

Summary -- Testimony of Benjamin N. Pyne
President, Disney and ESPN Networks Affiliate Sales and Marketing
May 10, 2007

Disney has been a pioneer in creating and using technology to deliver our high-quality Disney, ABC, and ESPN content. Disney strives to bring content to viewers on a well-timed and well-priced basis – through video downloads on iTunes, video streaming on ABC.com and our other media players, video-over-broadband websites like ESPN 360, video-on-demand through our cable partners, video-on-mobile devices, and our production of high-definition video content on broadcast, cable, satellite and DVD. Disney's media player allows viewers to go to the Internet to Disney or ABC websites and watch Disney or ABC shows for free. Other examples include:

- *Video Downloads:* ABC, Disney Channel, ESPN, and ABC News content is on iTunes. Sports content is on ESPN.com. Disney movies are available for download at iTunes, Wal-Mart, and on CinemaNow and Movielink.
- *Video Streaming:* Disney's Emmy-award winning full-episode broadband player, with content from ABC, Disney Channel, ABC Family, ABC News, was implemented in conjunction with our broadcast affiliates.
- *Broadband:* Disney XD, a complete redesign of Disney.com, offers broadband entertainment with Disney-style content and was developed with safety in mind. Disney has developed broadband ISP sites, including ESPN 360, DisneyConnection, ABC News Now, and Soapnetic, also to provide content.
- *Video on Demand:* Disney, ESPN, and ABC programs are available for viewers to watch whenever they want.
- *Video on Mobile Devices:* ESPN, ABC, and ABC News Now are available in any number of mobile formats and to any number of mobile devices.
- *High Definition Television:* Virtually all ABC's prime-time schedule is in HD, including all scripted prime-time programming, as well as Good Morning America. Six of ten of the ABC owned stations are producing local news in HD, and two more will follow this year. ESPN has two full-time HD channels, ESPN HD and ESPN2 HD. In 2008, Disney will launch four new HD channels, Disney Channel HD, Toon Disney HD, ABC Family HD, and ESPNNEWS HD. Disney has already announced more than 50 titles for release in full-HD on Blu-ray Disc.

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Thank you, Mr. Markey and members of the Subcommittee. My name is Ben Pyne, I am President, Disney and ESPN Networks Affiliate Sales and Marketing.

I appreciate the invitation to talk with you today about the future of video. At Disney, we believe the greatest danger to our future business would be to cling to a model based on “old” thinking. We recognize that technology has empowered the consumer more than ever before, and we create and use technology to deliver quality content. Consumers today want to access content from Disney, ABC, and ESPN in so many different ways, and we have made responding to that demand in new and innovative ways one of the highest priorities in our company.

In doing so, Disney has been a pioneer in numerous ways I will discuss today – through video downloads on iTunes, video streaming on ABC.com and our other media players, video-over-broadband websites like ESPN 360, video-on-demand through our cable partners, video-on-mobile devices, and our production of high definition video content on broadcast, cable, satellite and DVD. We will continue to find ways to get our content to screens consumers use: computers, mobile phones, iPods, and of course, television.

Now, and in the future, getting the balance right between convenience and pricing is a challenge facing all of us who create and distribute digital content. Adding to that challenge is the problem of piracy. While there is no one answer to the challenge of piracy, we believe the best place to start is to bring content to market on a well-timed and well-priced basis.

Video Downloads

We're now firmly into the "Consumer Era" – where consumers want their content to be available anytime, anywhere, on devices ranging from TVs to cell phones. Disney led all video producers in moving this "on demand" digital era from theory to reality with our agreement to make television content available for video downloading from iTunes 18 months ago. That deal allowed consumers not only to download their favorite shows, but also to make them portable between shared devices on a single iTunes account.

Today, the variety of Disney video content available on iTunes continues to expand: movies, TV shows, sports, and news. Over 20 million episodes of our series' have been downloaded on iTunes, including many of our most popular shows – everything from ABC's Grey's Anatomy and Lost to Disney Channel's Hannah Montana and High School Musical.

ABC News' "World News with Charles Gibson" has set the standard in network digital offerings as the first and only evening newscast to produce an original program for the Internet audience. Anchored by Charles Gibson, the "World News" webcast airs live on ABCNEWS.com and ABC News Now, and is available shortly thereafter as a video podcast on iTunes or mobile phones. That nightly program has been played and downloaded more than 65 million times since launching last year. ABC News' digital-only original video series, "The Day It Happened," which includes broadcast footage from historic events of our time, launched first on iTunes last year and is critically acclaimed.

In addition to Disney and ABC content, ESPN offers condensed versions of games and other sports content on iTunes. ESPN's condensed version of the 2006 Rose

Bowl between Texas and USC was downloaded by 150,000 fans. Other content on iTunes has included highlights from our action sports X Games events, The Belmont Stakes horse racing, ESPN Original Entertainment series like *The World Series of Poker* and *The Contender*, and great college sports rivalries like North Carolina versus Duke basketball and Ohio State versus Michigan football. Online at ESPN.com, we offer as many as 450 new pieces of ad-supported, short form video each week -- including highlights, interviews, analysis, Emmy-winning original animation and our signature, twice-daily *SportsCenter Minute* news and information wrap-up. Our "sportsnation" of fans view these videos, on average, tens of millions of times each week.

This just gives you a flavor for some of what we are doing in the television space here in the United States. It does not begin to get in to digital distribution deals abroad. Nor does it begin to highlight what we are doing on the movie studio side. For example, last year Disney was the first movie studio to announce a deal with Apple to enable downloading of full-length feature films through iTunes, including copies to multiple PCs and portability using iPod devices. Consumer reaction has been strong. We are now approaching two million downloads of Disney films from iTunes since our announcement in September. We've also reached separate digital distribution deals with Wal-Mart, Movielink and CinemaNow in the U.S., with some similar to the iTunes model and others quite different, as we try to explore new and improved ways to reach consumers with our content. This is a nascent but rapidly growing area, and we look forward to many exciting new offerings and opportunities in this space.

Video Streaming

Disney's next innovation was its Emmy-award winning full-episode broadband player. We have made our most popular content – including much of ABC's prime time schedule and original programming from the Disney Channel and ABC Family – available on the Internet in high-quality video streaming format. Right now, a consumer can go on the Internet to ABC.com and watch individual episodes of ABC or Disney Channel programs when they want to, for free. This means that fans of our hit show "Lost" can log onto their computers and watch last night's or last month's episode of "Lost" – *for free*.

This effort continues the evolution we started with iTunes, but it's different in a number of ways. Unlike iTunes, content on ABC.com is free to viewers, but it includes limited commercial breaks. Viewers cannot download and save the episode – but are able to pause, fast-forward or rewind. Since fall 2006, the ABC.com media player alone has served over 87 million episode requests. And ABC News video content generates up to 50 million plays per month across ABC News Digital properties and partner sites.

Notably, we have worked with the local ABC affiliates to design a version of the media player for ABC content in which both the network and the affiliates are able to participate. Affiliates can brand the player with their station's channel number and call letters, include local advertising, and provide links to local news and public information that broadcasters provide their communities. To date, ABC affiliates covering 80% of the country, including major affiliate groups as well as the ten ABC owned television stations, have launched or have committed to launch the player on their own websites and are taking advantage of the opportunity to incorporate local advertising into the programming.

Broadband

Just this January, Disney announced its latest innovation, this time in the web space – Disney XD. Disney XD is broadband entertainment taken to the next level – Disney style content with safety in mind. It’s a customizable experience with Disney games, music, trivia and high-quality engaging videos, including kids’ favorite Disney Channel shows plus movie clips and previews.

Disney also has developed a number of broadband sites in partnership with Internet Service Providers – or ISPs. ESPN 360 is the sports broadband product, featuring an online video player and access to a broad array of sports content. ESPN360 is available to more than 15 million homes. A great example of ESPN 360’s potential was its wall-to-wall coverage of every game of the World Cup last summer. Disney’s similar broadband destinations with tailored content include DisneyConnection, ABC News Now, and Soapnetic, all of which offer distributors and consumers unique Disney Channel, ABC News, or SoapNet content.

Video on Demand

Video on Demand is yet another way we make Disney, ESPN, and ABC content available for viewers to watch whenever they want. We have entered into many different VOD licensing agreements with our cable partners that reflect different VOD business models, as we all experiment to find what works best for consumers.

Just this week, we announced that we are negotiating an agreement with Cox Communications to allow Cox customers to watch our most popular ABC television content -- including Grey's Anatomy and Lost -- on demand. We’re currently discussing

this with our broadcast affiliates and we will be including some of our affiliates in a test.

Video on Mobile Devices

Disney has moved aggressively to ensure that our content travels with our viewers, wherever they are, including on their cell phones and mobile devices. ABC News Now's mobile offering reaches over 4 million subscribers with 75 percent of the total mobile TV audience. ABC's prime-time programs offer clips, teasers, and special content in a special format for mobile devices.

ESPN is available in a number of mobile formats – including not just clip-based video, but also a full-linear streaming video channel (ESPN Mobile TV) through MediaFLO currently available on Verizon Wireless and soon available on AT&T. And, ESPN's Mobile Web site gets 8 million unique visitors each month from a wide variety of carriers.

High Definition Television

Disney consistently has been a leader in high definition television. In 1998, ABC became the first network to televise a regular scheduled program in HD – “The Wonderful World of Disney.” In fall 2005, ABC was the first network to produce its morning news show – “Good Morning America” – in HD. Now, virtually the entire ABC prime time schedule is broadcast in high definition, including all of ABC's scripted entertainment programming.

The ten ABC Owned Television Stations also are leaders in HD. Six of ABC's ten owned stations already are producing and airing local news in HD, with two more stations to follow in the coming months.

We all thought that sports in high definition would be a key driver of the digital transition. At ABC and ESPN, we're leading the transition with nearly 900 national HD telecasts in 2007 of Monday Night Football, the Rose Bowl, NASCAR, college football and basketball, Major League Baseball, the National Basketball Association and the Little League World Series plus even the National Spelling Bee.

The launch of ESPN HD in 2003 has proven to be one of the significant drivers in the adoption of high definition television. The service is now available to over 88 million households across the country. ESPN2 HD launched in 2005, and between the two services ESPN will produce over 9,000 hours of original HD content in 2007, featuring SportsCenter, the nation's leading sports news and information program.

In 2008, Disney will continue to lead the industry by launching four additional HD channels, ESPNNEWS HD, Disney Channel HD, Toon Disney HD, and ABC Family HD.

Disney is also a leading supporter of high definition content on next-generation high-definition packaged media. Disney is one of the founding members of the Advanced Access Content System (AACS) Licensing Administration, which has developed the technology specification for managing content in the next generation high-def packaged media formats. We have already announced more than 50 titles for release on Blu-ray Disc, which we believe will further help drive HD adoption by offering unprecedented, full-HD (1080p) quality and advanced interactivity. AACS also promises a future with new, enhanced functionality for consumers, including, among other things, secure managed copying within home networks and among portable devices.

Conclusion

At Disney, we'll continue to work to be the first choice for digital and interactive entertainment and information in the most convenient and timely ways possible. As our CEO Bob Iger has said, "Our history of bringing our storytelling and our roster of characters to the frontiers of technology is unrivalled. Since the day a previously-mute mouse dared to speak in a "talkie," Disney has fearlessly taken its content to the cutting edge. Wherever the path of unfolding technologies and imaginative new platforms may lead, Disney will be there."