



INSTITUTIONAL SHAREHOLDER SERVICES

PROXY ALERT

February 13, 2007

**Company Info**

<b>Ticker</b>	DIS
<b>Meeting</b>	Annual March 8, 2007
<b>Record Date</b>	January 8, 2007
<b>Incorporated</b>	Delaware

The company, together with its subsidiaries, is a diversified worldwide entertainment company with operations in four business segments: Media Networks, Parks and Resorts, Studio Entertainment and Consumer Products. (GICS:25401030 )

**Shareholder Returns**

	1 yr%	3 yr%	5 yr%
<b>Company</b>	29.54	16.40	11.82
<b>S&amp;P 500</b>	15.78	10.43	6.19
<b>GICS peers</b>	27.31	8.08	2.57

Annualized shareholder returns. Peer group is based on companies inside the same "Global Industry Classification Standard" code

**CGQ Rating**

<b>Index Score</b>	78.1
<b>Industry Score</b>	99

DIS outperformed 78.1% of the companies in the S&P 500 and 99% of the companies in the Media group.

ISS calculate governance rankings for more than 8,000 companies worldwide based on up to 63 corporate governance variables.

**Report Contents**

- Proposals and recommendations
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- Proposals

**The Walt Disney Company**

**Recommendations - US Standard Policy**

Item	Code*	Proposal	Mgt. Rec.	ISS Rec.
1.1	M0201	Elect Director John E. Bryson	FOR	FOR
1.2	M0201	Elect Director John S. Chen	FOR	FOR
1.3	M0201	Elect Director Judith L. Estrin	FOR	FOR
1.4	M0201	Elect Director Robert A. Iger	FOR	FOR
1.5	M0201	Elect Director Steven P. Jobs	FOR	FOR
1.6	M0201	Elect Director Fred H. Langhammer	FOR	FOR
1.7	M0201	Elect Director Aylwin B. Lewis	FOR	FOR
1.8	M0201	Elect Director Monica C. Lozano	FOR	FOR
1.9	M0201	Elect Director Robert W. Matschullat	FOR	FOR
1.10	M0201	Elect Director John E. Pepper, Jr.	FOR	FOR
1.11	M0201	Elect Director Orin C. Smith	FOR	FOR
2	M0101	Ratify Auditors	FOR	FOR
3	M0524	Amend Omnibus Stock Plan	FOR	FOR
4	M0535	Amend Executive Incentive Bonus Plan	FOR	FOR
5	S0352	Company-Specific--Governance-Related - No Greenmail payments	AGAINST	AGAINST
<b>6</b>	<b>S0332</b>	<b>Approve/Amend Terms of Existing Poison Pill</b>	<b>AGAINST</b>	<b>FOR</b>

\*S indicates shareholder proposal

**ALERT**

This alert updates the company's CGQ scores.

## Corporate Governance Profile

### Governance Provisions:

- The full board of directors is elected annually
- Shareholders do not have cumulative voting rights in director elections
- The company does not have a poison pill in place
- A supermajority vote of shareholders is required to amend certain provisions of the charter or bylaws
- A supermajority vote of shareholders is required to approve certain types of mergers or business combinations
- Shareholders may act by written consent
- Shareholders may not call special meetings
- The board may amend the bylaws without shareholder approval
- There is not a dual class capital structure in place
- Executives are subject to stock ownership guidelines
- Directors are subject to stock ownership guidelines

### Non-Shareholder Approved Incentive Plans:

- All stock-based incentive plans have been approved by shareholders

### State Statutes:

- The company is incorporated in a state with anti-takeover provisions
- The company is incorporated in a state without a control share acquisition statute
- The company is incorporated in a state without a cash out statute
- The company is subject to a freezeout provision
- The company is incorporated in a state without a fair price provision
- The company is incorporated in a state without stakeholder laws
- The state of incorporation does not endorse poison pills

## ISS Corporate Governance Rating

Governance Factor	Positive	Negative
The audit committee is comprised solely of independent outside directors	x	
The average annual burn rate over the past three fiscal years is 2% or less, or is within one standard deviation of the industry mean	x	
Directors are subject to stock ownership guidelines	x	
Executives are subject to stock ownership guidelines	x	
There is no disclosure of mandatory holding periods for restricted stock after vesting		x
The company does not utilize performance-based equity awards with specific performance criteria and hurdle rates disclosed		x
There is no disclosure as to whether the company's option plans permit repricing		x
The company does not conduct performance reviews of individual directors		x

Lucian Bebchuk proposes the following binding proposal:

"Pursuant to Section 109 of the Delaware General Corporation Law, 8 Del. C. § 109, and Article IX of the Company's By-Laws, the Company's By-Laws are hereby amended by adding to Article III of the Company's By-laws as follows:

**Section 12. Stockholder Rights Plans**

(a) Notwithstanding anything in these by-laws to the contrary, the adoption of a stockholder rights plan, rights agreement or any other form of "poison pill" which is designed to or has the effect of making an acquisition of large holdings of the Company's shares of stock more difficult or expensive ("Stockholder Rights Plan"), or the amendment of any such Stockholder Rights Plan which has the effect of extending the term of the Stockholder Rights Plan or any rights or options provided thereunder, shall require the affirmative vote of 75 percent of the members of the Board of Directors, and any Stockholder Rights Plan adopted or amended after the effective date of this Section shall expire no later than one year following the later of the date of its adoption and the date of its last such amendment.

(b) Paragraph (a) of this Section shall not apply to any Stockholder Rights Plan ratified by the stockholders.

(c) Any decision by the Board of Directors to repeal or amend this Section shall require the affirmative vote of all the members of the Board of Directors.

This By-law Amendment shall be effective immediately and automatically as of the date it is approved by the vote of stockholders in accordance with Article IX of the Company's By-laws".

**Proponent's Position**

The proponent believes that it is undesirable for a poison pill not ratified by the stockholders to remain in place indefinitely without periodic determinations by the board that maintaining the pill continues to be advisable. The proponent also believes that a board should not extend the life of a poison pill beyond one year without shareholder ratification when a significant fraction of the directors do not support such an extension. The proponent further states that the proposed By-law amendment would not preclude the board from maintaining a poison pill not ratified by the stockholders for as long as the board deems necessary consistent with the exercise of its fiduciary duties, but would simply ensure that the board not do so without considering, within one year following the last decision to adopt or extend the pill, whether continuing to maintain the pill is in the best interests of the company and its stockholders.

**Management's Position**

The board recommends against this proposal for several reasons. The board states that the company has not had a shareholder rights plan since 1999 and is not now considering adopting such a plan. The board believes, however, that shareholder rights plans can be a useful tool in some circumstances to protect the best interests of shareholders by allowing boards to protect strategies for realizing long-term value and to maximize the value of stockholders' investment by encouraging potential purchasers to negotiate directly with the board.

The board states that the requirement for a 75 percent vote of the board to adopt a plan would permit a relatively small number of directors (as few as three on an eleven member board) to block a plan. According to the board, a small group of directors representing special interests (including possibly representatives of an acquiring company) could therefore block action that other directors believe is in the best interests of shareholders. The board further states that the limitation of plans to one year will permit potential purchasers to "wait out" the expiration of the plan and may hamper the ability of the board to identify, negotiate and complete a financially superior alternative that might take more than a year to complete due to regulatory or other delays.

From a legal perspective, the board states that the limitations imposed on the board's exercise of its fiduciary duty by the proposed bylaw amendment may violate provisions of Delaware law that expressly grant the board (not stockholders) the authority to create, issue and fix the duration of rights. Faced with a similar

proposal made by Professor Bebchuk to a different company, the board remarks that a Delaware court recently deferred ruling on the legality of the proposal until a bylaw was actually adopted, noting that the issue presented was “fraught with tension.” There is an open legal question as to whether the bylaw would be enforceable if it were adopted.

### **ISS Analysis and Vote Recommendation**

In general, ISS supports shareholder proposals requesting that the board submit an existing rights plan (poison pill) to a binding shareholder vote or to redeem it. ISS also supports board policies/bylaws that require the adoption of any future pill be put to a shareholder ratification vote within 12 months of adoption or the pill will expire. In this case, the proposed bylaw would require a 75 percent vote of the directors to approve or to extend any pill that is not approved/ratified by shareholders. It would require that any pill adopted by the board without shareholder consent expire within 12 months of the board's action. Note that although the company does not currently have a pill in place, the board also does not have a policy requiring shareholder approval of a rights plan in the future. ISS recognizes that, if adopted by shareholders, this binding shareholder proposal will be subject to legal challenges. Further, note that if this proposal garners majority shareholder support, a supermajority shareholder vote requirement may be needed to implement change in the company's bylaws.

In evaluating binding proposals, ISS places a higher level of scrutiny on the merits of the proposal and the implications to shareholders. In this binding proposal, a supermajority board approval requirement is placed on the adoption of a poison pill. Management argues that the 75 percent board approval requirement goes against the will of a majority of the directors by empowering a minority of the board (as few as three on an eleven member board) to block a pill which otherwise may be in shareholders' best interest. However, a pill can be an onerous anti-takeover device which may serve to entrench management in the face of a bona fide offer. Therefore, in the absence of a shareholder-approved pill, a higher burden for board approval may not be detrimental to shareholder interests. Under the bylaw, the board may propose a multi-year rights plan and lock it in place via a binding shareholder vote. While the proposal would raise the bar for unilateral board action by requiring a supermajority board vote, it does not eliminate the ability of a unified board to respond to an imminent threat. Moreover, nothing would stop the majority of directors from putting a plan that fails to win 75 percent boardroom support to a shareholder vote.

We believe the underlying goal of this proposal is not to prevent the board from adopting a pill in the event of a hostile takeover, but rather to ensure shareholders have a voice in approving a pill, which ISS advocates as best practice. In that regard, the proposed bylaw is consistent with ISS' policy on pills as it relates to a required shareholder vote within 12 months.

Overall, the benefits of requiring shareholder ratification of a pill outweigh the potential negative effects of a supermajority board requirement for pill adoption. Given that the company has not established a policy with respect to shareholder approval of a rights plan in the future and the proposed bylaw is not inconsistent with good governance practice of putting a pill to a shareholder vote within 12 months, this bylaw proposal warrants shareholder vote.

**Vote FOR Item 6.**

*US Standard Policy*

## Additional Information and Instructions

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**Shareholder Proposal Deadline:** September 14, 2007  
**Solicitor:** Georgeson Shareholder Communications, Inc.

**Security ID:** 2270726 (SEDOL), 254687106 (CUSIP), 2586940 (SEDOL), 2666046 (SEDOL), 4260026 (SEDOL), 4611130 (SEDOL), 6270498 (SEDOL), B155VX6 (SEDOL), US2546871060 (ISIN), 254687205 (CUSIP)

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The Walt Disney Company

February 13, 2007

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