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Disney Speaker:

Bob Iger

President and Chief Executive Officer

PRESENTATION

David Barnard – *Head of Global Sales, Sanford C. Bernstein*

Good morning. I am Dave Barnard, head of Global Sales here at Sanford Bernstein, and it is my pleasure to welcome you to this morning's fireside chat with Bob Iger, CEO of The Walt Disney Company.

We are delighted to have Bob, Lowell Singer, and the rest of the Disney team back here at the SDC once again. I would also like to welcome Andrew Slabin of GLG and Steve Warner of Alliance Bernstein to this morning's session where they will be serving as the role of moderator.

Andrew and Steve will lead off the questioning this morning. But we will be looking for input from the audience and will take your questions with the question cards that were on the seats as you arrived this morning. (Instructions).

Just one piece of business I would like to cover before I hand it over. I'd like you to note that since neither GLG or Alliance Bernstein publishes research or internal ratings, nothing from today's presentation should be interpreted as a recommendation to buy or sell Walt Disney security.

So with that out of the way, I am pleased to hand it over to Bob, Andrew, and Steve.

Andrew Slabin – *GLG Partners*

Thanks. Bob, let's just start off thinking about the role that a CEO plays in today's media industry. It seems the hardest job that you guys might have is figuring out how to maximize your revenues with a proliferation of distribution platforms.

So how do you make sure that you protect the revenues you have currently and develop new areas for the business to grow?

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

I'd start up by stating the obvious. It starts with making great products and, in our case branded product, and really concentrating on improving quality and consistency when it comes to success creatively and putting our capital in branded directions. Because we think, generally speaking, our returns on invested capital, particularly in the film and entertainment space, are higher when we invest in our higher quality brands. So Disney, Pixar, Marvel -- good examples -- ESPN, all great examples of that.

Clearly, we are faced today with a myriad new distribution opportunities. And we have taken the position as a company to be present on those platforms for a variety of reasons.

One, we see people using these new platforms more and more, mostly because of how compelling they are -- convenience, mobility, higher-quality screens, etc., ubiquity. So we feel that we need to be present where our consumers are. To some extent, it's a brand relevance issue, but we also believe that that's in the long-term best interest of the company in terms of generating revenue on these platforms.

We also believe that status quo is not an option. If we just basically keep our content on the traditional platforms and people migrate to the new ones, we are not going to slow that process down by staying on the traditional ones. People will still find content experiences on the new platforms so we think we have to be there.

Piracy is another issue. Bringing product to market on a well-timed, well-priced basis on new platforms in particular is really important. Because if we don't, people will find ways to steal them or use devices to gain access to them where we will not have any opportunity to monetize. So I think that for a number of reasons, we feel that while current platform revenue is certainly important and it is to be respected, it is not necessarily to be protected at the cost of not occupying space on new media platforms.

Steve Warner – *Analyst, Alliance Bernstein*

One of the things recently, Time Warner had an analyst day last week and three large film companies had decided to sort of change how they window film content: Warner Bros, Fox, and Universal. And they have been in 28-day windows for Netflix and Redbox. And you guys have obviously gone down a different path.

So maybe you can explore a little bit about why your strategy is different from their strategy?

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

First of all, we have a higher conversion rate in terms of box office to sell-through. So our sell-through business is more robust than our competitors in general.

And when we analyzed the cost of creating that window in Redbox, which would have entailed us selling them videos at substantially reduced prices, we would not have made as much money in the system or through the system of basically renting and selling our videos. We have not seen any significant cannibalization from the dollar Redbox rental window, and with that in mind selling them units at 50% reduction in cost or whatever the proposition, even for the 28-day window, was not an equation that made sense to us. It might make perfect sense to them.

On the Netflix site, we have a new deal that I won't get into too much detail with, but through our new Starz deal, there are incentives. If our films are consumed at a higher rate on Netflix, at a certain level, we actually have an opportunity to increase revenue from them.

Andrew Slabin – *GLG Partners*

I want to ask a question about ESPN. But before I go to that, in terms of the comments you just made, clearly companies are doing different things. They are experimenting in different platforms, at different times. Steve mentioned some studios using a window. Certainly when it comes to TV product, some studios are using certain online platforms, some aren't. I think NBC and Time Warner said recently, they weren't going to conform their content to an iPad application.

The question I have there is do you think there is a point in time, and maybe it is too early for this, but a point in time where the consumer gets confused -- about where they can get content, how they can get content, they don't know what time it's available? And is that something that you as an industry leader or an industry executive think about in terms of the standardization for the industry?

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

I think the consumer is pretty smart and particularly young consumers. In watching young kids navigate the Internet or navigate an iTouch or an iPhone or an iPad, for that matter, even though I realize not many kids that have them yet, but certainly iTouch a lot of kids do. And I think that we sell the consumer short if we think that they are not going to be able to find stuff easily.

First of all, you have devices that are providing much better user interface and navigation, sort of middleware, so to speak, that is much better than it used to be. You have higher-speed connectivity. So switching costs between content or between sites or between apps is much less than it used to be.

One of the most interesting things I found by the way about the iPad, is in the elimination of the cursor and the mouse, it is pretty interesting in terms of just reduction of friction and improvement of navigation. So we are looking long-term at navigation issues and believe that a lot of the issues that consumers had finding things is certainly on traditional platforms, but even in early-stage new platforms are going to go away.

In terms of our decision to make ABC shows available on the iPad, it speaks to some extent to what Steve asked and my response there. We felt that there was value in being on that platform first. That it makes us more relevant. It improves circulation, as far as we're concerned. There have been huge numbers of ABC downloads off the ABC app.

We believe that, while we are monetizing today through advertising, and that is growing nicely, we will find ways to monetize in far more robust ways in the future, whether it is through varying forms of pay-per-view, pay for the app, or a subscription. And [we] like being there early because what we learned being there early are basically things that we can use to create a competitive advantage later.

We did that when we put the shows on ABC.com, for instance. So you are going to continue to see our company be there front and center on new platforms in varying ways all with an eye toward improving monetization capability, improving circulation and basically figuring out how to improve capital returns on all of our filmed entertainment.

Andrew Slabin – *GLG Partners*

So it sounds like with some of these changes you articulated, business models are going to evolve, and they are going to change from where we see them now.

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

By the way, that's a very good point because there are a lot of conclusions that seem to have been reached about the current day business model on new media. That it is not monetizable, or it is not monetizable in a robust way. So it is a little early to kind of write the epitaph of new media when it comes to monetization.

And if you go back, you know, what was said about a number of new media content platforms, dotcom sites whatever, 10 years ago, 15 years ago, there was a lot that was right and there was a lot that was wrong. And I think it is a little too early to write it all off.

We find that if you are sitting with a device that has great video and is mobile, that you can access content very quickly, that you are going to tend to consume more of it. And we like that phenomenon. Because the more media that is consumed, the better off we are as a company. But you have got to make your product consumable wherever possible.

Andrew Slabin – *GLG Partners*

So nowhere is that more apparent than I think what you are doing at ESPN. And recently having attended the ESPN upfront, the suite of products that you are rolling out is really nothing short of amazing in terms of the number of places, the ways in which a consumer can access it, streaming games, scores. And some of these things I think are on a monthly subscription basis. Some of them are free.

Just again with respect to Steve's question, running back to how you manage the old and the new, and with ESPN being such an important part of the company, clearly one could say that some of the new product at ESPN are an example of over-the-top video. I'm not suggesting that cable networks will suitably leave cable distribution companies. But how do you prepare for those discussions with a Comcast or a Time Warner Cable, for example, or Cablevision, when so much of it is available online and being, you know, the proliferation of that content is so widely available?

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

Multiple choice question of sorts. Or multiple choice answers.

Okay, first of all, ESPN's goal is to be front and center with the sports fan wherever they are. Sports fans -- fan is short for fanatic, by the way -- are going to find stats, highlights, still photos of some specific play, whatever, all over the place because they demand that. And if we are not there to provide it for them, someone else will.

So our goal is to be there instead of anybody else and to be there for the sports fan, no matter where they are. We still are providing the multichannel or MVPD providers of multichannel service including ESPN with huge value at ESPN. It is where you can see everything first, live, on big screens.

And the value that we reap is great in that process, and the value that the distributor gets is great. The fact that ESPN is still, if not the most valuable, one of the most valuable channels that multichannel providers provide because, one, it's in demand from their consumers; two, it's in demand from advertisers. Both those that we sell to and those the cable operators and the satellite providers sell to. So it is a good thing.

We are offering some product that could be viewed in early stages potentially over-the-top, but it is pretty limited when you think about it. It is not all of ESPN. And as the ability of consumers to connect the new mechanism to a big screen grows, then we are going to have to be more careful about that and there will be more exclusivity.

If you are referring to what is called ESPN3, which was once ESPN360, which is now in 72 million -- we have 72 million subscribers and we are getting paid for that.[1] There is probably more on that today accessible than there might be down the road when you can watch that on bigger screens.

We still think that the sports fan, by and large, is going to want to watch a live event on the big screen. And those that don't have access to the big screen like the ability that we are giving them to watch it on a smaller screen versus nothing.

Andrew Slabin – *GLG Partners*

So is it too early to ask, you probably won't answer, but is it too early to ask when you look, say, three or five years down the road at a franchise like ESPN, do you think the business model of what's coming into revenue for you from affiliate fees versus advertising, does that look very different in the future than it does now? Or do you measure as you go?

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

Not really. No, I think what you'll see with ESPN, we are investing substantial amounts of money, as everyone knows, in programming, both what we license and what we create

[1] Correction: ESPN3 currently has 52 million subscribers.

ourselves. The goal is to provide value to advertisers, to our consumers and to our distributors. And we fully expect that we are going to be able to increase that value for everybody, including for us. Meaning, we are going to be able to raise rates both on the advertising front and on the distribution front because of the investment in programming.

And in addition, we are buying rights to many of these leagues that will enable us to maintain ESPN's brand presence in other forms as well. So there is a system economics that you have to look at at ESPN.

Down the road, I think you are still going to see a relatively similar relationship between subscription fees and advertising. Now it is somewhere in the 2 to 1 range. You will see growth in, I'll call it new media, for ESPN. But you are again going to see a blend of advertising and subscription fees there.

And I think that will probably be a little closer in terms of a relation to one another than it is on the primary service. And I don't know that you will necessarily see sub fees in a 2-to-1 relationship to advertising in new media, but on the main platform it will probably remain 2-to-1.

Steve Warner – *Analyst, Alliance Bernstein*

Bob, you know whether it is ESPN, which you guys have built an incredible franchise, whether it is, not only you, but all network television which seems to have had a resurgence over the last couple of years, it seems that the media owners are playing with a much stronger hand today than they might have played a couple of years ago. So how do you think about managing --?

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

With whom?

Steve Warner – *Analyst, Alliance Bernstein*

With, whether it is advertisers, clearly advertisers versus a year ago, whether it's multichannel distributors. If you go back three, four, five years ago, it seems that it is a better relationship. If you talk about theatrical exhibitors, what you have started to do with *Alice in Wonderland*. What other people are starting to talk about within terms of having, I guess, premium VOD.

Whereas I think, five years ago, people might have thought distribution was going to be a much more powerful driver of the business model; it seems that once again that content is winning out. How do you make sure that the advantages that you might have today, that you don't trade that off for sort of near-term advantages for long-term -- you know, for problems in the long term?

And I'm thinking about obviously the government regulation, consumers. You know, you might be sitting at a very opportune time today, but you don't want to take such advantage of that today that next week you invite some regulation into the marketplace.

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

Well, I think you have to be mindful of the potential backlash, both on the regulatory front and on the consumer front. You can't price completely ignorant of either of those entities.

But the more value you deliver, certainly on the consumer front, then the more pricing leverage you have. And that, I guess, is true with the distributors as well.

So if you are Disney, I won't speak for the other companies, and you are sitting with Disney-branded products, whether it is on the motion picture front or on the TV front and ESPN and ABC and other channels that we own, and our local stations, which are also market leaders, then you are obviously delivering value and you've got the ability to price that higher. And I think you just can't get too cavalier about it.

And you can't price -- just because you have leverage you can't just put any number on it. I think you have to balance sort of short-term desire to increase revenue with the long-term prospect of potential fallout if you do it too fast, too high.

On the government front, having had discussions over the years with many different government entities, I don't want to sound cavalier but I don't think that we're facing imminent danger from a la carte. Nor do I believe that the government is going to step in and really regulate pricing. I think there's just too much danger in that and it's fraught with all kinds of legal complication potentially.

That said, you will hear certainly from this administration a pro-consumer approach taken in general. And if a company such as ours or others walks over whatever that invisible line is, then you'll probably see some, at least, criticism of it, but not necessarily regulation.

Again, I don't know whether I fully answered the question, but I think it is something you have to be careful about.

Steve Warner – *Analyst, Alliance Bernstein*

And it does also seem, reflecting back on something you said before, when I think about the content company today and how good the content is and I think about sort of whether it is network television, whether it's shows like *Modern Family* on ABC or *Dancing With the Stars* or *The Big Bang Theory*, there seems to be an explosion of great content coming from network television.

Certainly the movie companies have consolidated where it seems that there's less, the great content comes from four or five movie companies today as opposed to what people might have said 10 years ago when there were lots of independents. Certainly you see that in the sports marketplace with ESPN as such a driver.

But are you surprised that as the businesses evolve that the large companies have gotten even better at distributing their, you know creating, coming up with ways to create content more effectively than independents?

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

Well, let's not forget *The Hurt Locker* which was…

Steve Warner – *Analyst, Alliance Bernstein*

That's a fair point.

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

…I think Summit. Was it *Hurt Locker* [and] Summit? But it won the Academy Award for Best Picture and Best Director.

Steve Warner – *Analyst, Alliance Bernstein*

But it did $15 million in revenues versus…

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

True.

Steve Warner – *Analyst, Alliance Bernstein*

[Indiscernible] I'm not sure about the lowest grossing -- you know what *G-Force* did probably --

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

Oh, low blow.

Steve Warner – *Analyst, Alliance Bernstein*

…did better than that.

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

I'm not surprised that content companies have done what they've done versus distributors. To the point you made earlier about content being king or whatever. I am not suggesting that distributors are chicken liver or whatever. Distribution is still really important. But so is content. And that just doesn't surprise me that we are still standing quite tall.

Interestingly enough, with all these new platforms out there, I think in a way even though there's more fragmentation and more opportunity, we almost stand taller because we have demonstrated countless times that great content can do well on just about any platform. It takes advantage of new technology in ways we might not have imagined 10 years ago.

In terms of our ability to continue to thrive, I guess it's hard, I'm not that surprised. It wasn't something we were worried about, but it doesn't mean that we are complacent about it either. It doesn't mean just because you've got strong content today that you can just reduce your investment or slow down or basically be complacent about it.

The process of investing in it, finding great people, retaining great people, making the right bets creatively, is ongoing at these companies.

Andrew Slabin – *GLG Partners*

So moving away from the low blow of *G-Force* to other content. I mean, clearly, content is at the core of Disney and many people would argue that you are really in the Disney business as opposed to the broader media and entertainment business. As you said, you sort of stand a bit taller than other companies.

Having said that, you have made two relatively transformative acquisitions at the company in your tenure, both with Pixar and recently with Marvel. So I'm curious, just your thoughts with some hindsight at Pixar thus far. You know the strategic benefits as that content sort of percolates its way through other parts of the company, but also the Disney company has been a company that focuses, or I think has a strong focus and return on invested capital.

So can you talk a little bit about the relevance of those acquisitions within that context of returns financially and then again strategically to the extent that you can?

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

We are very focused on our ROIC. We felt that successful animation of the company was a great way to deliver a very strong return on invested capital, as had been demonstrated countless times by Disney in the past.

At the time that I became CEO, which was 2005, I had significant concerns about Disney's ability to improve its returns on invested capital in the animation business, because we had had a 10-year drought except for the Pixar relationship.

That relationship was ending. I thought that [the] number one priority of mine coming into the job was to figure out a way to improve our returns on invested capital in the animation business. And when I looked at the alternatives, there weren't many, and one of the best that was out there was the acquisition of Pixar.

One, because of the access to their IP. Two, their people. Three, their technology and technology culture that was Pixar, which, actually, was one of the added benefits of the acquisition and probably one that is probably less transparent to people in this room for instance. Because we have added substantial technology might to the company, thanks to the people at Pixar.

I think the record is pretty clear. We have had *Cars*, *Ratatouille*, *Wall-E*, *Up*, *Toy Story 3* coming out in a couple of weeks, which the jury is still out on, but I can't wait for everybody to see that film. So we've had great creative success. We've had commercial success. We have created a huge franchise in *Cars*, which was one of the biggest merchandised movie that we have ever had and tremendous returns on invested capital in that.

Go to our theme parks around the world, you will see significantly increased presence of Pixar in parades and attractions and walkaround characters and themed restaurants. You name it. Consumer Products has substantially benefited from that. Our videogame business is starting to take advantage of it. We are launching our first Pixar-titled self published with *Toy Story 3*. Our website presence has grown nicely thanks to that, and we have just been in open beta on a *Cars* online virtual world. And on and on.

And so not only do I believe that the results have been significant in terms of returns, but the future is very very bright from a creative perspective and from a return perspective. We haven't second-guessed that decision one bit. There've been times though, I've woken up in a bit of a sweat, wondering what would happen if we didn't do that. Because it has had such a significantly positive effect on the company. And by the way, there's a whole other benefit and that is just the cultural benefit of bringing that energy and that creativity into the company.

Steve Warner – *Analyst, Alliance Bernstein*

Maybe if you could then just talk about what the benefits you had hoped to -- three years from now when you are sitting at the next Bernstein SDC and Andrew and I are definitely not asking the questions -- what will be the benefit that you will have wanted to see from Marvel?

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

Well, in many respects similar to Pixar, save for perhaps the technology front. Great creativity, great characters and franchises, great storytelling, an ability to leverage success as we have done with Pixar and as we do typically with a good animated film across just about all of our businesses: television, motion pictures, consumer products, video games, online presence, international markets. You name it.

And our goal when we bought Marvel and our goal today is to continue to create great IP, primarily on the motion picture front, and on the publishing front obviously; but also on the TV front and the games front, and the online presence front, and to grow our returns in that regard. It's actually a pretty simple equation for us.

The hardest part of it is the creative side, which is one of the biggest challenges that a lot of these companies have, keeping the creative fresh, relevant, successful.

Steve Warner – *Analyst, Alliance Bernstein*

So speaking on the creative side, at the studio you've obviously made a big change there in the last six months. So maybe you can just walk us through you know, first of all, how you think about what propels you to make those changes? And then how do you sort of communicate what you want that change to mean to the organization?

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

Well, I don't want to look back, certainly not in criticism. But I obviously felt that we were in need of leadership change at the studio and had in Rich Ross an executive who demonstrated not only a considerable amount of business skill in taking the Disney Channel to where it is today and growing it internationally, but significant creative skills, as well.

And I wanted in the head of our studio someone that combined both great creativity and really strong business sense, interest in international markets, interest in technology, good marketing abilities, as well. And also a change agent. Because the movie industry -- at least Disney's -- I thought was in need of real change in terms of how it looked at its prospects and its business.

And he set about to, one, focus on the creativity, made a big change on that front personnel-wise. Basically understanding that we are probably going to have six to eight live action Disney-branded movies a year, of which maybe four will be what we would call tent poles. A couple of animated films a year from Pixar Disney Animation, now probably two Marvel films a year, and maybe we will stick with one nature film a year, and that's essentially it in terms of focus. Disney, Pixar, Marvel brands.

He changed the distribution organization to have basically a global distribution and one distribution organization re-distributing films throughout their lifespan. So instead of having a theatrical distribution group that handed off to a home video group that handed off to the TV group, it is one distribution and one marketing group, as well.

So [he] streamlined it and basically tore down the walls that existed in the studio. And we have in the studio today an organization that is, I think, focused on the right issues creatively, has the right structure, both in terms of contending with the challenges of its business, but also from an efficiency perspective and is moving forward in, I think, a speedy and focused and very impressive way.

Andrew Slabin – *GLG Partners*

Maybe I'll ask a couple of questions on the parks and then we can go to the cards, if Steve will pick them up.

Obviously there is a lot of discussion amongst the buyside community, and I think the sellside community, about capex trends at the parks. You know, obviously, that there's some cruise ships coming online, some additions you are making to your properties at the various gates in Florida and California. Global expansion as well.

Can you just give us a little bit of context? Because the range that you see out there in terms of where capex trends are going, the magnitude, seems to be pretty broad.

Can you talk a little bit maybe in terms of where capex are trending? And relative to revenues? We went through periods in the past, I think in the late '90s, where capex as a percent of revenue maybe moved up towards the 20% range of revenue. I may be off on numbers, but there's a pretty big bump there.

Are we sort of seeing a pig in a python right now? Or is this a necessary and one-time thing?

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

Okay. First of all, each decision is made independent of the other decisions. And each one is put through a pretty significant sieve so to speak when it comes to analyzing prospective returns on invested capital. And for the benefit of the room, we are launching two cruise ships; one in January of 2011, the other one approximately a year later. We are expanding and fixing Disney California Adventure in California which opened in 2001. It was in need of, I thought, significant change. We are re-doing a good part of the Magic Kingdom in Orlando, which is our number one park. Fantasyland is being redone. We are building what is primarily a Vacation Club or timeshare resort and hotel in Hawaii. We are expanding Hong Kong Disneyland, which was also necessary. And we are making some modest increases in size to our second gate in Paris. I don't think I left anything out.

And again, each one was analyzed very carefully in terms of the needs of the business and our goals from the return on invested capital perspective.

In terms of capex and the pig in the python and a percent of revenue, I don't think we have ever really been that specific. But in the late '90s, capex was probably above 20% of revenue. It may have gone as high as 25% and maybe higher in certain years. We are not looking at that now.

And if you project out, not all the spending hits in one year by the way, but if you look at a five-year span from roughly 2009 to 2014, you are not looking at capex spending as a percent of revenue on average being above 20%. It is higher than it has been because of all those projects, but it is not at the same level as it was in the late '90s.

Now one reason, obviously, is that our revenue was higher today than it was back then, as well. We are probably spending more in total capex, but against, obviously, a much bigger revenue picture. And I'd say that this period of spending is, I will call it mildly aberrational, meaning I think once we get through this period, we are probably going to drop down to what I will call a more steady state.

We will have increased capex needs to essentially manage the increased footprint of our Parks and Resorts organization. But we don't really project, save for Disneyland Shanghai, should we be successful in completing that agreement and building the park, we don't really project anything as significant as this collection of investments on the capex front over the next decade.

Andrew Slabin – *GLG Partners*

Right. And some of the things you mentioned are fixing, but primarily the things you mentioned are expansion of your capacity, etc.

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

So, well yes. The cruise ships, we have had nice double-digit returns on invested capital. And when we looked at that overall business, we are still relatively small in the scheme of things from a capacity perspective and we are a different product. We are premium priced to the market.

And thought we had an opportunity with two new ships to expand our horizons, no pun intended, with more itineraries and we are going to take advantage of that with Alaska, Southern California, and Mexico and parts of Europe. Maybe down the road, Asia or Hawaii.

And so that was an independent decision based on what had been a very good experience and looking very carefully at the marketplace. Magic Kingdom [in Florida] was kind of easy because it's the number one theme park and Fantasyland hadn't been touched in any significance in 25 years. And we had an opportunity to take advantage of new IP, to put it in there to really revitalize it.

California Adventure was a completely separate decision. It was a park that was a miss in 2001. And we felt that growing the whole Disneyland resort was and should be a priority for the company. And one way to do that even though there is still room to invest in Disneyland on its own, one way to do that was to fix the issue that we had at California Adventure.

Hong Kong opened in 2005. We said all along when we opened Hong Kong that we were going to expand it. And that is what we are doing now.

So they are all separate decisions and I think good decisions. And the good news is that, from a creative perspective, the company to the point that Steve was making earlier, the company is richer in terms of intellectual property. And therefore when you look at these parks, you are going to see examples of the success that we've had on the intellectual property front in all of these places.

Andrew Slabin – *GLG Partners*

More tools to use…

Steve Warner – *Analyst, Alliance Bernstein*

So we have some questions from the audience so if we can just -- on the parks. And one of the questions is, obviously in light of the uncertainty coming out of Europe and we don't know where attendance will be at the parks over the balance of the summer, can we expect discounting to come back if attendance stays weak at the parks?

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

Well, we make decisions on discounting individually meaning the decision on Paris we made separate and apart from what we are doing domestically.

Steve Warner – *Analyst, Alliance Bernstein*

I think this is also [indiscernible].

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

On the Paris front I think we are still watching. It is obviously an uncertain economy. And we are still watching the marketplace very carefully, although we haven't had significant issues to date save for what you would expect from an economy that has not been that robust.

On the US front, we said in earnings that it is our goal to essentially eliminate the discounting that we put in place during this recent economic downturn by 2011. There is always some discounting during off-peak periods but the primary discounts we were applying, we would wean ourselves off. And that is still our goal.

I mentioned at earnings that we had an uptick in our then most recent bookings and that trend has continued nicely in the four, five weeks since earnings. Now we still have a long summer to go. But we are encouraged so far with what we have seen on the bookings front and that would lead us to believe that our predictions in terms of weaning ourselves off the discount was a good one. But we will see.

Steve Warner – *Analyst, Alliance Bernstein*

Here and this might be my favorite question. The second part will be my favorite question. But it's first of all, "Please provide us with an update on the upfront market for ABC in the coming year?"

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

Why is that your favorite question?

Steve Warner – *Analyst, Alliance Bernstein*

The second part, this is called the tease bump. Like, "after the break."

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

You know, we are in the middle of selling. We said at earnings that we thought it was going to be a good upfront because of how we are positioned, but also because the scatter was so strong and we've seen some improvement in the economy. It's too early to actually say, but the business that we have written so far, and we have written some, has been good, and in line with what we expected.

Steve Warner – *Analyst, Alliance Bernstein*

So this is one final *Lost* question [that] remains unanswered. Rumor has it you were the voiceover for "Previously on Lost" before each episode. True or false?

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

False. I was thinking maybe of not responding to that but that would create endless speculation and probably haunt me for the rest of my career.

Steve Warner – *Analyst, Alliance Bernstein*

You need a SAG/AFTRA card.

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

I have a DGA card.

Steve Warner – *Analyst, Alliance Bernstein*

Right, but not a SAG/AFTRA card.

You know one of the thoughts when we were talking about content and distribution is there had been two big events in the content and distribution space from competitors of yours over the last year. Time Warner splitting off the cable entity and, obviously, Comcast in the process of acquiring NBC.

If you could talk about how you think those two events affect your business and the content distribution relationship.

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

I don't think they affect us at all. The spinoff of cable at Time Warner was a decision they made, obviously, without consulting us. [Laughter] It doesn't affect us. And Comcast buying NBC we don't really see necessarily changing things either.

It is too early to speculate how they are going to run those assets, what they're going to do with those assets, which ones they will keep, which ones they will invest more in. And so we know what our hand is and we are really focused on strengthening it in ways that we pretty much described this morning. And we don't think that the competitive landscape changes in any significant way because of the divestiture or the acquisition.

Steve Warner – *Analyst, Alliance Bernstein*

Although I'm sure some people do think -- and this is another question that might be related to the Comcast NBC thing is -- what do you think are the most significant long-term threats to the ESPN franchise? Now there has certainly been a lot of speculation about Comcast and NBC having assets -- combining those assets on the sports world that might pose a threat to ESPN.

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

I can't name any specific threat to ESPN right now that would rise to the level of "Oh my God, the value of the asset is in peril." Nothing along those lines, fortunately. We have a good hand, a good competitive position, long-term relationships with leagues and a great brand. And we are not going to be complacent about that, which is evident in our continuing investment in that product. But I don't see an imminent threat.

On the Comcast NBC front, both Comcast and NBC were already competitors on the sports side -- NBC with football and the Olympics and other sports they have been involved in and Comcast with its own sports network and regional sports networks. And I don't think that their combination of the two will necessarily change how they compete.

What will be most interesting will be to see whether Comcast takes a different approach to buying sports for the networks since they actually said themselves that -- or NBC and GE said that the sports packages on the network NBC lost considerable money in the recent past. And whether Comcast will take an approach that enables those losses to be sustained or do something differently, you could actually conclude that it might be better in a way, but that would be pure speculation.

Steve Warner – *Analyst, Alliance Bernstein*

But there is always a buyer who ends up willing to lose money.

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

You know, there has always been keen competition for great sporting events. And there has also always been enough great sporting events for ESPN to buy, to continue to grow its product and to continue to create value. And we are very optimistic about ESPN's abilities to continue to grow and continue to be a rather important asset for this company.

Andrew Slabin – *GLG Partners*

The lens through which you evaluate the return on invested capital in sports programming -- has that changed much? Or are there future revenue streams when you are thinking about the returns or the ultimates on buying that programming that you are including? Or do returns go down specifically as you create this moat, as you talked about in the past, for ESPN to remain relevant as a top tier cable network?

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

I don't really see returns over the long run changing that much at ESPN unless the competitive landscape changes significantly. And I said a moment ago, I don't think that there is imminent threat from that happening.

The investments ESPN is making have now included what I will call “new platform rights” and that added some expense. But it is relatively modest compared with the total expense of buying all of those sports rights. And ESPN has used its relationships with the leagues and its ability to provide these leagues with great marketing opportunities to gain access to a broader array of rights because the leagues in most cases have concluded that's good for them. And I think that dynamic is going to continue.

We are going to continue to invest to grow ESPN sub fees, to grow ESPN's advertising, and to grow brand strength. And we are also going to continue to be disciplined, too. We are not going to say “yes” to everything.

We have recently turned away some sports that had been on ESPN. We have bid aggressively for certain things. The NCAA March Madness or Basketball Championship is a good example of something that we went after quite aggressively, but just got to a point where we felt that we had gone as high as we wanted to go, and we were outbid. It's not something that we had previously. It's something we would've had, but we just felt that the likely returns for us to go any higher would not have been keeping with the long-term interest of ESPN or the shareholders of the company.

And we are going to continue to take that approach. We know we cannot buy everything. We know that we have to buy a fair amount to continue to grow the value. And there are going to be times when we really step up as we've demonstrated, and there are going to be times when we walk away.

Steve Warner – *Analyst, Alliance Bernstein*

You talked about growing sub fees. And, obviously, you had a contentious negotiation with Cablevision.

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

On retransmission.

Steve Warner – *Analyst, Alliance Bernstein*

On retransmissions, but and related to, I mean it's all related to, money that the cable multichannel providers is sending Disney's way. Are there lessons that you learned from that discussion, that negotiation with Cablevision that you will take forward as you enter a new round of negotiations on ESPN?

I guess you would start with Time Warner Cable this summer.

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

I don't know that there are necessarily… If there are lessons, they are not any that I would really want to share. Maybe that is the best way to put it. But the conclusion, obviously, that everyone, everyone should reach is that there is value being provided by these great TV stations, particularly in big markets, value that cable entities are ultimately willing to pay and willing to recognize. And all of broadcasting should benefit from that as have others already. There's just real value there.

Steve Warner – *Analyst, Alliance Bernstein*

Another question talks about the intellectual property that you have and exploiting that. I guess a large concern, as you talked before about piracy, is how do you make sure that you can preserve the intellectual property in emerging markets?

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

Providing full protection of our intellectual property in emerging markets is right now impossible. A lot of it has to do with access. That, in the absence of access, which is either prevented because of lack of infrastructure or regulation, people are going to gain access to our intellectual property illegally.

And it speaks to what we have said as a company for a long time and that is the best way to fight piracy is to enter the market on a well-priced, well-timed basis. In the absence of that, piracy is significant and will grow and that is what is going on in these markets.

The other ways to prevent it is, obviously, create and enforce laws and education. Education seems to be pretty difficult. Creating and enforcing laws; there are varying degrees of success or lack thereof and our approach therefore in these markets is "work really hard," which is what we're doing to get the product in there legitimately, launching channels and getting more movies to market.

Russia is a good example, actually, just looking at the results for *Prince of Persia* and *Alice in Wonderland*. You have had huge growth in the movie industry in Russia very recently. So movie companies, U.S. in particular, are having much more success at getting their films into Russia on the big screen legitimately. And that will reduce piracy. Because in the past these people couldn't watch the movies because the screens didn't exist, they figured out other ways to do that. Now they are stepping up and paying for it. It is a great thing. The box office that we are delivering, that the industry is deriving actually from Russia has really become significant. So it is about legitimate means of entering the marketplace.

Steve Warner – *Analyst, Alliance Bernstein*

And then one other question is, Disney, in spite of the tremendous portfolio of great brands only earns a subpar return on equity of around 11 to 12%. Now how do you reconcile this versus what you think you -- obviously, the higher return that this questioner would expect, based on the brands do you have?

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

Well, versus what? In other words, compared to the rest of the industry?

Steve Warner – *Analyst, Alliance Bernstein*

I think it's also versus if you had a portfolio of brands that a Procter & Gamble might have.

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

It's a completely different profile. You know, even though we have certain brands that are evergreen in value or nature, they require a significant amount of investment on the development and the creative front regularly. And so, Procter & Gamble, which is a great company and in fact we have two former executives of Procter & Gamble on our Board, it would be politically incorrect for me to say anything negative about them. While they invest a lot in R&D and continue to try to make their brands better, once you develop Pampers, you put it into the marketplace and manufacture it, you don't necessarily have to reinvent it from scratch every year.

When you are talking about Disney movies, even though you make a movie and it has a lifespan that lasts for a long, long time -- witness *Cinderella* or *Snow White* -- you still pretty much have to reinvent your array of products every year. Television, the same, in similar fashion. So your return, your ROE is, I think, affected by that.

I think, though, from an industry perspective, our industry, I think we stand up really well against all others.

Steve Warner – *Analyst, Alliance Bernstein*

So what other metrics that, you know, I mean, you talked about return on invested capital as one of the key metrics…

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

We look at -- you know, economic profit, return on invested capital. We are still trying to grow free cash flow. We are still intent on growing our earnings per share, operating income, net operating income. Those are all, by the way, metrics that are used to determine executive compensation as well. And they remain our primary focus.

Steve Warner – *Analyst, Alliance Bernstein*

I think we will get you out of here two minutes early. If Michael was here...

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

If Michael was here with the questions they'd have been tougher or longer. I don't know. It took two of you to replace him, so that says a lot.

Steve Warner – *Analyst, Alliance Bernstein*

The questions would've been longer. But thank you very much for your time.

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

Thank you.

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Forward-Looking Statements:
Management believes certain statements in this call may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are made on the basis of management's views and assumptions regarding future events and business performance as of the time the statements are made. Management does not undertake any obligation to update these statements. Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments or asset acquisitions or dispositions), as well as from developments beyond the Company's control, including:

- adverse weather conditions or natural disasters;
- health concerns;
- international, political, or military developments;
- technological developments; and
- changes in domestic and global economic conditions, competitive conditions and consumer preferences.

Such developments may affect travel and leisure businesses generally and may, among other things, affect:

- the performance of the Company's theatrical and home entertainment releases;
- the advertising market for broadcast and cable television programming;
- expenses of providing medical and pension benefits;
- demand for our products; and
- performance of some or all company businesses either directly or through their impact on those who distribute our products.

Additional factors are set forth in the Company's Annual Report on Form 10-K for the year ended October 3, 2009 and in subsequent reports on Form 10-Q under Item 1A, "Risk Factors".

Reconciliations of non-GAAP measures to closest equivalent GAAP measures can be found at www.disney.com/investors.