

Lucasfilm President  
Kathleen Kennedy

Disney Chairman and  
CEO Robert Iger

Mickey Mouse

R2-D2

# THE $\Phi$ ROID STAYS $\Psi$ IN THE $\rho$ ICTURE

The inside story of how Disney bought Lucasfilm—  
and its plans for *Star Wars*

By Devin Leonard  
Photograph by Jeff Minton

One weekend last October, Robert Iger, chief executive officer of Walt Disney, sat through all six *Star Wars* films. He'd seen them before, of course. This time, he took notes. Disney was in secret negotiations to acquire Lucasfilm, the company founded by *Star Wars* creator George Lucas, and Iger needed to do some due diligence.

The movies reacquainted Iger with Luke Skywalker, the questing Jedi Knight, and his nemesis Darth Vader, the Sith Lord who turns out to be (three-decade-old spoiler alert) his father. Beyond the movies, Iger needed to know Lucasfilm had a stockpile of similarly rich material—aka intellectual property—for more *Star Wars* installments. As any serious aficionado knows, there were always supposed to be nine. But how would Disney assess the value of an imaginary galaxy? What, for example, was its population?

As it turned out, Lucas had already done the cataloging. His company maintained a database called the Holocron, named after a crystal cube powered by the Force. The real-world Holocron lists 17,000 characters in the *Star Wars* universe inhabiting several thousand planets over a span of more than 20,000 years. It was quite a bit for Disney to process. So Lucas also provided the company with a guide, Pablo Hidalgo. A founding member of the Star Wars Fan Boy Association, Hidalgo is now a “brand communication manager” at Lucasfilm. “The Holocron can be a little overwhelming,” says Hidalgo, who obsesses over canonical matters such as the correct spelling of Wookiee and the definitive list of individuals who met with Yoda while he was hiding in the swamps of Dagobah.

The clandestine talks eventually led to the announcement last October that Disney would pay \$4 billion for Lucasfilm, thus putting the *Star Wars* heroes and villains into the same trove of iconic characters as Iron Man, Buzz Lightyear, and Mickey Mouse. Disney sent excitable *Star Wars* fans into a frenzy by unveiling a plan to release the long-promised final trilogy starting in 2015. Their enthusiasm reached a crescendo in January when J.J. Abrams, director of the acclaimed 2009 rebooting of *Star Trek*, signed on to oversee the first film. “It’s like a dream come true,” gushes Jason Swank, co-host of RebelForce Radio, a weekly podcast.

The deal fit perfectly into Iger’s plan for Disney. He wants to secure the company’s creative and competitive future at a time when consumers are inundated with choices, thanks to a proliferation of cable television networks and the ubiquity of the Internet. “It’s a less forgiving world than it’s ever been,” he says. “Things have to be really great to do well.” Part of Iger’s strategy is to acquire com-

panies that could be described as mini-Disneys such as Pixar and Marvel—reservoirs of franchise-worthy characters that can drive all of Disney’s businesses, from movies and television shows to theme parks, toys, and beyond. Lucas’s needs were more emotional. At 68, he was ready to retire and escape from the imaginary world he created—but he didn’t want anybody to desecrate it.

**“I’ve never been that much of a money guy,” Lucas says. “I’m more of a film guy, and most of the money I’ve made is in defense of trying to keep creative control of my movies.”** Lucas is speaking by phone, giving a reluctant interview about the sale of Lucasfilm. He tells the familiar story about how he didn’t set out to be rich and powerful. He just wanted to make experimental movies like *THX-1138*, set in a futuristic world where sex is illegal, drug taking is mandatory, and brutal androids make sure people comply with the rules.

Lucas had a searing experience with *THX-1138*. Warner Bros. took the movie out of his hands and recut it before it was released in 1971. Universal did the same thing with his next film, *American Graffiti*, set in his hometown of Modesto, Calif. But unlike *THX-1138*, *American Graffiti* was a hit.

Lucas, still smarting from the way the studios treated his previous movies, decided to take a different approach with his next project, *Star Wars Episode IV: A New Hope*. He turned down a \$500,000 fee to direct his own script, instead asking for \$50,000 and the rights to all sequels. *Episode IV*, which opened in 1977, and the following two movies have grossed a combined \$1.8 billion, including rereleases. After that first trilogy, Lucas was wealthy enough to do whatever he pleased. He could produce director Paul Schrader’s *Mishima: A Life in Four Chapters*, a brooding art film with a Philip Glass score that made only \$500,000 at the box office. Or he could produce a television series about the early years of Indiana Jones, the swashbuckling archaeologist he created with Steven Spielberg. Unlike *Raiders of the Lost Ark*, *The Young Indiana Jones Chronicles* were intended to be history lessons. In one episode, Young Indiana would befriend Sidney Bechet, the seminal New Orleans saxophonist, and learn to play jazz.

In the early 1990s, Lucas pitched the show to Iger, who’d risen from TV weatherman in upstate New York to chairman of ABC. They met at Skywalker Ranch, Lucas’s 6,100-acre property in Marin County, Calif. Iger had misgivings, but Indiana Jones was one of the most popular movie characters of all time. “I wanted it to work very badly,” Iger says. “It was George Lucas, come on.” Iger green-lighted the series

# “IT’S A LESS FORGIVING WORLD...” SAYS IGER. “THINGS HAVE TO BE REALLY GREAT TO DO WELL”

and kept it on ABC for two seasons even as it failed to find an audience and solidify creatively. “It struggled,” Lucas says of *Chronicles*. “But he was very supportive of the whole thing.”

Lucas released *Star Wars Episode I: The Phantom Menace* in 1999. Combined, the three films in the second trilogy would gross \$2.5 billion, but many fans thought they were a mess. They were particularly appalled by the bumbling Jar Jar Binks from the planet Naboo, a creature with an inexplicable Jamaican accent who became the butt of jokes on *South Park* and *The Simpsons*.

The criticism got to Lucas. He found it difficult to be creative when people were calling him a jerk. “It was fine before the Internet,” he says. “But now with the Internet, it’s gotten very vicious and very personal. You just say, ‘Why do I need to do this?’” At the same time, Lucas was reluctant to entrust his universe to anyone else. “I think he felt like he was a prisoner of *Star Wars*, and that only intensified over the years,” says Dale Pollock, author of *Skywalking: The Life and Films of George Lucas*.

Meanwhile, Iger continued to rise at ABC. After Disney bought the network in 1996, Iger became Disney Chairman Michael Eisner’s heir apparent. For nearly a decade, Iger remained in the shadow of his overbearing mentor. But, by 2005, Disney was in trouble. Its once-powerful animation department hadn’t had a hit in years, and the combative Eisner had alienated many shareholders. Disney’s board asked Iger to take over. He was widely underestimated at the time—including by this magazine, which described him as a “bland, scripted CEO” whom no one would call “a big strategic thinker.”

Iger, however, proved to have a very clear vision. He understood that Disney’s success rested on developing enduring characters. This was a strategy Walt Disney pioneered with Mickey Mouse and Grimm’s Fairy Tales heroines Snow White and Cinderella. More recently, Disney translated *The Lion King*, a hit animated movie, into a long-running Broadway show. *Pirates of the Caribbean*, a theme

park ride, became a movie series and drove sales of related books and video games.

Iger accelerated that process by making acquisitions. The first was the \$7.4 billion purchase of Pixar Animation Studios in 2006. Iger personally negotiated the deal with Steve Jobs, who was then Pixar’s CEO. As part of the deal, Iger kept the creative team, led by John Lasseter, in place and allowed them to continue to operate with a minimum of interference in their headquarters near San Francisco. “Steve and I spent more time negotiating the social issues than we did the economic issues,” Iger says. “He thought maintaining the culture of Pixar was a major ingredient of their creative success. He was right.”

The transaction gave Disney a new source of hit movies. Jobs also became a Disney board member and its largest shareholder. Periodically he would call Iger to say, “Hey, Bob, I saw the movie you just released last night, and it sucked,” Iger recalls. Nevertheless, the Disney CEO says that having Jobs as a friend and adviser was “additive rather than the other way around.”

In 2009, Iger negotiated a similar deal for Disney to buy Marvel Entertainment for \$4 billion. Once again, Iger kept the leadership intact: Marvel CEO Isaac Perlmutter and Marvel studio chief Kevin Feige. He thought Disney would profit from their deep knowledge of the superhero movie genre. While the Marvel acquisition didn’t involve a celebrity like Jobs or Lucas, it’s paid off handsomely. Last year, Disney released *The Avengers*, the first Marvel film it distributed and marketed. The movie grossed \$1.5 billion globally, making it the third-most lucrative movie in history. “It was successful beyond belief,” says Jessica Reif Cohen, a media analyst at Bank of America Merrill Lynch.

Disney may have a light touch with the moviemaking at Pixar and Marvel, but it happily uses their characters and worlds to bolster its other businesses. In June it opened Carsland, a ride based on

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ILLUSTRATIONS BY CHRIS (SIMPSON'S ARTIST)

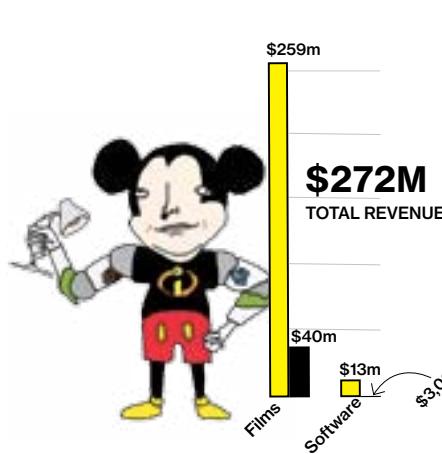
## WELCOME TO DISNEY WORLD

Iger hunts mini-Disneys with troves of branded characters that can be turned into movies, toys, video games, theme park rides, and more. He's bagged three BY ALLISON McCANN



## PIXAR IN 2005

Properties include *Toy Story*, *Finding Nemo*, *The Incredibles*, and *Monsters, Inc.*

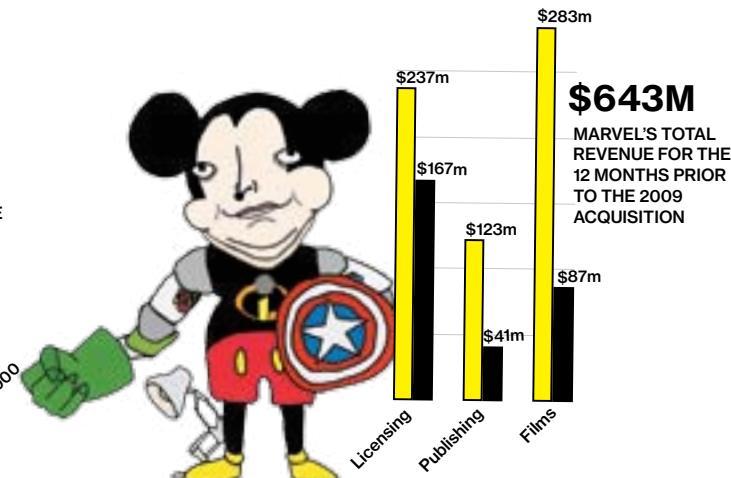


**\$32b**

DISNEY'S REVENUE IN 2005

## MARVEL IN 2009

Properties include costumed heroes Iron Man, Thor, Captain America, and the Hulk

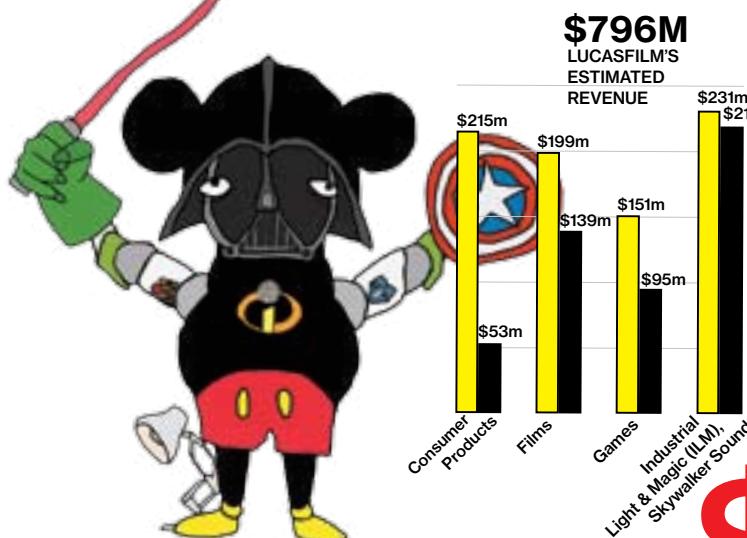


**\$36b**

DISNEY'S REVENUE IN 2009

## LUCASFILM IN 2012

Properties include the *Star Wars* and *Indiana Jones* franchises, along with production studios Industrial Light & Magic and Skywalker Sound



**\$42b**

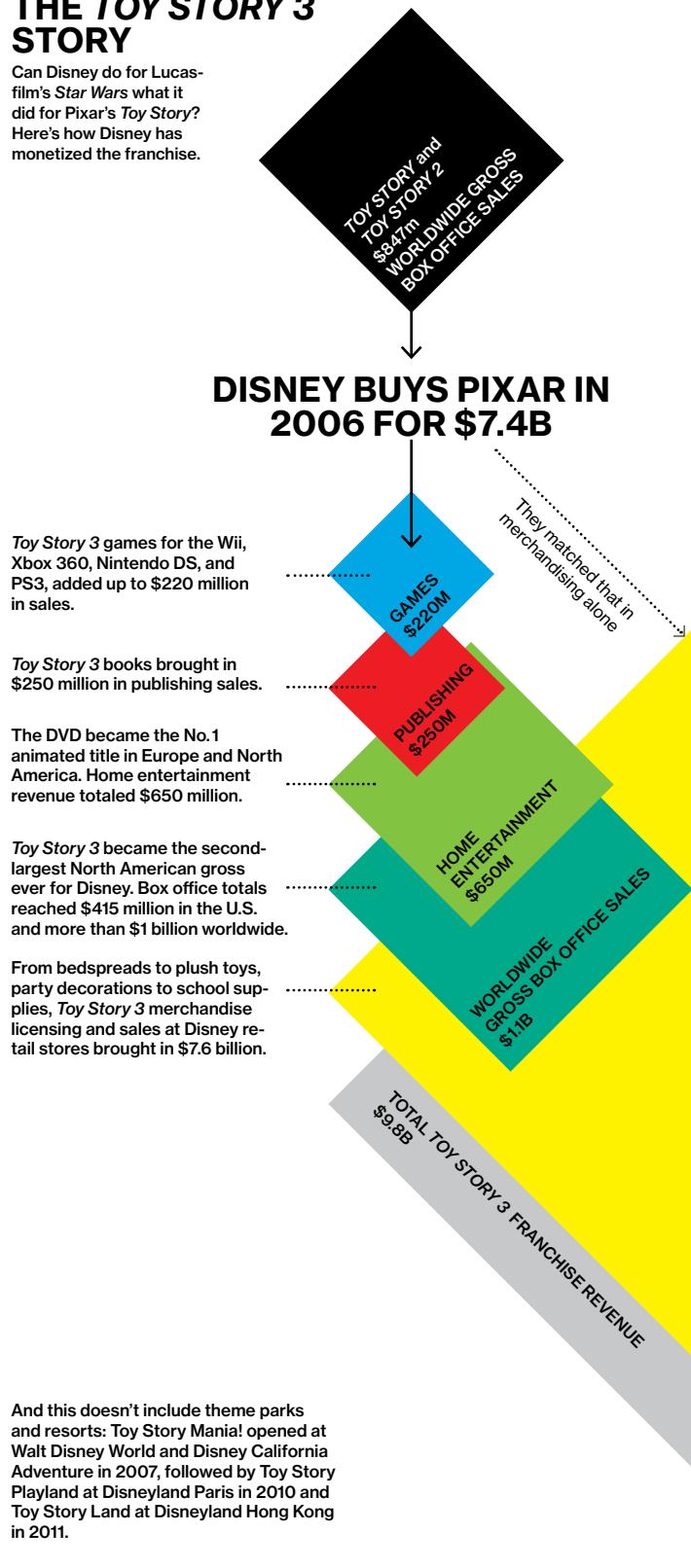
DISNEY'S REVENUE IN 2012

the popular Pixar films, which rejuvenated the once-moribund Disney California Adventure Park in Anaheim. Iger is now considering Marvel theme park attractions in California and overseas. ABC is also developing *S.H.I.E.L.D.*, a prime-time television show about the counterintelligence agency in *The Avengers*.

Not everything Disney's done recently has worked. Last year's *John Carter* was a box office catastrophe, and there will inevitably be more flops to come. It's still the movie business. But Disney's array of character-driven franchises, combined with its non-movie profit centers such as ESPN, have made it into something unusual in the blockbuster/flop economy of Hollywood: a diversified company pro-

## THE TOY STORY 3 STORY

Can Disney do for Lucasfilm's *Star Wars* what it did for Pixar's *Toy Story*? Here's how Disney has monetized the franchise.



ducing reliable growth. In the last three years the company's revenue and operating income have risen steadily, and the stock has doubled since Iger was named CEO in March 2005. What's more, the success of the Pixar and Marvel acquisitions made it possible for Iger to hunt for more mini-Disneys. Lucasfilm was at the top of his list.

In May 2011, Iger flew to Walt Disney World Resort in Florida for the opening of Star Tours: The Adventures Continue, an upgraded *Star Wars* ride offering patrons the illusion of traveling through space to visit planets like Tatooine. Lucas was deeply involved in the attraction, personally reviewing its progress every two weeks for several years.

On the morning of the Star Tours opening, Iger met Lucas for breakfast at the Hollywood Brown Derby, one of Disney World's restaurants. It was closed for the occasion so the two men could speak freely. Fresh from his daily workout, Iger ordered a yogurt parfait. Lucas treated himself to one of the Brown Derby's larger omelets. The two exchanged pleasantries. Then Iger inquired whether Lucas would ever consider selling his company.

Lucas replied that he'd recently celebrated his 67th birthday and was starting to think seriously about retiring. So perhaps the sale of his company was inevitable. "I'm not ready to pursue that now," he told Iger. "But when I am, I'd love to talk."

Iger did his best to conceal his excitement and told him to "call me when you're ready." Then it was time for the two to arm themselves for a mock light saber battle to open the attraction. They joined an actor in a Darth Vader costume on a stage before several hundred cheering *Star Wars* fans. Iger was impressed by Lucas's skills. "He just has this way of carrying that light saber," Iger recalls. "He was more adept at using it than me."

Lucas had paid close attention to how Disney had handled Pixar, which he still refers to as "my company." He founded it as the Lucasfilm Computer Division in 1979, and sold it to Jobs six years later. He calls Disney's decision not to meddle with Pixar "brilliant." If he sold Lucasfilm to Disney, he figured there might still be a way to retain some influence over his fictitious universe. Much would depend on who ran Lucasfilm after he retired.

He invited Kathleen Kennedy to lunch in New York. She was one of the founders of Amblin Entertainment, which produced a long line of hits including Steven Spielberg's *Jurassic Park* and *Schindler's List*, and had been Lucas's close friend for more than two decades. "I suppose you've heard that I'm moving forward fairly aggressively to retire," Lucas told her.

"Actually, no," she said.

Lucas asked if she was interested in taking over Lucasfilm. Kennedy may have been blindsided by the news, but she happily accepted the position. "When Kathy came on, we started talking about starting up the whole franchise again," he says. "I was pulling away, and I said, 'Well, I've got to build this company up so it functions without me, and

# "I'VE WORKED AT THIS FOR 40 YEARS, AND I'VE BEEN PRETTY SUCCESSFUL," LUCAS SAYS. "I MEAN, I COULD HAVE SAID, 'FINE, WELL, I'LL JUST SELL THE COMPANY TO SOMEBODY ELSE'"

we need to do something to make it attractive.' So I said, 'Well, let's just do these movies.'"

Lucas and Kennedy hired screenwriter Michael Arndt, who won an Oscar for *Little Miss Sunshine*, to begin work on the script for *Episode VII*. They enlisted Lawrence Kasdan, who wrote the screenplays for *The Empire Strikes Back* and *Return of the Jedi*, to act as a consultant. Lucas started talking to members of the original *Star Wars* cast, such as Mark Hamill, Carrie Fisher, and Harrison Ford, about appearing in the films. In June 2012, he called Iger.

In the five months of negotiations that followed, Lucas argued that the best people to make the next *Star Wars* trilogy would be his longtime Lucasfilm executives. "I had a group of very, very talented people that had worked for the company for many, many years and really knew how to market *Star Wars*, how to do the licensing and make the movies," Lucas explains. "I said, 'I think it would be wise to keep some of this intact. We need a few people to oversee the property, you know, who are just dedicated to doing that, so we're sure we get this right.'"

Iger understood Lucas's concerns. "George said to me once that when he dies, it's going to say 'Star Wars creator George Lucas,'" he says. Still, Iger wanted to make sure that Lucas, who was used to controlling every aspect of *Star Wars*, from set design to lunchboxes, understood that Disney, not Lucasfilm, would have final say over any future movies. "We needed to have an understanding that if we acquire the company, despite tons of collegial conversations and collaboration, at the end of the day, we have to be the ones who sign off on whatever the plans are," says Alan Horn, chairman of Walt Disney Studios.

Lucas agreed, in theory. The reality of giving up control weighed on him, though. At the end of every week before she flew home to Los Angeles, Kennedy says, she asked Lucas how he was feeling. Sometimes he seemed at peace. Other times, not. "I'm sure he paused periodically to question whether he was really ready to walk away," she says.

At first Lucas wouldn't even turn over his rough sketches of the next three *Star Wars* films. When Disney executives asked to see them, he assured them they would be great and said they should just trust him. "Ultimately you have to say, 'Look, I know what I'm doing. Buying my stories is part of what the deal is.' I've worked at this for 40 years, and I've been pretty successful," Lucas says. "I mean, I could have said, 'Fine, well, I'll just sell the company to somebody else.'"

Once Lucas got assurances from Disney in writing about the broad outlines of the deal, he agreed to turn over the treatments—but insisted they could only be read by Iger, Horn, and Kevin Mayer, Disney's executive vice president for corporate strategy. "We promised," says Iger. "We had to sign an agreement."

When Iger finally got a look at the treatments, he was elated. "We thought from a storytelling perspective they had a lot of potential," he says.

At the end of October, Iger arranged for Lucas to fly down to Disney's Burbank headquarters and sign the papers. He thought Lucas seemed melancholy. "When he put that pen to the piece of paper, I didn't detect a hesitation," Iger says. "But I did detect there was a lot of emotion. He was saying goodbye."

Iger, on the other hand, was giddy. The day after the deal closed he went trick-or-treating with his family. "I was Darth Vader," he says.

"I felt a disturbance in the Force, as if millions of geeks were shocked in an instant," tweeted one ecstatic fan boy the day the news broke. It was a common refrain. The fans, too, had watched what happened when Disney bought Pixar and Marvel and many felt that the company could be trusted with R2-D2 and Princess Leia. "Their handling of the Marvel properties has given them a lot of geek cred," says Swank, the RebelForce Radio co-host.

Iger's willingness to let Lucasfilm remain intact with Kennedy at the helm paid off almost immediately. Before the deal closed in late December, she reached out to J.J. Abrams's agent to see if he would direct *Episode VII*. "He was very quick to say, 'No, I don't think I want to step into that,'" she says. "He was immersed in finishing [*Star Trek Into Darkness*, the sequel to his first *Star Trek* movie]. He felt that he might be exploring territories that were too similar."

Kennedy persisted. She visited Abrams at the Santa Monica headquarters of Bad Robot, his production company, with Arndt and Kasdan. "By the time we finished, which was a couple of hours later, he had really gone 180 degrees," she says.

"To be involved in this next iteration of the *Star Wars* series is more exciting than I can talk about," says Abrams.

Lucas announced in January that he was engaged to Mellody Hobson, a Chicago money manager, and he has been spending much of his time in her hometown. Even so, he's attended story meetings for the new film, adjudicating the physical laws and attributes of the *Star Wars* universe. "I mostly say, 'You can't do this. You can do that,'" Lucas says. "You know, 'The cars don't have wheels. They fly with antigravity.' There's a million little pieces. Or I can say, 'He doesn't have the power to do that, or he has to do this.' I know all that stuff."

Asked whether members of the original *Star Wars* cast will appear in *Episode VII* and if he called them before the deal closed to keep them informed, Lucas says, "We had already signed Mark and Carrie and Harrison—or we were pretty much in final stages of negotiation. So I called them to say, 'Look, this is what's going on.'" He pauses. "Maybe I'm not supposed to say that. I think they want to announce that with some big whoop-de-do, but we were negotiating with them." Then he adds: "I won't say whether the negotiations were successful or not."

Iger is busy readying the machinery that will crank out *Star Wars*-related toys and theme park attractions and whatever Disney deems as appropriate franchise exploitation. He says he's looking to expand sales of *Star Wars* merchandise overseas and that ABC and Lucasfilm are discussing a live-action TV series. At the same time, Iger says he doesn't want to do anything that might detract from the upcoming movies. "I don't want to overcommercialize or overhype this," he says. "It's my job to prevent that."

The Lucasfilm acquisition could turn out to be Iger's last big move at Disney. He plans to step down as CEO in 2015, although he'll remain chairman for another year. Merrill Lynch's Cohen doesn't expect Disney to do any large deals between now and then. "I think it's going to be a period of reaping the benefits of the deals Bob has already done," she says.

Iger seems to be doing just that. There's a table in his office decorated with Disney artifacts, including two light sabers. "People have been sending me lots of these," he chuckles. He picks one up and waves it at an imaginary foe. "I'm getting better at this." **E**

—With Christopher Palmeri