Bear Stearns 20th Annual Media Conference

MARCH 5, 2007

Disney Speaker:

Bob Iger

President and Chief Executive Officer

PRESENTATION

Bear Stearns Moderator

Good evening, everybody. Before we start, the legal beagle has gotten to work. Even though Mr. Spitzer is now governor, we have some of the remnants of his past. So, I must give you a disclaimer.

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So, now we've got that out of the way.

Bob, we've done this before, I appreciate you being here…

…In the last several years results have been good, cash flow has been good, earnings have been good, but the market has had this malaise about traditional media companies saying that they're not clear that new technologies are going to allow the economic franchises to be as vital in the future as they are currently or have been in the past.

So, I think, I'd rather focus on that area with you -- looking at why the franchises you have today will remain vibrant franchises and not get dis-intermediated. I'd also like everybody to get an idea of what, in this environment, the job of a CEO of a company like Disney is like. How do you really think about the most important aspects of your job? I'd actually like to start there. It's been what, 18 months or so since you've been CEO?

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

A little less, but a lot has happened in that period of time. It's like dog years or something, right?

Bear Stearns Moderator

Things move a lot faster these days.

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

Yeah, they sure do.

Bear Stearns Moderator

So, go back to when you started out, when you walked in the door. It's a company you'd been at for a long time, but the environment is changing, and you're walking in the door as CEO and have to set the stage for the next 10 years. What were your priorities? How did you think about "what do I have to get done" and "what do I focus on first to position for the future?"

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

Which I think is a good question, because one of the things I find to be an interesting challenge is making sure I'm focusing on the right things. I complain about how much minutia there is, or ask why I'm getting involved in so much minutia? I think it's important not to get mired in it, but there are issues that come up every day that we have to deal with that may seem small, but can become bigger if you don't deal with them. It's very, very important to focus on what I call sort of big needle movers.

When I got the job - and this hasn't really changed at all in terms of my focus - I thought that it was very, very important for our company to focus on creating great content. I also believe there is real value in brands, and that the customer or consumer had gained a lot more authority than he or she had in the past, thanks mostly to technology. And also that technology was much more of a friend than a foe as it provided a company who played the content game right - the branded content game - with more opportunity than anything else. I'd say those were really the overriding principles that I was focused on.

There were some near-term issues that had to be dealt with back then, the Pixar relationship and, at that point, the potential end of that relationship. Also, the state of Disney animation. I was also beginning to think a lot about the Internet as an entertainment medium as opposed to just communication, information and commerce, and started to put in place some strategies that ultimately focused on creating opportunities with that in mind.

Bear Stearns Moderator

So, let me ask, those were the things on your mind. Those were the things you had to get accomplished. How did you think about your organization? It's one thing to be in your mind, but now you have thousands and thousands of colleagues out there that have to…

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

A hundred and thirty-thousand.

Bear Stearns Moderator

A hundred and thirty thousand cast members, I guess they are.

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

That's right. We call them cast members.

Bear Stearns Moderator

So, you have 130,000 cast members.

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

Except the ABC news people. They don't like to be called cast members.

Bear Stearns Moderator

They don't like to be called cast members. And they don't like to wear mouse ears, right?

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

No, not on the air.

Bear Stearns Moderator

So, what did that say about a traditional media company like Disney? What did you have to do? What was your priority for the organization to execute on given what you just listed as the key issues?

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

Well, for the most part, structurally, I thought the organization was sound. There were some issues that we had to deal with in terms of distribution of our product, because technology has blurred a lot of lines. But mostly what I was focused on was the need to be agile, to take risks, to analyze opportunities or threats in a less black and white way as perhaps we used to.

I think one thing that has occurred in the last five years in these businesses is that the answers aren't there or aren't all apparent. There is so much change going on that if you seek answers to all of your questions, one, it can take you a very, very long time and in the process you'll do nothing. But you could also frequently be wrong.

So, I thought it was important, at least at that point in Disney's history, for us to not necessarily look at everything in black-and-white terms and to move a little bit faster than we had because the world was changing. But beyond that, from a structural perspective, I thought we were in pretty sound shape. In terms of the talent we had at the company, we were also in very good shape.

Bear Stearns Moderator

So, you just wanted to be able to move, be more nimble, move quicker. Was that the message you got out to the organization?

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

Yes. And again, I pushed very hard a theme that I talked about earlier about the world presenting us with more opportunities and threats, and not to look at all of these changes as threats, but the opposite.

It's funny; you mentioned a few times the word "traditional" when it comes to media. That was another thing I thought was very important. Media, I think, is essentially a combination of technology and creativity. Our creativity hasn't changed all that much. The only thing that's changing is the technology, or the means that we use to move that creativity to the consumer. For the most part that's not us - that's out there being provided by a number of other entities. Now, to some extent it is us in our broadcast business, but for the most part, how we move content to the consumer is not really our doing. It's someone else's.

So, I really don't view us as a traditional media company. We're a media company. We're a high-quality branded content company, whether it's ABC or ESPN or Disney. Just eliminating the word "traditional" was something I thought was important.

Bear Stearns Moderator

I stand corrected.

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

Well, I think there's a sense of the traditional media company as either under siege or as having no growth, or as going to get swallowed up by new media, which is where all the sex appeal is. That's not necessarily the case.

Bear Stearns Moderator

I want to drill down on that a little bit, but before we get there, you mentioned Pixar. In my view - it's amazing that you've been a CEO less than 18 months and you made what I thought of as a very, very difficult decision so early in your tenure. Could you just talk a little bit about that, because I think it's very important in understanding where you see Disney today? Could you just talk about your Pixar? You could lose the product, or you could step up to the plate and own it? Can you talk about how you analyzed that decision, because I think it's integral to how you view the company.

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

Sure. First of all, we had a relationship that had been enormously successful for both companies that was nearing an end. And I worried that we were going to lose a partner that provided huge value for us in animation. It provided tremendous value that I viewed as vital in a core business.

So, in thinking about the solutions to the problem, which was the end of the relationship, I had to focus on how I would revitalize Disney animation. I thought it was imperative to do that quickly, because I really believed, and we're still seeing this, that the opportunity is <u>now</u> in terms of creating great content and moving it to the consumer in many more ways, given the flight to quality and the value of brands. All of this played into the Pixar decision. I felt that staying the course was not necessarily a viable alternative. Looking for new management to run animation was risky and I really didn't have that many great ideas in terms of where to go to do that.

And, so, while I admit that it was fully priced in one fell swoop, so to speak, we solved a huge problem, and that was one, preserving the relationship with Pixar because the talent at Pixar is just enormous. We could use that talent to help fix Disney animation, which we're witnessing, and then move forward together to take advantage of this sea of change which I believe is advantaging high-quality branded content. In addition, when you think about animation at Disney and all the leverage great animated products creates for us - meaning the ability to leverage something that is successful across many platforms - it seemed like the right thing to do.

Bear Stearns Moderator

So, the power of the Disney brand can't be that powerful without high-quality animation product, is that a fair statement?

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

It is. While it's not completely true that "as animation goes, so goes Disney" it's close to being true because I think people's perception of Disney emanates in many cases directly from our animated films. We have seen some research that suggests this is the case. We've also seen research that showed us that among mothers with kids under 12, Pixar had surpassed Disney in terms of the brand of excellence. That was quite disturbing.

Bear Stearns Moderator

Now, a lot of people are saying now with CG, a lot more people are getting into the field and it's getting more crowded. Does that concern you?

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

2D animation got very crowded as well. I think it just heightened the need for high quality product and also great talent. I think we'll see both rise and fall in competition. We've seen a lot of animation recently and I think that's likely to ebb given the lack of success on the part of a lot of that animation. I think we're well positioned in that regard.

Bear Stearns Moderator

Let's go back to the point you made about traditional media versus the way you see your company. I think if you talk to investors today and they talk about a media company, they talk about Disney in particular. They say, okay, the company had some franchises that were operating below full capacity. The studio was down at the bottom of ratings, theme park attendance was low, and capacity utilization was low. Now, all of those things have corrected themselves and the company and its stock has responded to that.

But the question is, is that the whole game? You get back to a sort of maturity and -- where is the future? So, just starting out, I think it's not enough to say that, gee, there's opportunity for our content to go to other platforms. The first question is, is the existing business model under attack from any of these new models? Does the tremendous fragmentation equal opportunity? There's only so much time in the day, but there's so much more content that people can have. Is that going to threaten existing revenue streams as opposed to the new technologies being added to existing revenue streams?

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

Well, some revenue streams could be threatened, but I view the world as a world where there are many more paths to the consumer, meaning technological distribution platforms. Mobile phones are a good example of that. There are many others that you can list. In addition, there's been a relative explosion of consumer electronics, from PDAs to high definition television sets. In fact, just look at the trajectory of sales of high definition TV sets. Somewhere in the neighborhood of 35% to 40% of U.S. households have a high def TV set today. That's going to go well above 50% -- actually, above 60% by our estimates, in 2010. Or, cell phones, DVRs, video game consoles, handheld game consoles, etc.

When you look at all of these consumer electronics devices, and add them to the different paths that technology is providing, I think it's appropriate to then conclude that consumption is going to increase. The only thing that is fighting that is the number of hours in a day and obviously cost, because there is some cost to it, which is why the price-to-value relationship becomes that much more important.

So, we look at the world as a world that's creating more opportunity because there will be more consumption rather than less. People are buying flat-panel TVs not to cover holes in the walls or decorate the homes, but to watch something. So, there's a lot of skepticism, for instance, about the new dueling DVD formats. Ultimately that will be resolved and people will buy high-definition DVDs to use on these high-definition flat-panel TVs that they just bought. That's all a good thing for us. New markets, too. We didn't talk international, but I think there's also some real promise there, too.

Bear Stearns Moderator

Right. I want to talk about those separately, but I want to stick with this now. You say, okay, so we know that people will consume more and there is only so much time in the day. But they have a lot more choice, so there's more fragmentation. I think one of the big questions here is that the media world has had three ways to pay for content that people want to consume. They can purchase it, they can subscribe to it and there is advertising. I think if consumers are going to have to go into their pocket to pay for all of this, they're not going to consume more - at least not at a price point that takes up that much more of their income.

So, the piece we were talking about this afternoon, the piece that we haven't seen yet is where is the advertising component in the new world? I know you guys are less exposed. You probably have the lowest percentage of any other media company, I would think, that is advertiser-driven, but it's still a significant factor. As you look at that world, where is that bucket of revenue? Is that going to go away?

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

Less than a third of our revenue is from advertising. It's actually less than 30%.

Bear Stearns Moderator

Right, right. You're low, but in terms of the industry in total, if you're going to be part of this ecosystem that's going to figure out how to get all this content that people are going to consume. That's the piece I think the market still doesn't see. Where are those dollars coming from?

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

Well, it's interesting. First of all, I think advertisers need outlets. An advertiser has a message to deliver about their product that they must deliver to consumers everywhere. So, this proliferation of distribution paths and content will, I think, provide the advertiser with ample opportunities to do so, whether it's on platforms that have been around for decades, broadcasting of network television, or new platforms like video delivered on the Internet. I'm actually not concerned about it. I think that the traditional network buy on network TV is probably - in a world where there's much more choice - even more important to advertisers today because it's still mass and it's very, very efficient. I don't see that going away. Will it be threatened somewhat? Could it possibly decrease somewhat? Yes, but it's not going to disappear, at least not in the foreseeable future.

In the meantime, there are all these other opportunities for advertisers that I view as a great opportunity for us. The Disney Channel is a good one. It is not advertiser-supported and is creating great content using the revenue stream that it currently has, which is essentially subscription. But it is not making, at this point, any money from advertising revenue. Suddenly, you create an Internet service, Disney.com, and you stream that same content on that platform and there are advertising possibilities that you never saw before.

So, for our company there is actually an opportunity - because of these new platforms that we can move our content onto - to actually increase our revenue. I guess it's a completely different way of looking at it. Instead of looking at all these new platforms as being a threat to our older media businesses -- I'm trying not to use the word "traditional" -- I think they present an opportunity for our newer media businesses, while the old ones still chug along and continue to provide opportunities for advertisers.

Bear Stearns Moderator

Talk about Disney then, because your point is that there are types of content you have today that, if you can make it available to advertisers in a way that really works for them, could pick up incremental dollars. So, talk about Disney.com.

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

Let's talk about ABC, Disney and ESPN. ABC streamed four, five, I guess now six of its shows on ABC.com. High CPM. It’s still pretty early in terms of the initiative, but it’s very powerful for the advertiser. Eighty-five percent of the people who watch shows streamed on ABC.com remember the advertiser, because you have one advertiser per show, and four 30-second spots in an hour show. I think there's room there to grow significantly. Disney.com, we re-launched about a month ago…

Bear Stearns Moderator

Stop there for a second. I thought this was a major event, frankly. So, the advertisers -- are you in dialogue with these people saying what kind of advertising works in this setting that wouldn't work in the old setting?

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

Well, most of the dialogue we're in is trying to encourage advertisers to actually get more modern in terms of the messages they create. I would say we're actually ahead of most of the advertisers that we're dealing with. The advertising -- it's not just agencies so we'll call it the advertising industry, is behind where it needs to be to tailor its messaging through these new platforms. I think there are great opportunities, but we may have to show them the way a little bit more.

I'd say I'm a little disappointed at where things stand today, because there are only a handful of advertisers that are stepping up in a way that we believe is really value creating for them. I think there's a lot more that can happen.

Bear Stearns Moderator

So, Disney.com, let me go back.

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

We launched the platform -- re-launched about a month ago -- with the notion that the Internet is an entertainment medium or can be. We made it very rich in video. It's Flashsupported video. It's a very, very robust site and there are a lot of videos available. We're streaming, at least in the four weeks that it's been up, about 100 million videos a week.

Now, those are our numbers and –so I want to be careful here because it doesn't necessarily mean that everybody is watching every video that's streamed. But the fact is, there's a lot of video available and it's being streamed on people's computers. The opportunity that provides is, I think, enormous for advertisers. Right now there is very, very little advertising available.

Bear Stearns Moderator

So, we've got Disney.com from the advertising side, but now you've made Disney.com as an entity itself much more vibrant, so you've put a lot of money into it. If you fast-forward five years, what's going to be the revenue opportunity? How is that going to break down?

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

I think it's three ways. It's advertising, it's what I call video-on-demand, or pay-per-view, and subscription. Also, a lot of transactions. What's great about Disney and Disney.com is, first of all, it's a destination for all things Disney. There aren't any other entertainment companies, at least as far as I can tell, whose name has value across the multiple parts of Disney.com that we offer - movies, television, travel, games, shopping, live shows, ultimately we'll have learning, and who knows what else.

So, the opportunities - and they already exist - will grow and I think they'll be enormous for the company, whether it's travel packages or tickets to one of our stage plays, which happen all over the world, or buying merchandise or buying videos, whether it's hard copy videos that are ultimately mailed to the home, or whether it's a downloaded video onto a hard drive to be seen on a mobile device.

Bear Stearns Moderator

So, the big discussion out there, at least on the Internet, is creating communities, right? You're saying you have a community that can be created, but it is more entertainment driven, that the community starts with the content and then expands from there.

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

Well, we're creating destinations. ESPN is another example. You can go to and be entertained, informed, do commerce, ultimately upload your own videos, user-generated, and also participate in a variety of different community experiences. Social networking, I guess, is the term du jour. Certainly, there will be a lot of social networking around sports. Let's say you're a Duke fan, which I think you are, and you go to ESPN.com and chat away about Duke basketball. I can't remember how the weekend went.

Bear Stearns Moderator

Not so good. Not so good. It was worse for Hansboro than it was for me.

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

And also post your favorite Duke highlights or color your whole site in white and blue, and talk to other Duke fans and reminisce about great games, and talk about going to the game in the future and maybe meeting up and going out for a date afterwards. One in eight people apparently get married after meeting the person on the Internet. Think about what ESPN.com could do to marry sports fans to one another.

At Disney, there are obviously opportunities for everyone from grandparents to parents to children, to talk about vacations or your favorite show on the Disney Channel, or your favorite character, your favorite game. Just many, many other opportunities….

Bear Stearns Moderator

I'm also interested in one of the other things that's a hot topic now - user-generated content. I don't know why that's such a big new thing because there was a young programmer at ABC who put on this *America's Funniest Home Videos* and made a --

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

He was really young.

Bear Stearns Moderator

That was the original user-generated content. What was that guy's name, Iger?

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

It was. Eighteen years ago.

Bear Stearns Moderator

Eighteen years ago.

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

Eighteen years ago we put *America's Funniest Home Videos* on, and it won its time period last night on ABC.

Bear Stearns Moderator

It says something about people's fascination with user-generated content. So, in this community of interest, do you see user-generated content as something that, with your own content in the middle, you can in a way so that you can capture revenue?

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

Yes, and there will be an *America's Funniest Home Videos* feature online on ABC.com. I'm sure ESPN will eventually offer user-generated content around sports. We're already talking about user-generated content around kids and families. So, there are opportunities there. But our focus as a company will primarily be on what I'll call professionally-generated content, that high-quality content that we talk about creating that much value for.

Bear Stearns Moderator

Now, I want to go back to international, since you brought it up. Ten years ago if we were sitting at this conference, people talked about the big opportunities being the Internet and China and India, and all these new emerging markets and all the populations that could consume content from the U.S.-based companies. That's pretty much something we hardly hear about anymore with piracy and not respecting copyrights, etc. It seems like that opportunity has sort of slipped away from people. But you have some assets that are hard to pirate, like theme parks and things like that.

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

Some have tried.

Bear Stearns Moderator

Yes. But it's a little easier to catch them when they're erecting a Magic Kingdom than it is when they're stealing a video. So, if you look out over the next five or ten years, are there markets that start to become meaningful from a revenue and profit line to Disney and, if so, how?

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

Yes, not before five years, probably closer to ten years. The advantage that Disney has is that the brand's value across multiple territories gives us the ability to pick and choose based on either our own interest or opportunity how we enter a market, and no two markets are the same. So, in a market like China, where there's still heavy-duty media regulation, we can enter through consumer products, as a for instance, which is really a wide variety of product from video games to books to learning tools to toys to clothing. And also the theme park is another way to do it. The build-out of Hong Kong Disneyland will have a great impact on brand perception and our ability to grow in mainland China.

India is a different circumstance. We've been fairly successful at television, but there is very little mass retail infrastructure there. So, distributing product from a consumer products perspective or a home video perspective becomes a lot harder. So, television seems to be the entry point. We've done well at that.

I think long-term for Disney, there probably isn't a market in the world that we can't enter and that we won't ultimately do well in. It's just going to take time.

Bear Stearns Moderator

So, you're focusing on the power of your brands….

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

Very much so.

Bear Stearns Moderator

… both the content and the communities you create around that. So, let's talk about the studio strategy a little bit, because that's getting smaller but more focused around your brands. Do you want to talk about why you think that will work?

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

We start with a pretty easy conclusion, not even an assumption, which is that Disney movies have returned more in terms of our investment than non-Disney films over the years. So, it was pretty easy to conclude that if that's the case, why are we making non-Disney films when the returns are so much better on Disney films? The leveragability of Disney films across our business is also significant and enormous, whereas, the non-Disney films can't be leveraged at all. You could have a $100 million non-Disney film, and maybe you've got a nice film. You didn't spend $200 million producing it and distributing it, but that's about it.

If you have a Disney film, you have all kinds of opportunities from online and video games, theme park attractions, and the Disney Channel, etc. I probably could name a variety of other examples.

We also believe in general that the movie business is a very risky business. I happen to think too many films are being made in some cases for the wrong reason, just to essentially service the distribution apparatus that these big companies create, which is not the right reason to make films. So, I thought the right thing to do to was to cut back the investment total and the number of films that we make. This also gives us the ability to focus more on quality, which I mentioned at the beginning.

Bear Stearns Moderator

So, do you worry about losing clout with exhibitors? I mean, Disney has had a big market share for a long time. Or, do you think that with Pixar with Disney, the brand has enough clout? It's not volume that has clout?

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

If we make roughly 12 Disney films and a few are animated films, one from Pixar and one from Disney, we have just as much clout as we need to distribute effectively, not just in the U.S. but around the world. Not an issue at all. I like the fact that we are moderating our capital investment and focusing on fewer films both from a production and quality perspective, and also a marketing perspective. Again, because of the value we can create from a successful Disney film.

Bear Stearns Moderator

You moderated capital investment there, you've got a lot of free capital. Do you have areas for future growth that capital can go into?

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

Yes, we do. There are a number of them, but we're fairly disciplined. I shouldn't say fairly -- we're *very* disciplined in terms of our demand to return significantly on that capital investment. The theme parks would be a perfect example of that, where we've worked really hard to improve our returns on invested capital.

The decision we made a few weeks ago to build two new cruise ships is probably the best example of using our capital in a direction that not only has had good returns since the late '90s --when we launched the two ships that we launched --but that we believe will continue to. It also is an excellent brand builder for the company. When you take a 120,000-ton cruise ship to Shanghai, for instance, which I imagine one day could be possible, or you put a few thousand guests on it and take them to other great destinations around the world and give them a great experience, that is a huge brand builder for the company on top of what has been 16%, 17%, 18% returns on invested capital.

Bear Stearns Moderator

So, you mentioned something before about crossing your platforms. You know, when we talk with a lot of media companies there's this ugly word they call "synergy." They say supposedly putting all these things together creates synergy and most people say it doesn't happen. But as, you know, *High School Musical* can start on the network and end up across a lot of your businesses, right, on stage, in the parks, and all these….

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

Music….

Bear Stearns Moderator

… music, and all these kinds of things. So, why is that? Why does Disney seem to have the ability to have one division create revenue and profits for another division? Is there something unique about the assets? Is it a management philosophy, or….

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

I think it's probably both. I think there is legacy, certainly. Michael was very focused on it and he used it to market very effectively. We try really hard to educate our executives that their stock options are in Disney and not in the studio or theme parks, or a television network, and that it's in their best interest for Disney, the company, the full entity, to succeed.

By focusing on Disney, if you have a success in a business, everybody's cheering. The Disney Channel is a good example. When the Disney Channel has a movie that is as successful as *High School Musical*, the studio is rooting for it because its going to distribute the DVDs around the world, consumer products is rooting for it because of what it can do there. The theme parks like it because they're putting attractions -- not quite the traditional ride attractions, but performances -- in their parks. And the music division, which is part of the studio, likes it because in this case it was the number one music album of the year in 2006.

So, everybody is rooting for something Disney to work, because they know that they can leverage it across their business, but they also know that what's good for Disney is good for them.

And it's, I think, very much part of the culture. It's something that you cannot get complacent about, because you can easily see these businesses falling into silos again which again is one of the reasons for the focus on Disney movies. It basically tears down the walls of those silos because it's a successful Disney movie. It's something that everybody experiences positively.

Bear Stearns Moderator

I want to go to ESPN in a second but I want to say one more thing about the Disney franchise. One of the other issues out there in the market is that while we wait for the emerging markets, in the developed markets, the populations are getting older and the birth rate has been declining. If Disney is a children's franchise, are you facing a future where you have fewer consumers in the future?

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

We've been mindful of changing demographics in the country in a variety of ways, age being one. But not to the extent it's worrisome to us, because certainly for our highest end product, say, the theme parks, there's still an enormous part of the population, even though it's aging, that has not visited our theme parks and we're focused on bringing them in by offering discount packages and by bettering marketing to them as a for instance.

But we're also mindful that there are more empty nesters in the world, certainly in the United States, and there is general aging. This has led to all kinds of different initiatives, from building out product for adults only, golf courses and spas, higher-end restaurants, better wine lists at our restaurants, etc. Also making available multi-generational family vacation packets so the grandparents and the parents and the children can vacation together. This has been enormously successful and we continue that.

So, there's a lot going on, but the aging of the Western world is not something that we consider to be a threat at this point.

Bear Stearns Moderator

Let's go to ESPN. ESPN interestingly is one of the few media properties that people can't find much negative to say about. It's got the kind of product that people don't DVR, they want to watch it when it's on and you've got no advertisers that are clustering around that product. The subscription rates are high. But, it's such a powerful franchise. Do you think it has been successful importing over to these other platforms? Its cable franchise is really strong, right. But let me ask for an example.

You tried the ESPN phone and then you shut it back down. I don't know what you think about ESPN.com. But is ESPN not showing the ability to have that same kind of power away from its home market, if you will?

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

Well, the mother ship is still its cable property, particularly ESPN one. But I think ESPN has done a brilliant job of extending itself beyond its initial business in multiple places like magazine, radio, certainly .com, and other new technologies. They tried to launch their MVNO last year, and I'm actually really glad they did it. There were some mistakes made. The marketing strategy was off, their pricing was off, and they had some retail issues they had to contend with. But I think the fact that they tried it was, the right thing and a noble experiment and a learning experience. Certainly, in this day and age with new media emerging the way it is, if we don't try things new, we're ultimately going to fail, even though we know that some of these initiatives will not work.

So, we've not second-guessed the decision at all. In fact, we've launched a new MVNO since we launched ESPN, that's the Disney MVNO, and we're going to continue to try new things as a company, obviously hoping that each one succeeds, but pretty much knowing that not every one will. That's fine at this point. I think it's really, really important to experiment.

Bear Stearns Moderator

Where is ESPN getting traction off of cable?

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

They have a lot of distribution across multiple platforms. They just announced a deal with Verizon, which really was an offshoot of their failed MVNO. They have tremendous presence in new media such as the Internet, and product that is growing right before our eyes, both changing and growing, actually. They, too, are offering robust video, a variety of social networking opportunities, community, commerce, etc., still somewhat nascent in nature but things they're very focused on and really excited about.

Bear Stearns Moderator

Consumer products is one area of the company that had always been strong, but then it had some saturation problems. Looking at where you are in channels, etc. where do you see consumer products from here? Is this a growth part of the company domestically, internationally?

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

It's a growth part of the company globally. What consumer products suffered from the most was a licensing infrastructure or strategy that worked for probably the better part of a decade and then hit a wall and needed to be changed. Starting in roughly 2000, consumer products went to work changing that -- essentially reducing dramatically the number of global licensees, focusing more on key accounts, in particular mass retailers and direct to retail licensing, which has been very, very successful. Also relying less on film entertainment merchandising, because most of the needle movers for consumers products in the past were products that emanated from theatrical releases, particularly animation. Consumer products needed to wean itself off that in part because of what had become a cyclical business, and also because as Disney animation suffered so did consumer products.

So, they moved away from that, and started focusing on television-generated properties and other properties. The Princess line is a great example of something they invented from characters and movies that had been created decades ago. They turned it into quite a business and they continue to do that.

They also will take great advantage of new platforms. An interesting example, because we talk a lot about franchise management, is what the Internet is giving us in terms of the ability to create virtual online worlds which can be character worlds.

A good example would be what we're doing with *Pirates*. We're also doing something with Disney Fairies, which emanates from the Tinker Bell character. We'll ultimately do it with *Toy Story* and *Cars* and *Princesses*. These are worlds that kids can enter where they are -- they create avatars, or their own characters, and they can interact with other kids, play games, buy things, consume entertainment, and do all the things that we did as kids in a more traditional space Consumer Products will take great advantage of that because suddenly we have an opportunity to keep these character franchises alive, or in some cases to invent them or revitalize them.

So, *Fairies* is a good example. We have this Tinker Bell character that came from the movie *Peter Pan*. Consumer Products created a book that was quite successful about fairies --Tinker Bell and her friends --and we put it online without any marketing, In the month since we launched it, 550,000 fairies have been created online with no marketing. We obviously intend to market it. And from that we'll spawn all kinds of new products from direct-to-video movies to different kinds of consumer products, from costumes to books to games. There's almost no end in sight.

So, really -- when we look at the Internet it becomes yet another platform for us to either create original content or to sustain content that will be created for another medium and at the same time to get closer to the consumer either to sell or to simply expose the consumer to characters and stories and worlds that we never would have been able to do in the old world order.

Bear Stearns Moderator

One last question for me and I'll turn it over to the audience. You've got an opportunity. You've built a new cruise ship, so you can build new theme parks.

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

You talk about building new cruise ships like it's nothing.

Bear Stearns Moderator

No. Nothing compared to $4 billion of free cash flow. Look at the numbers. I mean, Staggs keeps coming up with more money. So, the issue is while you have some opportunity to invest capital, which is good, the power of your brands says that a lot of your businesses throw off a lot of cash without the need for new investment. So, it would seem that even with the opportunity to build cruise ships, theme parks and things like that, there is an awful lot of free cash flow in your future. What should investors be thinking about in terms of your strategy on balance sheet cash, acquisition, reinvestment…

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

Based on the last couple of years, which have been enormously successful from a free cash flow perspective, I think your assumption is correct that if the company continues in the direction it's going and has been going, then the ability to deliver free cash flow should be sustainable. Decisions in terms of where to spend it will be critical decisions for management to make.

I think you have to start with the premise that we're disciplined and have created standards that are high in terms of return on invested capital. That’s essential. We're obviously focused on the value of brands and on quality and in particular on the three primary brands, Disney, ABC, ESPN, and on growing those brands on multiple platforms in multiple markets. I think we will have ample opportunity to invest capital in those general directions.

But also to continue to solidify our balance sheet that may include the continued increase in dividends or the share buyback we've been doing over the last few years. But with a relatively strong balance sheet and the right strategy and the right discipline, I'm fairly confident we will see opportunities. I like being patient and waiting for the right opportunity to come along. I think in all likelihood that's what happens. You don't make it happen, it happens because you've got a company and a strategy and an executive team that's sound and not only rowing in the right direction but rowing in a cadence and order that makes sense.

Bear Stearns Moderator

I could go on all night, and we’d all be asleep, but there are some questions from the audience.

Audience Member

[Why didn’t you choose to build a hotel yourself as opposed to letting a third-party develop on your property.]

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

Four Seasons is going to build a 450-room hotel on property. We begin with the notion that we have an enormous amount of property still to develop there. So while you maybe can argue there is some opportunity cost associated, the fact is that we have the capacity to build many, many more hotels if we see the need or if we believe that they will deliver the returns that we demand. So, this is not necessarily taking precious space away from us.

We believe that we have an opportunity to grow our business in Orlando toward what I'll call the highest end from an economic demographic profile perspective, and we have enormous respect for the Four Seasons brand. Even though we have what I will call four star hotels, the Four Seasons brand has real value and the ability to bring people onto our property and to our resort that we think is quite attractive.

So, we have ample other land to use, we don't have a Four Seasons brand and the deal we were able to strike with them, we believe, is extremely advantageous to the Walt Disney Company and our shareholders. It seemed like a very smart thing for us to do.

We can still build out more higher end hotels if we like, but you have to look at our current profile. We have some 35,000-plus hotels at Walt Disney World and they range from those that are more economic in nature, to those that are higher end from a cost-per-night perspective. We can build in either direction, and we in fact may do so if we see the need.

But we thought there was a great opportunity for us to leverage the value of the Four Seasons brand, to provide more quality experiences for our guests and possibly to attract people that may not have come to Walt Disney World because of the perception, admittedly maybe the wrong perception, that we didn't have hotels that are of the quality of the Four Seasons. Not really analogous, by the way, to the Swan and the Dolphin, which were done many, many years ago and were built primarily to do two things. One was to settle a dispute, as I recall with Fishman and also to launch us into the convention business, which we've done ourselves as well and done quite well.

Actually, I think it's a great move for us. I'm really, really happy about it and was supportive of it, and think we did the right deal. I think it's going to provide benefits to both companies.

Bear Stearns Moderator

Spencer?

Spencer Wang - Bear Stearns

Bob, two questions on the portfolio. I think in the past you looked at whether it made sense to take the theme parks [and potentially spin them off.] Can you update us on your current thoughts about that and your parameters for decision-making? Secondly, on the TV stations, you guys are still well under the national ownership cap, but it's primarily a distribution business inconsistent with some of your strategies. Can you talk about your satisfaction with where you are in terms of TV station ownership? Thank you.

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

From a television station standpoint, we have 10 TV stations and 23 percent of the country. We haven't bought a TV station since 1994. We have had huge success with stations particularly in the big markets where they continue to succeed. In fact, our February sweep was really strong particularly in New York, Los Angeles, Philadelphia and Chicago. They are high cash flow generating businesses, high margin businesses and we're comfortable with where they are and where we are in that business.

They are also good brands and probably leverageable brands across the new platforms and they're working to build those out. So, I'd say [inaudible] one that we're quite comfortable with.

We've looked, as the question comes up almost every year that I do this conference and others, at the different alternatives in terms of the ownership structure of our theme parks and hotels. They are a fully integrated business not only unto themselves, meaning the hotels and the parks themselves, and all the other adjunct businesses that go with it, but also with the company. The benefits that we see today far outweigh the benefits that we would see given the complexity that perhaps a third-party ownership could create.

So, again, we'll continue to evaluate, but it's not something that should be viewed in any way as imminent or even on the front burner at this point.

Audience Member

This time last year you talked about the imminent decline of the DVD window, and it seems your tone on it has changed…can you elaborate?

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

I was asked that question on an earnings call about DVD windows, and I think I speculated one day that you might see -- I hedged it a fair amount -- but it ended up as headlines.

Bear Stearns Moderator

Without the hedges.

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

Without the hedges, yeah. I actually believe that there will be window compression. How fast and how extreme, I don't know. We've seen window compression over the last five years, and we've also taken steps to move product from the theatrical window onto other platforms beyond DVD, like iTunes, for instance.

I'm very confident that the DVD business is going to continue to succeed. I mentioned earlier the purchases of big flat panel television sets, high definition being the key. People will use those sets to watch high definition movies whether they come over the air or via multi-channel providers, or from new format DVDs.

I know for Disney the name on the DVD has real value. This is a business that has been incredibly successful for us, not just over the last decade, but just over the last year, over the last quarter. We announced last quarter earnings that we sold almost 130 million DVDs in our last reported quarter --130 million! So, this business is not going away for us. I do believe ultimately that the high definition format will take over, although when those lines will cross I'm not going to predict.

At the same time, because we've talked about the authority that rests now in the hands of the consumer, I think there will be continued pressure to move some of that product to market quicker after it's been a theatrical window I also think it's incumbent upon the industry to work harder with the theater owners to make sure that that experience is improved as well, because I think that's going to continue to be a good business for us, too.

Bear Stearns Moderator

Bob, high def to me is even more powerful in a sporting event than it is in a movie. The difference in the quality of a sporting event is enormous. I know ESPN HD is in a lot of places, but as there are all of these HD sets, is there opportunity for ESPN to capture more of that value out of the high def format?

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

I think ultimately we hope that because the experience is better – and I agree with you, it is -- consumption will rise. Whether it's a bigger set or better quality picture or sound or, again, more places to watch it; I think you'll end up with greater consumption. I believe, by the way, that's going to be true for movies, too. When you see *Cars* and

Pirates, which are both coming out in high definition in the coming months, you'll see what I mean. *Cars* looked pretty good in standard definition, but high definition it's a great experience. *Pirates* as well.

Audience Member

You're in quite a few entertainment businesses, but one area that strikes me that you're under-penetrated in is video games. Would you talk about your interest in that category and if you do decide to become more aggressive, how you might do so?

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

Yes. We believe firmly in the future of video games. We see some nice growth in terms of new platforms. The Nintendo Wii was mentioned earlier, the DS platform is another good example. New Generation consoles, both the PlayStation 3 and the Xbox 360, are great experiences. And then there are online games as well.

Our focus is to build out mostly our own self-published, self-developed titles and we've invested in that regard. About 80% of our titles will be Disney branded and we just renamed our video games division, Disney Interactive Studios instead of Buena Vista Games, to reflect the mix of product we will create. And of the Disney games that we will create, 80% of our total games will be Disney, about 80% of those Disney games will come from IP that we already own or that will have been created for other media, like the movies or television.

There will still be some from scratch. We have one coming out this month, actually, called *Spectrobes*, but most of them will be a derivative of product that's created for other media. Again, we really believe in this business.

We'll also continue to be in the licensing business, albeit smaller, with third-party publishers and developers, where we think there is some opportunity, too, partially because we can't monopolize all the great talent. There will be talent that will continue to be housed at other publishers, some represented in this room. There is no reason why we can't tap that talent and continue to pursue a licensing business.

But when we have a title that we really believe in and we have the capability from the talent perspective to develop a game under that title, the economics for a successful game that you self-publish are substantially better than the economics when you license, even though we take on more risk in the process.

We've been investing a fair amount in that direction - about $130 million for fiscal '07 -- in the business of creating our own games versus third-party licenses.

Audience Member

I noticed when you made an announcement on Four Seasons, you also incorporated the sale of residential property. Does this mean you're beginning to monetize more aggressively the value of the land that you have around Disney World?

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

There is still, again, an enormous amount of property that we can develop in Florida. I would imagine not just during my tenure as CEO, however long or short that is, but maybe even during my lifetime, that we won't develop all of that. Some for a good reason, because it's to preserve land, some because we won't find the opportunity. So, we have ample land to develop.

There's been an interesting growth in that market of single family vacation homes, homes that are rented either as time shares or by families for vacation purposes. And this is a way that we can use our property wisely to answer a growing need in the marketplace, use the land well, and also use other people's capital to build single vacation home properties.

We may actually build some of our own as well, and I imagine we will. But this is a step in that direction. Again, enormous property to develop, a little opportunity cost associated with it, use other people's capital to essentially diversify our portfolio of rooms or beds that we have there, because we've seen this growth in the market. We've done the same thing with family suites, although in that case -- because we've seen enormous growth of family suites in the Orlando market -- we built out a number of our own by either building new or converting older hotels for the family suite model.

Bear Stearns Moderator

Next question, Mark?

Audience Member

Different question. Apple TV is coming out, I believe, the middle of this month. Would you expect it to become a significant source of revenue to you either in terms of film and/or television shows? To the extent that it does, is it just going to replace DVDs?

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

Well, today over 1.6 million Disney movies have been downloaded on iTunes, and that's since October, so it's probably closer to 2 million at this point. That statistic is from the end of last quarter. And I'd say roughly 20 million TV shows have been downloaded or purchased on that platform since a year ago October, when we were the first to launch. That revenue to us is still relatively modest. The numbers sound high, but they are relatively modest in the scheme of things. We're going to continue to see growth, we believe, from that platform and from other download to own platforms.

So far, it looks like, and we don't have complete evidence of this, but our sense from the scant research and experience that we've had, is that this consumption is incremental to our business. We've seen absolutely no cannibalization in our DVD business, for instance, since we launched Disney movies on iTunes, nor have we seen cannibalization of the DVD sales of our television products.

Now, it's difficult to read because there are a lot of apples to oranges comparison, but our DVD business has been almost on fire these last six months. We've seen just enormous results. Just look at our last quarter, as I mentioned earlier at the same time that we've made these movies available on iTunes.

I think people who may have not purchased movies on the DVD format are looking at this platform as an opportunity to buy movies that they haven't bought before. They simply want to buy to own on their hard drive, because you can't legally rip a standard DVD onto your computer hard drive today. Some do it illegally, but you can't do it legally. So, if you want a movie on your hard drive, right now the best way to buy it is through a download-to-own service, whether it's Apple or Wal-Mart, which was recently launched. I think we're going to continue to see actual incremental growth from those platforms for quite a long period of time.

For Disney movies, it's still very, very attractive for families to own the physical copy of the movie. As a parent of two very, very active 8- and 4-year-old boys, I know that they want to watch those movies dozens of times on just about any player they can possibly find. And so having it stored on a computer hard drive is a bit cumbersome. The Apple TV product is interesting because it takes advantage of wireless technology, and it enables you to watch on a television set a movie that you bought on iTunes and downloaded to your hard drive. I think -- because the platform hasn't launched, I certainly don't have any evidence whatsoever -- that we'll continue to see incremental growth in our business rather than consumption that cannibalizes our current business for probably a fairly long period of time.

Bear Stearns Moderator

I want to wrap up with one question on a personal a note, because when you go through what you're going through, all these new initiatives and then the geography of what you are dealing with now, you are running in an awful lot of directions at once. Is the pace sustainable?

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

You mean personally?

Bear Stearns Moderator

Yes. Have you settled into a pace that you think is sustainable? How tough is it?

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

Well, it's constant, but it's really dynamic. I'd say the dynamism of it all is energizing. So, I have not at all hit that wall, meaning that I'm sapped of energy or drawn in too many directions that I feel would either be dangerous to my health or my personal life or my business.

I'm fortunate that I have an enormously talented team of people who are either at corporate or running our businesses. This is truly a team effort, and it enables me to, one, pick my spots in terms of what I think is important, where I think I can add value, or what I'm interested in. It's kind of nice to have that luxury. Or deal with, obviously, the emergencies that unfortunately occur from time to time. But it's not something that I'm concerned about at all.

I think the most important thing is that we have a team in place that can manage these businesses well, which they're doing. We ultimately create a team that creates great succession for this company long-term -- talent that's going to drive The Walt Disney Company well beyond my tenure as CEO. I'm confident that's what we have in place.

Bear Stearns Moderator

So, if we look 10 years out or more, how would you like to have people think of Disney when you pass it on to somebody else? What will people have said happened during your tenure?

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

We distance ourselves from the word "traditional." You want to think of high quality family entertainment and experiences. Also a company that is admired for how responsible it is, and for being a good citizen of the world. I think that's important for us. It's one of the reasons why we're interested in things like healthy food and on the environment. We touch so many people in so many places; I think it's very important for our company to set an example. And I think that ultimately is good for our shareholders, too.

Obviously, we want to be a company that has created great value for people, whether they work at our company or whether they are owners of our company -- a highly responsible, high quality company to be admired and known throughout the world. Modern, of course, would be nice, and innovative. But I think that all comes with the territory.

Bear Stearns Moderator

Great. For all you have to do, I really appreciate you coming down to see us. Thanks a lot.

# # #

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- 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 September 30, 2006 and in subsequent reports on Form 10-Q under Item 1A, "Risk Factors".

Reconciliations of non-GAAP financial measures to equivalent GAAP financial measures are available on Disney's Investor Relations website.