Q3 ANALYST CALL

Moderator: John Cassaday
July 14, 2010
1:00 pm CT

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Corus Entertainment Third Quarter Analyst conference 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 please press the 1 followed by the 4 on your telephone. If at any time during the conference you need to reach an operator, please press the Star followed by the 0.

As a reminder, this conference is being recorded Wednesday, July 14, 2010. It is now my pleasure to turn the conference over to Mr. John Cassaday, President and Chief Executive Officer. Please go ahead sir.

John Cassaday: Thank you Operator. Welcome to Corus Entertainment's Fiscal 2010 Third Quarter Report and Analyst conference call. First of all thank you for joining us today. Before we read the cautionary statement we would like to remind everyone that there are a series of PowerPoint slides that accompany this call. The slides can be found on our website, www.corusent.com in the Investor Relations section. We'll now run through the standard cautionary statement.

This discussion contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. 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.

I'd like to introduce you to the Corus Entertainment team joining me on the call. Executive Vice President and Chief Financial Officer Tom Peddie; Doug Murphy, Executive Vice President and President of our television division; and Hal Blackadar, Executive Vice President and President of our radio division.

So if you'd turn to Slide 3 and 4, we are very pleased with our outstanding results for Q3. Turning to Slide 3 and 4 of the PowerPoint presentation, we finished the quarter with consolidated revenues of $218.4 million, up 12% compared to last year while our consolidated segment profit was $73.8 million, up 20% from a year ago. These exceptional operating profits are a result of strong top line growth while controlling our costs.

Net income for the quarter was $31.4 million or 39 cents per share compared to a net loss of $145 million or $1.81 per share last year. Net income for the prior year includes a $172.5 million after tax broadcast license and goodwill impairment charge. Removing the impact of this item results in an adjusted third quarter basic earnings per share of 34 cents in the prior year.

Turning to Slide 5, we are pleased to report that our television division had another terrific quarter with segment profit up 17% and revenues of $147

million, up 13% versus last year. Television revenues were driven by double digit growth in both advertising and subscriber revenues. Total specialty advertising was up 14% versus year ago and subscriber revenues grew to - grew 13% compared to last year. Other revenues increased this quarter by 21% and this included growth from distribution and merchandising revenues in our content business.

Our kids segment had a great quarter with overall revenues up 14% and ad revenues growing 19% due to impressive ratings and successfully monetizing our co-view audience. PPM data shows consistently strong rating gains for Teletoon and YTV with YTV's average minute audience for kids 2-11 up 39% and kids 6-11 up 45% versus year ago. Co-view continues to be a strong growth platform for us with programs like iCarly, Survive This, and 10 Things I Hate About You contributing to average minute audience ratings for adult 14-49 and women age 14-49 that are more than double that of prior year.

Toys, food, and entertainment remain the top advertising categories and we are seeing growth in wireless and personal care categories as well. Our merchandising revenues were up 19% versus year ago driven by the success of the Bakugan brand as well as the Backyardigans and Babar. Subscribers revenues achieved single digit increases and the portfolio benefited from the addition of the Nickelodeon service.

Our specialty and pay group also performed extremely well. Revenues were up 13% from year ago. Both subscriber and specialty ad revenues achieved double digit growth with subscriber revenue up 16% and specialty ad revenues growing by 10%.

This quarter Movie Central subscribers increased 2% from the same period last year. Increased subscriber revenue also reflects strong growth in Cosmo

Television as well as a positive response to our two new offerings, Sundance Channel, and W Movies.

Turning to our women's portfolio, advertising revenue performance was very strong with double digit growth versus prior year. Key gains were in retail, home entertainment, food products, auto, and auto supplies. The recent addition of W Movies to the portfolio has generated strong acceptance in the marketplaces with ad revenue for the service contributing to 20% of the overall growth in the portfolio.

AMA ratings for the women's services resulted in growth across the segment with particularly strong increases for VIVA and CosmoTV which saw a doubling of its audience versus last year.

Moving to Slide 6, radio also had a very strong quarter. Total revenue finished up 9% over the prior year. Strong cost controls drove segment profit up by 36% and on a regional basis all three regions, the West, Ontario, and Quebec, saw year over year revenue growth with Ontario and Quebec experiencing strong growth both outperforming the overall market according to Tram.

The key categories that fueled our growth in radio were foreign and domestic auto which were both up over 30% from year ago. The biggest contributor in the retail category was home repairs and hardware which was up 26%. According to Tram local direct revenues have grown to 9% compared to 8% for the market overall. Markets with exceptional results for local direct revenue include Vancouver, Kitchener Toronto, Montreal, and Quebec City which all saw growth of between 20% and 27%.

On a regional basis Q3 revenue continued to be robust throughout Ontario finishing 19% ahead of last year. Toronto, London, and Kitchener clusters

outperformed the market as measured by Tram. Toronto solidified its PPM gains on 102.1 The Edge, Q107, and Vinyl FM and the regional stations continued to show positive growth largely by focusing on direct local retail and targeted account development.

Quebec radio also delivered strong revenue growth, up 10% versus prior year. Both Quebec City and Montreal stretch stations showed significant gains achieving double digit revenue growth. And for the first time in several quarters our western stations also saw a modest return to growth versus a year ago. Both Vancouver and Winnipeg exceeded market growth in Q3 according to Tram and our clusters in Calgary and Edmonton showed improved performance.

Western markets are starting to see dramatic increases in domestic and foreign automotive advertising with domestic auto spending in Vancouver up 83% in the third quarter compared to last year, another positive indicator of a return to growth in the west.

Targeted advertising drives in Vancouver, Edmonton, and Calgary aimed at developing new business categories have added over $1 million in new revenue for Q3 in each market.

With top line growth and a focus on cost controls, our radio division has seen a significant improvement in segment profit margins delivering margins of 31% in the third quarter, up from 25% last year.

In closing, we'd like to provide you with some comments on the outlook for the balance of the year. Turning to Slide 7, our revenue outlook for the last quarter for television's overall specialty ad revenues is currently projected to grow in low double digits primarily due to the monetization of our co-view

audience for YTV, continued growth for Teletoon, and the continued strength of our women oriented channels.

Subscriber revenue was also expected to grow but this in the mid single digits with increases in our Movie Central subscribers, the end of the free preview period on CosmoTV, and the momentum of our two new services, W Movies and Sundance Channel. Some of this growth will be offset by a decline in revenue from production and distribution and merchandising revenues off a very strong Q4 year ago.

Radio continues to pace well into the fourth quarter. We are projected continued ad revenue growth in the high single digits led by Ontario. Toronto continues to drive substantial Q4 growth as well as other key markets in Ontario which are pacing ahead of last year. Pacing in Quebec continues to be strong with Quebec City and Montreal French stations driving the region's year over year growth.

The return of ad growth in the west is also encouraging and we expect to see that trend continue. With our ad sales pacing ahead in the fourth quarter and ongoing signs of economic recovery, we are on track to achieve our earnings guidance for the fiscal year.

On May 10 we announced a new senior management team with the appointment of Doug Murphy as President of the television division and Hal Blackadar as president of radio. We also announced that we would be conducting a review of the organization to assess workflow and ensure an efficient structure.

This summer all of our Toronto locations have been consolidated into Corus Key which represents a great opportunity for us to take full advantage of the

building's leading edge technological infrastructure and align our decision making process and organizational structure with our new technology. While we anticipate continued top line growth, this will ensure we remain both innovative and vigilant on our cost structure for long term growth and success.

We hope that you have found our comments helpful in providing an overview of our Q3 results and our outlook for Q4 and we'd now be pleased to take any questions that you may have.

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 tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration please press the 1 followed by the 3. If you are using a speakerphone, please lift your handset before entering your request. One moment please for the first question.

Our first question comes from the line of Adam Shine from National Bank Financial. Please proceed with your question.

John Cassaday: Hello Adam.

Adam Shine: Thanks a lot, hi there. So good solid Q3 results certainly. A few little I guess housekeeping items just to begin with. You're talking about free cash flow guidance likely coming in a bit better than previously expected because of the decision to capitalize or pursue capital leases. Can you give us a sense as to where you see CAPEX coming in 2010? I think the previous number was about $100 million and $20 million next year.

Tom Peddie: Adam it's Tom. Those numbers are still consistent. The 2011 number might be a little higher than that but the $100 million that we forecast for this year is still the number we're using.

Adam Shine: Oh okay, because so because I've got you at around, and maybe correct me if I'm missing something, I think you're at $52 million year to date so obviously looking for a very big delta heading into the Q4, correct?

Tom Peddie: What's not included in that $52 million is some of the capital leases that we've referred to so I think that number is less than $10 million at this particular point in time but will be higher for the year so with the combination of the capital leases and the actual cash out the door on expenditures, we'll still be in the $100 million range.

Adam Shine: Okay thank you for that. When we look at corporate costs, you know, the number came in a little bit lower than I had been anticipating and I think your guidance last Q2 was maybe somewhere in the sort of I think it was $21 million and $22 million range. Is that still a reasonable range for the cost for the year?

Tom Peddie: No actually Adam, at the end of Q2 we said that our target was $25 million to $26 million compared to our run rate in 2008 which was around $23 million. Last year we were about $18 million.

Adam Shine: Right.

Tom Peddie: So at the end of Q3 we're now at $19-1/2 million so if our run rate in Q4 is at the same level as Q3 we'd be at $27 million and not the $25 million to $26 million we forecast last quarter.

Part of the increase is as we said we've moved to Corus Key. We've taken on additional space here. The cost of that additional space is probably $3 million to $3-1/2 million extra per year so the impact per quarter is about $900,000. So we'll be picking that up in Q4 and next year $900,000.

And the other thing that's happening in the corporate number is that we are delivering better financial results and budgeted which is driving our incentive based performance plans so that's driving the number up. So our current estimate for the year would be $27 million to $28 million as opposed to the $25 million to $26 million that we talked about in Q2.

Adam Shine: Perfect and you know what, thank you for correcting me because I was looking at my depreciation numbers as compared to my corporate cost numbers.

Tom Peddie: Okay and let me just comment a bit on that is that, you know, because we're a (unintelligible) flows a little slower into moving into Corus Key, our depreciation is (unintelligible).

Man: Hello? Tom?

Operator: Ladies and gentlemen, please stand by. The conference will resume momentarily. Ladies and gentlemen, we've been rejoined by the line and Mr. John Cassaday. Please go ahead. Mr. Cassaday please proceed with your presentation. Mr. Cassaday please proceed with your presentation.

John Cassaday: Yes.

Man: Proceed.

John Cassaday: Thank you. Sorry about that folks, Tom was going on a little long there so we cut him off. Just kidding.

Tom Peddie: Hopefully Adam, it's Tom, hopefully you got the balance of my question or comment with respect to depreciation, it is running a little lower because we're not really counting it until June 1, our move into Corus Key.

Operator: Our next question comes from the line of Paul Steep with Scotia Capital. Please proceed with your question.

Paul Steep: Hey guys.

John Cassaday: Hi Paul.

Paul Steep: Hi, I want to give this a quick try here. On radio you covered a lot of ground there earlier John. I thought I heard you say wireless and personal care but I'm not sure whether that was for radio or TV. I guess the real question here...

John Cassaday: I made that comment in respect to television.

Paul Steep: Okay so the question would more the sustainable be the recovery, I know you flagged auto in there a couple of times, what you've sort of seen in terms of, you know, response from advertisers as we now lap some pretty dismal quarters last year.

John Cassaday: Are you talking about radio in particular?

Paul Steep: Yeah, radio in particular. It's just sort of what - how sustainable do we think that radio recovery looks like at this point? It looks great at this point.

John Cassaday: It looks pretty solid for a couple of reasons. First of all, I'll give you some indication of Q1 pacing which is very strong. Q1 is pacing about - well it's pacing high single digits and that pacing is consistent across the country so that includes western Canada. So we're starting to see a real benefit of western Canada come around which is very, very encouraging.

Paul Steep: Okay that helps. I assume you mean Q4, right?

John Cassaday: No I'm talking about Q1 fiscal '11. Q4 we made reference in the commentary that Q4 is pacing ahead mid-single digits, well mid to high single digits as well. So looking two quarters ahead we're pacing very strong on radio.

Paul Steep: Ah, that helps a lot, okay. Then if we shift gears quickly to kids and we look there, what's really the driver? Like you flagged both, you know, co-view but you also flagged, you know, presumably Nick and some of the sort of rating recovery on that side. Any way I know it's hard to tell as to which one seems to be driving more of that sort of power through in those numbers.

John Cassaday: Well YTV for sure. YTV is the big dog here and that's clearly what is doing most of it. Also Teletoon is doing extremely well. We're getting the benefit of two things. We're getting strong overall kid ratings, number one, and number two particularly on YTV we're getting the benefit of our co-view audiences and we're being able to monetize those.

But we've seen toys come back for us in a nice way. We've seen entertainment come back for us in a nice way in Q3. We've seen strong performance from retail. So there's generally a good category profile on our kids business and good growth in ratings and revenue on our core brands. And no question, Nick has come and done a nice job but it's still a relatively small brand in terms of overall ad revenue.

Doug Murphy: Doug here, I would also add that we had a lot of deliveries in third quarter on for the impression distribution side of the business in Nelvana deliveries and another strong quarter on the merchandise revenue front.

Paul Steep: Actually that led me right to where I was going to go last and then I'll let somebody else have a shot here which was on the content side. You know, obviously you flag in the comments about, you know, lapping a really tough Q4 comp.

Maybe you can talk a little bit Q4 how we should think about that and more importantly what the pipeline looks like for 2011 on the merchandising side is more what I'm thinking about there in terms of Bakugan and some of the other hits.

John Cassaday: Okay well I'll let Doug talk a little bit about the outlook on the merch side but I would like to make sure that everybody did hear me when I did say that we will be lapping pretty tough quarter on the merch side.

So last year in Q4 we had a couple of important events. One was the new licensing agreement for Beyblade and secondly was a new agreement on Babar and both of those contributed revenue in Q4 which is not going to be repeated this year, hopefully will be big winners for us as the merchandising sales start to come in.

So on the ad side however, I expect that we'll do very well in Q4 versus year ago. Doug do you want to talk a little bit about the outlook on merch sales for our key properties?

Doug Murphy: Sure John. Paul next year we have three big drivers we're focusing on. Of course we're positive with Bakugan's continued strength. You know, our third season has launched in North America now and second season is launching internationally and we're very pleased with that business. It's doing very well.

In terms of brand new properties coming to retail, Beyblade of course is now on the air in North America. We'll be launching and broadcast internationally over the summer and we have a kind of day and day global merchandise launch for the fourth quarter calendar in all markets so that's a very favorable setup for growth in the coming year.

And lastly our Babar business is - we're focusing first and foremost on the French market launch. That's going to be, you know, broadcast consumer products on video kind of simultaneously in the spring of '11 and so we're feeling very good about how that business is shaping up. It will be a meaningful contributor including the level of Bakugan.

Paul Steep: Okay, that helps. Thanks guys.

John Cassaday: Thanks Paul.

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

Bob Bek: Thanks, good afternoon. I just wanted to start with a couple of accounting questions if I could. Tom, the duplicate rent situation, I guess you got that in Other category. Can you remind us where that's going to be in Q4 now that you're in? I guess you're fully in or is there still some of that carries into Q4 and will it be on the same sort of line below EBITDA?

Tom Peddie: Yes, the - what we've - I said in my opening comments here is that we're reflecting our new rent in our EBITDA number now for Q4 being in Corus Key. But as you said, we do have some duplicate rent which I think will be about $1 million that will be reflected in the Other line in Q4.

Bob Bek: Okay that's helpful, thank you. And just I guess on the royalty change on radio, just could you talk us through how you do the treatment on that? I guess it's retroactive, it will be in Q4 so will that be in EBITDA, the retroactive payment? Is that correct? And the pro forma number, sorry, the number that you've given in the release on I guess $2 million to $3 million in extra payments going forward, is that pro forma the Quebec radio sale or not?

Tom Peddie: No, it's - Quebec is included in that particular number.

Bob Bek: Okay.

Tom Peddie: And we'll treat this similar to how we've treated an adjustment in radio in the past so what will happen is that the retroactive portion for '08 and '09 would be reflected below the line. But the amount for 2010 will be included in the EBITDA so it will hit our EBITDA number in Q4 to the tune of I'll say about $2 million.

And then as we said the run rate going forward - we're saying $2 million to $3 million, we're having a difficult time doing the calculation and as you say that assumes at this particular point in time that we still continue to have Quebec.

Bob Bek: Okay great, thank you. Just a question on radio, I guess perhaps for John or for Hal. But you had radio - you've had rate compression in Alberta with the new stations there. You're starting to see some signs of strength in those marketplaces. Do you think that with some improving demand you'd see some

potential to see some of that rate improve at this point or is that just a little too hopeful given how many stations are in the markets?

Hal Blackadar: Yes it's Hal, Bob. We are starting to see an improvement particularly in Vancouver and in Calgary. In Calgary in particular we're pacing considerably ahead of the same time last year. We're also seeing good local revenue uptick in Vancouver market, a market that has had the most recent number of licenses added to it, some of which have even yet to come on air is Edmonton so we're a bit behind there. But otherwise in the west we're starting to see a positive sign in front of our growth curve there.

Bob Bek: So I could see both ends of that, right? I could see being - improving economic demand but then also perhaps some rate improvement as well.

Hal Blackadar: The rates are starting to come up. You know, the challenge there with the new additions is that it does take some time for rate increases to go through. But there certainly is an increased demand.

Bob Bek: And I guess just lastly on the television side, in your presentation you talk about advertising growth being offset by the decline in other revenues. You just talked through that John. I notice you didn't use the phrase partially offset or somewhat offset so we can take that at face value then with sort of the Merck pickup from Q4 last year that's declining and then the ad pickup you can have this Q4, we can probably offset each other.

John Cassaday: You're a good listener.

Bob Bek: All right I'll leave it there for others, thanks very much.

Operator: Our next question comes from the line of Scott Cuthbertson from T.D. Newcrest. Please proceed with your question.

John Cassaday: Hi John.

Scott Cuthbertson: Thanks very much. Hi there. I just wanted to turn the conversation over to cost a little bit. I just wondered, you know, you've been investing in your content on the television side. It's a little bit sort of a little bit lower change in the rate of investment in Q3 than it was year to date but I just wondered if you could give us some color about what that looks like going into Q4.

And into next year, just specifically I wondered if the television cost trends are going to be more like sort of the 10% increase you saw this quarter or more like what it's been year to date going into Q4.

Tom Peddie: Hi Scott, it's Tom. I think that one of the things you should really look at on our business is on a 12 month basis as opposed to specifically quarter to quarter because as you know we can have some things that kind of fall into the quarter or just fall outside the quarter.

Managing our programming costs I think is one of our biggest challenges because as you know our conditions of license are tied to revenue growth. And so, you know, it's tough for us and so we're still, you know, high single digits from a cost point of view. I think that's really what you should probably be using in your models.

Scott Cuthbertson: Okay and that includes going into 2011 as well Tom?

Tom Peddie: Correct. Now I think one of the other things too that kind of masks or skews that increase a bit is the addition of some new channels. You know, last year in Q3 we would not have had a Sundance and W Movies as an example.

Scott Cuthbertson: For sure, okay. And looking at costs in radio, I mean, they're pretty flat in the quarter. Have you seen any real change in the pacing there?

John Cassaday: No, with the exception of the addition of this incremental copyright payment we've got our costs under control. On radio and television as Tom mentioned, the TV issue that we've highlighted in the past is just program cost due to two factors -- investments in new networks, HBO, Sundance, W Movies, and also the incremental cost associated with success which is the incremental Canadian program expenditures that we're required to make on the basis of the improvement in our bottom line.

Scott Cuthbertson: Sure. And just a housekeeping question for Tom. Fully diluted earnings per share from operations, you've got 44 cents?

Tom Peddie: Fully diluted, it's on the - we didn't adjust it.

Scott Cuthbertson: You didn't, okay.

Tom Peddie: No.

((Crosstalk)).

Tom Peddie: I'll get back to you.

Scott Cuthbertson: Okay and the last thing I just wanted to add or ask was on Corus Connect. It sounds like an interesting innovation, just wondered if you can give us a little

bit of color on the initiative and, you know, help us with any cost implications that may arise from that.

John Cassaday: Well I just would say that this was just for the benefit of those of you who aren't aware of it, it's essentially an efficiency tool to help our customers interact with us on a more cost effective basis.

It was an innovative idea that was brought to us by one of our sales managers in Toronto. We funded the development of it and she led the implementation of it. It's been extremely well received and it's just really I guess part and parcel of our response to our talks with the customers which is their plea to help us take cost out of the business particularly out of the back room so we can make sure that everything appears on the screen or in the air.

So thank you for your complement and thank you to (Renee Roth) who conceived the idea here, our sales manager in Toronto, and we are getting an excellent response. And I think over time it will become standard for the industry and help us eliminate the cost associated with exchanging invoices and checks.

Scott Cuthbertson: I guess but in the - for modeling purposes I guess, it sounds like a great initiative but probably not that material in terms of forecast.

John Cassaday: It is not material from a cost point of view at all.

Scott Cuthbertson: Okay great, thanks very much.

Operator: The next question comes from the line of David McFadgen from Cormark Securities. Please proceed with your question.

John Cassaday: Hi David.

David McFadgen: Yeah, I've got a couple of questions. Tom what's the accounting impact from going with top leases instead of just regular CAPEX? Can you just remind us what that difference is?

Tom Peddie: Well what will happen is that it will increase our interest expense line going forward so you'll see the financing costs go through there.

David McFadgen: Okay, is that why the interest expense was a lot higher in the quarter?

Tom Peddie: Well no, because the interest expense was higher in the quarter for a number of reasons. You know, we did our refinancing, you know, we took out - and as a result we took swaps out, we took, you know, we did it all and we also have higher rates, you know, because we were borrowing at 7-1/4 as opposed to the low rate. As we said in our shareholders report, our effective rate was about 5.1 I think compared to about 4.1, 4.2 last year so you have that cost.

You have additional costs in there with respect to the commitments for the higher lines of credit that we have. The impact of capital leases in the quarter really wasn't material. It will, you know, as I look out into the future the number might be $1 million a year but we'll also have increased depreciation from the assets that we had acquired. So for example if we did $20 million worth of capital leases, we would have the depreciation on the value of those particular assets.

David McFadgen: Okay. In the quarter the interest expense was I think 14-1/2. For me it was a little higher than I was looking for. What would have been a normal rate to use going forward assuming the capital needs addition?

Tom Peddie: Well I think that as you start to look out you're probably trying to do your model for 2011 so if you look at it and you felt that we had $500 million worth of debt at 7-1/4 so that's what, $36 million. And then, you know, if we had say another $200 million at, you know, 5% there would be another $10 million in interest.

And then you would have the commitment fees that we would be obtaining for access to the lines of credit which could be about $3 million. And then you have the imputed interest that's calculated on long term program rates which you see is generally about $5 million or $6 million a year. That's a non-cash item. And so, you know, you can get a number when you start doing that into the $60 million range without much difficulty. But as I say, not all of it is cash related.

David McFadgen: Okay. And then just a question on Movie Central, the subs year over year, the growth slowed. Is that kind of a new range going forward or is there an anomaly in the quarter? Any comment on that?

John Cassaday: Well there was a couple of things that happened in the quarter. One of our customers had a fairly significant price increase. We think that might have been a factor. You know, also as we increased the penetration of digital to this generation of adopters, they may be proving to be a little slower or a little less interested in premium movie services than the early adopters.

But having said that, we're certainly not conceding that the growth is going to slow. We think there's tremendous potential to capitalize on explosive digital growth and we are putting in place programs to ensure that we are able to sustain the growth in the 5% range as we have historically.

We also have a plethora of new programming coming out that we think is going to be very well received and one of the things that's kind of broken through for us a little bit by surprise is True Blood which is taking off and is exceeding the level of satisfaction and audience attention that The Sopranos had previously and we thought might never be matched again.

So we still feel that we're in really good shape here. We had 2% subscriber growth but we had pretty significant growth in terms of our revenue per subscriber so the story on Movie Central remains very positive as far as we're concerned.

David McFadgen: Okay. And then I noticed in the MD&A you talk about significant regulatory hurdles for the Corus Quebec radio transaction. Has the - has your outlook changed regarding the regulatory hurdles for that transaction since you announced it?

John Cassaday: No, not at all. I mean, what we recognized is that it is a multiple license ownership policy in place and the company that acquired or has made an application to acquire our assets would like exceptions made to that policy.

So there will be a discussion of that at the hearing. We believe that an exception to the policy is warranted given the competitive environment in Quebec. We've made that case to the CRTC as has the acquiring company and now we'll see where the chips fall on that one. But it is our expectation that at some point in fiscal '11 that transaction will close.

David McFadgen: Okay. And then just lastly, when you look out to 2011 with the CAPEX dropping down to let's call it $25 million to $30 million range, free cash flow will go up a lot. Are you - what's the probability of higher dividend?

John Cassaday: Well as we've said historically David, we believe that dividends are an important part of our story. We've typically talked strategically about dividend growth being in line with earnings growth but that's a decision that will ultimately be made by the Board of Directors. Historically we've looked at that at the January board meeting and, you know, in the event that there is a dividend increase it may well coincide with historical timing.

David McFadgen: Okay. All right, thank you.

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

John Cassaday: Hi Colin, welcome.

Colin Moore: Good afternoon everyone. Hi, thank you very much. My questions are related to television. I believe at the last quarter you talked about how you might be repositioning some of your programming on the women's channels to try to bring in more men. I was wondering if that's still a work in progress or has that happened and started to add to the traction and robust growth that you saw this quarter?

John Cassaday: It's a work in progress but there are actual programs that are having an impact. Now just for the benefit of those who are wondering what Colin's talking about, we had a very strong complement of programs that were focused on personal improvement and what we found in PPM is that programs skewed to women that also had some appeal to their male partners were having a significant impact on ratings.

So clearly we needed to adopt our programming to that new reality and there will be a series of new shows that we think will be strongly appealing to

women but perhaps a little more gender neutral than we've had in the past. Doug I don't know if you want to point to any specific example.

Doug Murphy: Yeah I can do that, thanks John. Yeah we're describing it as what we call social viewing where it appeals to a female audience but also to family members who may be viewing with her in the 4:00 to 8:00 time zone. That's, you know, oftentimes, you know, could be daughters or sons, could be husbands or boyfriends during date night or Friday night movies.

Some of the success we've had right now is - our biggest hit is called Love It or Lift It. We've also had some success with Come Dine with Me. So those are two new shows that have come and really helped us improve our business in this last quarter.

John Cassaday: And I think as a result of that and just focus on our part, we've seen a nice return to growth on the W business and we're optimistic that we will continue to be able to grow that business into the future. As you saw today our women ad numbers were pretty outstanding in the quarter.

Colin Moore: Great, thanks for the color. And just a follow-up to Scott's question on the expenses, my angle is actually just from the general and administrative expenses. The growth rate was a bit higher than I had expected this quarter and I think in the report you had mentioned it wasn't employee related but just a collection of costs. Was there one or two items that specifically led to that growth this quarter or was it just the group that you mentioned?

John Cassaday: Well we're just looking around the table. We can't think of anything material.

Tom Peddie: Are you referring Colin to a particular division or just the corporation from a consolidated point of view?

Colin Moore: Pardon me, it's the G&A cost within television. And if I backed it out I think it may have been double digit growth this quarter.

Tom Peddie: Yeah we did have a stronger growth in the quarter and I think it was, you know, additional marketing costs to drive ratings. You know, we had some CRTC Part 2 fees this year that we didn't have last year. We I think quantified that particular amount in the segment results on the bottom of Page 10 of the shareholder's report.

And then as John said in his opening comments, you know, one of the things that, you know, we clearly will be able to do here in the move to Corus Key is to realign some of our particular costs. So controlling our G&A costs is a top priority for us.

Colin Moore: Great, thank you very much.

Operator: Ladies and gentlemen, as a reminder, to register for a question please press the 1 followed by the 4 on your telephone.

Tom Peddie: Operator just while we're waiting to see if there are any other callers, Scott it's Tom, I might just come back to your question with respect to diluted earnings per share. You were really quite accurate. I just looked and fully diluted if we took out those adjusting items in Q3 this year would be 43 cents. I think you referred to 41.

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

Tim Casey: Thanks, a question for John. Now that you're in to the new facility, I'm wondering how we should think about the efficiencies that you hope to drive out of there.

Is this something that will just be incremental and hopefully be reflected in margins over time or will it be more of, you know, a time defined event where, you know, you'll go through some restructuring and, you know, maybe some associated charges with that? How should we look at the potential for efficiencies given you spent $100 million on a new facility?

John Cassaday: Well I think first thing is that you should expect us to be striving to get a return on our invested capital as we would any other investment that we make. So you can be confident that will take place. Secondly, both scenarios that you suggested are part of our program going forward. You will see on an ongoing basis a continued focus on margin improvement as we realize the efficiencies that are possible and inherent in this new building.

And then, you know, as I suggested in my opening remarks, there will be an impact from restructuring. We announced an organizational redesign at the top of the company just a few weeks ago consolidating our management committee from 13 to 6. We'll be making additional announcements in the very near future about what the level 3 and 4 implications are of that and the result and impact on our costs.

But suffice to say that we've taken the opportunity over the past several weeks to explore all of our costs in detail and ensure that we have the organizational structure and cost structure in place to allow us to compete effectively in fiscal '11 and beyond.

We will take the opportunity and I'll just remind everyone now given Tim's question that we'll take the opportunity at our Investor Day which will be held on September 29 to, you know, further elaborate on what our new organizational structure looks like and the impact on our costs at that time.

Tim Casey: Thanks for that.

Operator: And we have a follow-up question from the line of Adam Shine from National Bank Financial. Please proceed with your question.

Adam Shine: Thanks a lot. In terms of I think maybe with Bob, his question regarding further duplicate rental costs, you noted $1 million in Q4. Is there going to be any spill over into early 2011 or are you done with those?

Tom Peddie: We'll effectively be done with them Adam. As I said in my comments, incremental costs on an annual basis to us is about $3-1/2 million. We also do have some surplus space here. We have a floor that we are not occupying and we'll treat that cost below the line so it will still impact our net income but we're in the process of (unintelligible).

Adam Shine: Okay I'm sorry, you faded out at the end there. You're in the process of...

Tom Peddie: We're in the process of mitigating that cost. In other words we're looking to find a tenant for the seventh floor.

Adam Shine: Of course. And if I go back to what you were saying before you got cut off and the line went dead, in terms of depreciation, you know, the timing of the move in to Corus Key obviously allowed for depreciation to be a bit lower than anticipated in Q3. So going into Q4, I mean, are we looking at a

significant delta that might surprise or are we just looking at another $1 million or so just to close out the year?

Tom Peddie: Yeah, another $1 million or $2 million. And I think that if you were using your run rate for 2011 the number of around $30 million would probably be (unintelligible).

Adam Shine: $30 million for 2011 depreciation?

Tom Peddie: Yes.

Adam Shine: Okay, I thank you for that. And then lastly just from the context of Pay TV, you know, obviously the expectation was that you were going to hit about 1 million subscribers for Movie Central to close out the year. You know, still I suspect some degree of incremental growth to be had at least sequentially heading into Q4 with the return of Entourage, Hung, and maybe, you know, a few other series. Anything you can say in terms of, you know, the growth expectation maybe below $1 million but certainly above $970,000?

John Cassaday: Yeah, that's a good encapsulation. We said some thought was a wildly audacious goal but we certainly thought $1 million was within our grasp. It's possible but unlikely based on where we're at right now that we will get there.

I do expect that we will get there very soon into fiscal '11 and as soon as we saw the numbers come in for Q3 we sat down and said what can we do to accelerate adoption of this by new digital households and try to make the number for this year.

Our partners, our BDU partners have embraced that and Doug and (Andrew Eddie) have been out drumming up support for some exciting programs to get

us off to a quick and early and fast start in the summer that will help our numbers in Q1 of fiscal '11.

Adam Shine: Okay great, and just to clarify just to wrap up, I mean, if I go back and reflect on what was said earlier, I mean, Tom you're sort of guiding, I mean, notwithstanding the generation of free cash next year which will certainly be much stronger than this year, and the ability to reduce debt accordingly.

You're still talking about interest costs, you know, somewhere in the $55 million plus range and then you just alluded to the depreciation costs being I think a lot higher than previously anticipated, around the $30 million mark. That's correct for 2011?

Tom Peddie: I guess it's probably two parts. I mean, I look at the depreciation as probably $28 million to $30 million, I guided you towards $30 million. I guess that gives me a bit of a cushion when I give that particular number.

And as I say, with respect to the interest costs, you know, I talked about those numbers and clearly if we're able to generate the free cash flow that we think we can generate and if the interest rates stay the way they are, interest on a floating rate debt, you know, would certainly be less than the $10 million number that I threw out.

So I threw out a number about $36 million under $500 million and then I used $10 million so that's $46 million and then as I say I've got say $1 million worth of capital lease costs so I'm at $47 million and then if I've got some commitment fees, say $3 million, then I'm at $50 million. And then, you know, I talked about some other potential items that would be non-cash.

Adam Shine: Okay, great. Thank you very much.

Operator: Mr. Cassaday there are no further questions at this time. Please continue with your presentation or closing remarks.

John Cassaday: That concludes our presentation for today. Thank you for your interest in our company and thanks to all our employees for a great Q3 and we look forward to seeing you through the summer and certainly at our Investor Day on the 29th of September. Bye for now.

Operator: Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.

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