondly as we referenced in our opening comments we believe that we have an excellent value proposition with Movies Central.

We have extensive access to HBO programming and their library and Showtime. And these properties are exclusive to our pay window.

These contracts are also in place for quite some time into the future. So as a result we’re extraordinarily confident that we’ll be able to maintain that competitive advantage going forward.

It is true that as an industry we're going to need to continue to add value to our proposition. At Corus we are huge believers in the proposition of TV everywhere which is essentially a promise to our subscribers that we'll make the content that you pay for once available on whatever platform you choose whenever you want it.

There are some software issues associated with the proposition of authentication. But we believe that as an industry we can successfully meet the needs of a changing consumer with the TV Everywhere proposition.

And Corus is all in in making those digital rights available to our distribution partners to ensure that they can continue to compete effectively.

And unlike other industries which have been dis-intermediated we think that there is a absolutely tailor-made solution to the proposition of content accessibility in our particular case.

As it relates to Paramount Paul, I guess I think the most important thing I would say is that we have never had all of the studios in the Movie Central portfolio at one time. It has always been our choice to pick and choose.

And in this particular case going forward we will not have Paramount. But as we said we have a very strong offering with Warner Brothers, with Disney, with Sony, and with - and I know that will continue to grow going forward.

So the proposition is compelling, the TV everywhere solution is real. And a fundamental premise we have is that we will continue to increase the consumption of video going forward.

So are we responding to this, yes? Do we think it's life-threatening, not at all? Doug I don't know if you have any additional comments that you'd like to make on Over The Top.

Doug Murphy: Thanks John and well I'd just add that we're working extremely strategically with our video partners to implement an increased number of sort of content everywhere strategies which we'll be rolling out in the months to come.

In a number of cases already we have broadband offerings at Movies Central. And that's a critical answer to some of this over-the-top competition.

I think that the performance of our sub growth speaks to the value proposition to our consumers. So we're just delighted with the results of our acquisition campaign, the fact that it has substantiated the fact that what we believe to be true is in fact true, that the consumers value and relish movies and the exclusive series content.

And we're going to continue work hard to market to retain and to deliver our content across all platforms with our BDU you partners.

Paul Steep: Okay fair enough. Hey just one clarification. John you didn't - or Doug you'd didn't mention Starz at all. Arguably they've only got 25 hours but it looks like they're going to go to 50 to 60 in the next couple of years. Is that also and sort of your point too in terms of the...

John Cassaday: You mean of content acquisition or...

Paul Steep: Yes.

John Cassaday: ...partners...

((Crosstalk))

Paul Steep: In terms of exclusive and long term John...

Doug Murphy: Yes we - that's a great question Paul. We're actually speaking with a number of the US production entities Starz being one of them to explore potential content co-production ideas.

So Starz is distributed by various other entities in Canada but they have a number of great properties that we're talking to them about. So they are of course on our shopping list.

John Cassaday: Starz is a little different from HBO and Showtime because they're just getting into new production.

So effectively the studios that they have we have the rights to those studios in Canada. And we have worked with them. For example Spartacus would be a good example of a property that we licensed when they made it available to the subscribers.

And as Doug said we think that there's a terrific coproduction opportunity with them. And they have indicated a willingness to talk to us about developing series together.

So the relationship with Starz is growing and is an important one to us. So we look to them as being an important part of the puzzle as well.

Paul Steep: Okay great. I'll hit one other than pass the line. I guess Tom, as cash builds into the back half of the year, how should we think about sort of cash redeployment? You know, you did a little deal with B5 Media.

Is it more along the lines of tuck-ins or is it, you know, directed to the debt? How should we think about where the excess cash goes?

Tom Peddie: I think that it's a combination of both. We will continue to look at - for tuck-in acquisitions as we grow the business.

As you know our free cash flow guidance is $100 million. At this particular point in time we're on target for that particular number.

We'll use about $60 million of that free cash flow for dividends, so in theory that would leave about $40 million for bank debt reduction.

But as you also know with the disposition of Quebec we picked up $75 million. So I think overall you'll probably see our bank debt number dropping by about $100 million from last year.

Paul Steep: Okay great. Thanks guys.

John Cassaday: Thanks Paul.

Operator: Our next question comes from the line of Bob Beck with CIBC. Please proceed.

Bob Beck: Thanks, good morning. I just want to go back to the over-the-top for a couple points. John or Doug perhaps you can talk to, you know, your concerns over the programming cost side of things.

I mean obviously new competitor in the market and as you say, you know, probably some more new competitors to come in. You'll hold your own. You've got long term deals in place.

But at the margin, you know, the implication would be that you'd end up having to fight a little harder on your future deals, any thoughts on that side?

Doug Murphy: I think our objective is to maintain our margins. This will be through a combination of mix. As you mentioned we have a number of deals that are in place. We've renewed a number of deals fairly recently at favorable rates.

One thing you need to remember is that our deals with the studios are in Canadian dollars. So if you were to look at a studio of relationship with us that was entered into five years ago they're going to get a pretty nice increase just on currency going forward.

So I think the combination of mix, continued subscriber growth, possibly some additional sub revenue growth going forward and the productivity improvements that we're going to be able to get out of Corus key we're hopeful that we can continue to hold our margins on pay going forward.

Tom got any additional comments? Anything else on that Bob?

Bob Beck: No that's fine. So the next question on related to that, the series content's obviously the key here. And, you know, your partners at HBO and Showtime have shown a - well have not partnered with some of these over-the-top ones as of yet.

Just anecdotally John do you think - where do you think the risk is at some point that the - some of the series content starts to become more current on the over-the-top issues than what we're seeing now which is sort of library stuff?

John Cassaday: Well I think in the case of Time Warner and HBO (Jeffrey Bukkus) is pretty much on the same page as we are. And that is that he considers his value proposition to be about providing exclusive content to his BDU partners and to making programming available on HBO go.

So, you know, I can't read his mind but I think there's very low probability that that boat will leak anytime soon. And we have a long term deal with that with multiple years to go.

So...

Bob Beck: Okay.

John Cassaday: ...I guess, you know, if your question in terms of long term is in the next five years do you think there will be any leakage from HBO the answer is no because our contract extends beyond that time period.

So we're very hopeful and very confident rather that we're going to be able to maintain that series availability on an exclusive basis.

Bob Beck: Okay that's helpful thanks.

John Cassaday: Showtime same thing, is longer term deal with multiple years to go. Again Bob I don't know what you're planning horizon is but think in terms of three to five years, in three to five years we think that our value proposition is bulletproof.

Bob Beck: Okay five years works for me too. Thanks. Just on a separate issue your friends as Shaw, your partners at Shaw introducing the Shaw personalizer plan, so a little bit more move to the - to an a la situation.

You've obviously got a very strong properties on the TV side to participate in that kind of a model. But your thoughts on whether or not this does offer up any kind of an issue for you or perhaps even opportunity as we see other distributors move to this type of plan?

John Cassaday: We've certainly been aware for quite some time with digital migration that there was going to be more personalization.

We think that it's very important that consumers have choice and are allowed to make discrete decisions as it relates to the programming services that they secure.

But the packaging system has worked well. The packaging system is in the interest of both programmers and distributors.

And we believe that that will continue to be the predominant way that services are delivered in the future.

So there is no question that there will be more a la cart. But our view is that given the ease of purchasing bundles of services in well packaged tiers will result in business being pretty much as it's been again over the next three to five year term.

Bob Beck: Okay thank you. And just lastly you talked about the early success for the OWN and now you mentioned a Q3 revenue pickup sort of three times where you were with VIVA.

I know - I don't want to pin you down on the cost side of things but can we get a bit of perspective as far as the margin implications on that revenue gain even just broadly would help.

John Cassaday: Well broadly speaking we have been successful in securing rating creases for OWN. Our BDU partners were as interested in us securing the property is we were on the basis that we are the most willing partner in terms of making digital rights available to them.

Tom or Doug I don't know whether you can comment specifically on margins but...

Doug Murphy: I would just say that it was our goal and we’re achieving this goal to effectively self-fund the increased cost in programing with our lift in revenue. So we’re...

Bob Beck: Okay.

Doug Murphy: ...happy that we’re where we are and where we plan to be and we’re pleased that we see some nice growth in the revenue line going forward.

Bob Beck: Okay that helps. Thanks for much. I'll leave it there for others.

John Cassaday: Thanks Bob.

Operator: Our next question comes from the line of Drew McReynolds with RBC. Please proceed.

Drew McReynolds: Yes thanks very much. Good morning.

John Cassaday: Good morning Drew.

Drew McReynolds: Just following-up on Bob's earlier question just on OWN, there's obviously a lot of attention paid to the ratings in the US.

And just wondering, you know, how we should look at that relative to the programming lineup in Canada and, you know, how ratings here trend?

And, you know, I know it's a little bit of an awkward question but, you know, certainly the ratings coming out of the gate don't seem to be as high as what was originally expected and just wondering versus your expectations what the dynamic has been in Canada?

John Cassaday: Well just to kick things off there are a couple of components to it. First of all the degree of advertiser reaction or the level of advertising reaction to it -- and it's been very positive.

Secondly the distribution communities reacted very positively so we've got I think two real strong checkmarks there.

As it relates to ratings the one thing you remember even from the opening video from Oprah she said hey, this is just the beginning. This is going to take some time to build.

So we’re in a time where we've got a lot of repeat programming. We’re in a time when Opera is still on the air syndicated on CBS across the United States and mostly through CTV in Canada.

That will dry up at the end of May and we'll have her exclusively on the network. And they will continue to introduce new programming.

Discovery Networks in the United States just announced recently they're pumping another 50 million into programming. I think they're up to about $250 million in programming investments so far.

So we think we've got a great brand. We've got strong support from advertisers good distribution. And this thing’s just going to ramp up over time.

I'll let Doug give you a little bit more color on some of the programming opportunities that are coming forward.

Doug Murphy: Thanks John. Hi Drew. The - to clarify we are meeting our estimates from audience delivery that we originally set when we signed up to the service. So we’re pleased with where we’re sitting from a delivery point of view.

The - what we’re learning and we’re in very close dialogue with our own US partners incidentally this afternoon in New York is the OWN Upfront so you’ll probably be seeing some press coming out of south of the border.

What we’re learning is that there's been a high level of repeat on some of the original programming. And so that has challenged less so our own Canada but has challenged some of our US partners in terms of holding their audiences.

That said however, there's been a commitment as John noted to larger investment in more programming. And we're just getting sort of the second wave of really great new programming coming in beginning now.

We have The Judge launch April 15 tomorrow on OWN, Why Not with Shania Twain May 13 which we're going to be cross-boning aggressively across CMT, CMT.CA using the Corus synergies to really drive awareness and traffic, there Finding Sarah which is about Sarah Ferguson June 17, you know, coming off the back of the royal wedding next week.

So we feel like we have a nice new thrust of great OWN programming coming to the fore in the coming six to eight weeks and we're continuing to see some traction on these shows.

So, you know, I think is John alluded to when Opera comes off, you know, conventional and is only able to be found on the OWN networks in Canada and the US that'll be another shot in the arm.

And, you know, we are continuing to be very bullish on the prospects of this service as a complement to the main flagship W.

So we're delighted so far because we are - there's doubt the press has been taking the opportunity to talk about some of the challenges on the ratings delivery in the states. But we're exactly where we plan to be with OWN Canada.

Drew McReynolds: Okay thanks. That's great context. Just maybe while I have you Doug the output deal with Showtime I think we know when the HBO one expires. Can you let us know when the Showtime one expires? I believe it's not as long as the HBO one but still obviously a number of years?

Doug Murphy: Without being actually specific we, you know, we do have a, you know, number of years ahead but while we're exclusive there I mean.

Drew McReynolds: Okay. Okay and just shifting gears a little bit just maybe for you John when you look at how Q3 is pacing is there any election impacting in your outlook or current pacing right now?

John Cassaday: Very little. Because of the nature of our services we don't secure a lot of ad revenue on the TV side. And the campaigns have basically been using media quite strategically in specific writings where they feel they have an opportunity to win and they've got to hang on.

Chris I'd say that from our perspective some radio advertising in the next couple of weeks would be welcomed but is not necessarily expected in a big way. Can you just perhaps add some color there?

Chris Pandoff: Yes this is Chris. We're actually seeing some movement by elections, Canada obviously getting people the information required to vote in May.

But on a selective basis some candidates have already booked radio recognizing the geographical targeting (unintelligible).

Drew McReynolds: Okay no that's great. And maybe Chris while I have you obviously Ontario and the, you know, Toronto Hamilton markets and London markets as you alluded to have been very, very strong on radio.

Presumably part of this is all coming off slightly weaker comps. But maybe you can just comment on just the strength of your stations, the strength of the market how sustainable is it? Is there, you know, is this all surprising you on the upside or did you anticipate this coming down the pipe?

Chris Pandoff: Well actually we did anticipate recovery in radio largely on the severity of the downturn a couple of years ago.

But just to give you a sense of the recovery it's across a broad based level of categories. And, you know, things like the standard ones like automotive and retail but also new categories emerging like professional services.

So a couple of things I think are helping drive it. The manufacturing segment in Ontario in the automotive industry in particular has been really strong and we're seeing that in our non-metro markets around Ontario.

And then sort of the overall population growth and the positive impact of electronic ratings of PPM I think has also been an impact for us in markets like Toronto which is up, you know, mid - low double digits for the year.

So I, you know, barring anything dramatic happening in the economy I would see that the broad-based recovery to continue.

Drew McReynolds: Okay no that's great. And maybe the last question just on the merchandising side you gave some pretty good color in terms of what you expect on that front.

I believe a couple years ago you just disclosed a breakdown of your kids business and, you know, merchandising seemed to be 3% or 4% of the total revenue pie. Are we largely in that, you know, quantum today?

Chris Pandoff: You know, I guess I would answer that question by saying relative to three or four years ago we've grown the business quite smartly.

So I couldn't give you an exact mix number right now. But that business has continued to sort of grow and our expectation is it will continue to do so in the coming years.

Drew McReynolds: Okay. Okay thanks very much.

Chris Pandoff: Thanks Drew.

Operator: Our next question comes from the line of David McFadgen Core Mark Securities. Please proceed.

David McFadgen: Now a couple of questions, first of all just on the Oprah Winfrey Network so when you talk about Q3 ad revenue's going to be more than triple. I know you said you expect it to be able to have higher revenue, compensate for the higher costs of OWN relative to VIVA.

But can you give us a little more color? Like is the EBITDA going to be positively impacted or is it going to be about neutral when you when you factor in the higher revenue?

Man: We expect the EBITDA impact will be positive but...

David McFadgen: Okay.

Man: ...not hugely. I mean we're at a launch here. But I think it's really quite an accomplishment that we were able to secure this brand, spend several million dollars to launch it and come out of the gate without any dilution. We're pretty proud of that.

David McFadgen: Okay that's great. And then just on the radio business can you just provide us with some more details on the programming changes you're affecting in Edmonton and Vancouver? And when you expect the impact from those to be made?

Chris Pandoff: Yes this is Chris. In both markets because of a couple of dynamics, a bunch of new licenses in Edmonton and sort of the churn that's caused any time there's a new entrants in the market, making sure that our music is on target primarily on Joe FM.

So that one really is got to work its way through the system as the market digests the new entrants.

And if you look on a sort of month by month basis the ratings are reflective of the churn that we're seeing in the market.

In Vancouver it was more of a strategic process that we went through in terms of balancing our two FM's there in terms of the demographics that they provide and sort of aligning it more strategically the way we are in Toronto against adults 25 and older in classic rock and modern rock.

So that in addition to adding Mike Reno from Loverboy in the morning show and some other promotional and imaging features we're fully expecting to see certainly the signs of recovery on - in ratings in the June book which it'll be 13 weeks to the spring but really taking hold in the fall of next year which of course will, you know, impact our revenues next fiscal.

But David just to clarify something, what we're talking about is refinements to the music and our presentation as opposed to rebranding or reformatting.

So we're not going to be looking at blowing up a radio station starting all over again with additional launch costs, et cetera. These are simply solid research-based enhancements to our music and our presentation.

David McFadgen: Okay. And then just on the TV business, you know, the kids revenue was up 15% but yet EBITDA was only up 3%. Can you provide some additional detail why we didn't see as big an EBITDA lift as the revenue more closer to that?

Man: That's likely due I'm not sure what you're looking at David but that's likely due to the mix we have with studio service work.

The studio we're currently doing a couple projects for some of our key partners on a service basis which tends to have a lower margin.

Drew McReynolds: Oh okay.

Man: The - I can tell you that the margin on the kids networks isolated continue to be extremely robust. But as we said in the past that the - kind of the tos and fros of the kids revenue pie tend to, you know, move around a lot with merchandising, studio service work, you know, P&D sales et cetera, so that's likely what's driving that.

Tom Peddie: And David it's Tom. The other comment I might also add would be with respect to timing. You know, you look at our margins on a six month basis on the kids side they're pretty good. But in this particular quarter they weren't as good for the reasons that Doug had highlighted.

David McFadgen: Okay and then just on the specialty pay side there the revenue was up three but EBITDA was up 17 so was that just due to some timing differences or I was wondering what was driving that?

Man: That's a combination of (Amart) program (Amart) controls being really disciplined on how we're managing our program (Amart) budget line.

We've had some great growth in our diginets all of our, you know, W Movies, Cosmo, you know, Dusk. They're all having fantastic years so that's been contributing as well.

David McFadgen: Okay and then just lastly one for John. When you talked about Q3 it looks or it seems like Q3 looks like it's going to be pretty strong. Do you think that the TV EBITDA is going to be up another double digit in the quarter?

John Cassaday: It's hard to say. We certainly think that our TV revenue is going to be up double digit in Q3. On an - on the earnings side a lot of variables.

So we're very confident that we can continue the momentum, but I don't want to make a firm commitment to double digit growth in earnings at this particular point in time. I am however comfortable in committing to double digit revenue growth on the specialty site.

David McFadgen: Okay. All right, thank you.

Operator: Our next question comes from the line of Adam Shine with National Bank Financial. Please proceed.

Adam Shine: Thanks a lot, good morning. Maybe just...

John Cassaday: Morning Adam.

Adam Shine: ...starting with - hi. Just maybe starting with the radio sale looks like you're actually getting more in proceeds potentially than the original $75 million. I think it's about $84 million with $9 million going into next year.

Is there anything on that $9 million, you know, predicated on an earn out for certain metrics being achieved or is it guaranteed nine?

Man: No it's just a combination of it was basically cash flow management on their part. Part of it's working capital, and the other part is just the additional amount between the purchase price of 80 and the actual cash payment of 75.

Adam Shine: Okay perfect.

Tom Peddie: Adam it's Tom. It is effectively a guaranteed amount.

Adam Shine: Okay excellent. And just going back to a couple of David's questions, you know, in as much as obviously there were some timing issues in the first half can Doug maybe address any particular, you know, servicing or studio service related work (that) and related timing issues in the second half of the year?

Doug Murphy: Honestly specifically no, not specifically because the - I'm not totally clear on the delivery cycles here.

But I can tell you that, you know, the studio is continuing to look for projects that are moving away from service. Service does provide an important role for our business when we don't have...

Adam Shine: Yes.

Doug Murphy: ...opportunities to make investments in our own kind of IP.

But the kids business continues to have a lot of traction internationally. We just got off the markets and met recently and are coming back with a whole bunch of great ideas for, you know, future investment.

So while I won't be able to speak you about the question about, you know, margins in the back half I can tell you that the opportunities are ripe out there for our kids business for continued growth in the future.

Adam Shine: Okay great. And John, you know, usually we talk regulatory issues and some of these calls. I hesitate to say that maybe there's nothing imminent of significant materiality but can you just talk in terms of, you know, what you see on the horizon that you're thinking about from a regulatory perspective?

John Cassaday: Well the big thing is the decision coming out of the group based licensing hearings that we participated in last week. We're very confident and hopeful that we will get an outcome that we're looking for.

We went to the CRTC with a very simple proposition. And that is that with all the uncertainty around us we're prepared to commit to a certain level of spending on Canadian content in return for specific areas of regulatory relief.

And what we were looking for was a normalization of our Canadian content requirements across our system and we're looking for the elimination of certain conditions of license that reduce our flexibility without enhancing any of the objectives of the broadcasting act.

So we think that our ask is very reasonable. We think that the prospect of some certainty for independent producers in terms of what they could expect to receive from Corus going forward offers real hope and promise for the system.

It's our expectation that the commission will make a speedy decision and that we will go into next year with the flexibility that we need to compete in an environment where there's obviously a lot of consumer choice.

The chairman asked us why we were so committed to group-based licensing. And we said that we simply want to be able to make allocations of capital in a strategic way on the programming side like we do in every other part of our business.

They seem to be very understanding and empathetic to that point of view and we'll wait and see. But we're very optimistic that we'll get a positive outcome coming out of that.

On the other I guess looking forward one of the things that we're really hopeful for is that there will be a policy review on a multiple license ownership.

Corus continues to believe that the system could benefit from being able to own more than two FMs in a market.

We believe we're starting to achieve a degree of industry consensus on that. And we're hopeful that in the next 12 to 18 months we'll get a chance to advance that case.

Adam Shine: Would you argue on the latter front though that you kind of achieve that by default or you don't view the Montreal context of the Quebec radio sale as any precedent setter?

John Cassaday: I think the Montreal station decision had a number of moving parts to it but it did indicate that there was a flexibility there. And I think that decision will precipitate a public policy review to consider the question more broadly.

Adam Shine: But...

John Cassaday: I look at it as a positive indicator as opposed to a precedent-setting decision.

Adam Shine: Understood and John just as a point of clarification though nothing yet has been set on the CRTC agenda, correct from a timetable perspective?

John Cassaday: No not that I know of.

Adam Shine: Okay. Okay and just lastly you know, obviously we've seen some degree of weakness, you know, on a number of stocks across the Canadian media landscape.

Any thought in the context of buyback in as much as, you know, Tom alluded earlier to a significant reduction in your debt, but what about buybacks?

Man: Well we never say never, but as we've said for the last number of months our priority is on dividend increases and on bank debt repayment.

We'll see what the future holds. As you know our company is doing a fabulous job in generating increasing amounts of free cash flow. And it remains at a top priority for us going forward.

But we're operating right now at about 2.7 times debt to EBITDA, not an uncomfortable place but we do think that over the next little while we'll be able to reduce our debt and as a result our interest expense going forward and increase the profitability of our company.

Adam Shine: Okay super. Thanks a lot.

Operator: Our next question comes from the line of Scott Cuthbertson with TD. Please proceed.

Scott Cuthbertson: Yes thanks very much and good morning.

Man: Hi Scott.

Scott Cuthbertson: Yes, good morning. Just wondered about - wanted to give a little bit of color on the trends in radio costs. Obviously there's a lot going on in that division. But just broadly speaking do you expect what we saw in the first half to basically continue in the second half?

Chris Pandoff: From a radio cost perspective? And - well we had a couple of changes in the first half of the year, some regulatory and/or copyright fee changes and addition to that the re-entrance of our cost containment from the previous two fiscal's with regard to unpaid days for our staff and pension funds.

So obviously those things are now baked into the back half of the year and will be there in the next fiscal as well.

Scott Cuthbertson: Okay but other than that I mean those have been pretty well disclosed. There's nothing else - any particular initiatives or any other cost pressures, like sort of sensing, you know, in line with your comment Chris that, you know, where you had some austerity measures in the down term and you've got to, you know, compensate people accordingly, but there's no, nothing special going on in the second half related to that?

Chris Pandoff: No if you're referring to any sort of unique events or anything of that sort that's correct. It's more of the same.

Scott Cuthbertson: Okay and John just kind of wondered if, you know, you've obviously continuing to push and get more out of your branding facility there.

Scott Cuthbertson: I just wondered if you could provide any additional color on the potential for filling up some of the excess capacity that you do have at Corus, key any prospects for doing anything with Shaw?

And also just for Tom on related - on that same topic are we finished with the moving costs and associated restructuring charges with this quarter?

John Cassaday: In terms of the space we have made an arrangement with the Pan Am games. And ultimately they will take over the entire seventh floor. And ultimately they will begin to make a positive financial contribution to our results.

Right now the Pan Am games is operating with a staff level of less than 50. Leading up to the games there'll be approximately 400 Pan Am employees in our building.

We do have some additional space. Our objective is to basically look at the facility as an opportunity for outsourcing.

For others it doesn't necessarily mean there would be people moving in but rather services being taken on to the benefit of the system and to ourselves given the investment that we've made. So that's really all I can say on that front right now.

Tom in terms of additional costs we remain convinced that the guidance that we gave you in terms of our average CapEx over the next little while is going to be lived up to. There'll be no surprises there.

Scott Dyer who managed this project for us so ably will be presenting to the board later today with kind of a wrap-up on it.

And I - and we're delighted to say that we ended up completing this monumental project on time and on budget so we're delighted about that.

All of our signals are now being distributed from Corus key. All of our external facilities have been closed and are now being sold off and sublet. So on that file all good.

Scott Cuthbertson: Okay and just - I mean there's some speculation in the marketplace about maybe, you know, exacting some efficiencies by working with your - some of your BDU partners with some of their content assets. Can you provide any color on that topic at all?

John Cassaday: No I really can't provide any additional comment on that.

Scott Cuthbertson: Okay thanks very much. That's all I had.

John Cassaday: Okay.

Operator: Our next question comes from the line of Tim Casey with BMO Capital Markets. Please proceed.

Tim Casey: Thanks John. Can we just go back to the regulatory side briefly and talk about subscriber fees from two angles?

One there seems to be a growing consensus that fee for carriage will get relabeled as value for service.

And given the ownership changes on some of the off air broadcasters that that - they, you know, that the commission is going to put through something that will, you know, return some sort of equivalent of a subscriber fee to the off air broadcasters. I guess one, do you believe that? Do you think it's inevitable? Any comments there?

And two do you think there's a scenario where existing specialty deals could be at risk? So in effect I'm asking you do you think there's a risk the CRTC would take the money out of specialty pie and put it into the conventional pie or will it just be an incremental charge going through conventional?

And further to that is there any likelihood that you get a little more pricing power in terms of fees?

And, you know, I'm thinking of something like YTV where you've asked over the years repeatedly for the ability to raise prices there and the commission has denied? I'm just wondering if you see any opportunities on that side? Thanks.

Man: Okay well really three things that you're asking. First of all on fee for carriage or value for service or whatever you want to call it we still - that - we still do not believe that dog will hunt.

Were we are absolutely convinced that that is not going to become a reality in our business. There is a Supreme Court ruling on this coming forward so time remains to be seen what'll happen.

But in our opinion we do not believe particularly now that these services are funded by well-financed BDUs that this is going to happen. But again one person's opinion, one company's opinion.

On the issue of whether or not it'll end up coming out of the hides of, you know, our existing services, well clearly if you don't believe it's going to happen then that's not a risk that I really have anything additional to say on.

But I'm - I don't believe there's going to be subscriber fee for over the air services. Therefore I don't believe that the specialty services will be impacted.

On the third point as we move into digital migration there will be no regulation of fees by the CRTC. So as a result any increases that we can get in our services will be as a result of negotiation with our distribution partners.

And the basic approach that we're getting or we're taking rather is that we will try to add value and generate incremental revenues by growing the pie number one, but number two, making sure that we make available to them as extensive array of digital programming as we can and that we attempt to negotiate additional fees for the digital carriage as opposed to additional fees for our specific linear services.

Tim Casey: What's the timing on those type of - a more market based fee structure?

Man: They're ongoing. We have a number of deals locked in. We can - we're negotiating a number of other ones. But I would say that Corus is in a relatively good position.

We have very, very strong suite of kids services. I don't think there's any question about the value that they bring to the table.

And our W, OWN and Cosmos services are again very well branded, very well positioned. So we feel we're in good shape.

And of course as we demonstrated last year or two years ago with the HBO offering we can command the attention of our distribution partners and secure additional rates. We bring incremental value to the table.

So those discussions will continue. And even though we're not the strongest and perhaps mightiest of all of their program providers I do think we have the best position and we punch above our weight in terms of the audience we deliver versus the revenue we take out of the system.

Tim Casey: So put it another way there's no kind of drop dead date on existing deals where you, you know, everything flips over to a negotiated rate? It's across the portfolio it changes over time?

Man: Exactly. And again a number of our brands are into long term affiliation agreements. So we have no cliff vesting to use another term that's kind of appropriate in this context that would cause us to feel any sense of urgency here.

Just ongoing negotiations with good brands and great relationships and we're confident we can pull it off.

Tim Casey: Thanks for that.

Operator: Our next question comes from the line of Colin More with Credit Suisse. Please proceed.

Colin Moore: Great. Thank you very much and good morning. Most of my questions have been answered but I just had one question related to your strategic outlook for specialty television and more specifically growing potential at your portfolio?

And I ask that in the context of you've been focus clearly on clusters of women and children with some categories opening up now under the digital conversion such as news and sports or some potential opportunities there. And I believe you've actually looked at one potential application.

And the second piece of my question is just arguably given your infrastructure, your relationships with the distributors, you're potentially a little more better positioned in this new world than some of the smaller broadcasters and if you do see an opportunity for some pickup in M&A broadly in this sector?

Doug Murphy: We think that the next couple years are going to be - well maybe not in the next couple of years but the next little while's going to be a little bit quiet on the M&A front. Who knows but that's our current assessment.

So our real focus from an operating point of view is really to try to improve our operating effectiveness.

We do think there's tremendous opportunities for us to grow our kid brands internationally. We are excited about the prospect for various partnership opportunities. And we see I think tremendous potential there.

We've got a great library. We've got tremendous expertise. We've got a plant that allows us to distribute signals anywhere in the world seamlessly. So we’re really focused on that opportunity at this particular point in time.

Man: I'd add to that in columns Doug that, you know, we, you know, have segmented a great new business which is the co-view side of our equation.

So when you think about our suite of services we really think about them in terms of kids family and women.

And we’re seeing some great performance on the family targeted content on both YTV and CMT. And that's a continued focus for us from a programming side.

So as John said, you know, and obviously internationally I think is a huge opportunity for us.

But domestically our objective is to make our existing assets work harder, to continue to build a share as we’re doing across all the networks, to continue to work the great brand equity we have in our existing services that are, you know, ones that are like YTV or W or brands that we’re stewarding from key partners in the US to basically offer a very strong value proposition both to our audiences and to our BDU partners.

Colin Moore: Got it, thanks. So it sounds -- and not to put words in your mouth -- but a more of an emphasis on focusing on your core brands as opposed to specifically branching out at this point?

Man: Exactly. And we think there is still lots of potential in building out our core brands.

Colin Moore: Great thank you.

Operator: I show no further questions at this time.

John Cassaday: Thank you all very much for your interest in our company. And we look forward to talking to you in the days to come. Bye for now.

Operator: Ladies and gentlemen that does conclude the conference call. We thank you very much for your participation and ask that you please disconnect your line.

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