Making Disney Pixar Into A Learning Organization

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This study examines how leadership, teamwork, and organizational learning can contribute in making mergers and acquisitions work. Our intention is to identify critical factors and practices needed for merger success. Our research is part of an ongoing project, and builds on previous analysis of merger success/failure in such organizations as Standard Oil, Exxon Mobile, and Time Warner-AOL.

In this paper, we turn our attention to the recent merger of Pixar and Disney. In our view, the Disney-Pixar case seems to be a good example of a successful merger in progress. This is demonstrated very clearly by recent box office successes such as Academy Award winners Ratatouille, WALL-E, and the current hit UP! Our analysis will show how leadership, teamwork, and organizational learning have led to this success, in an area where failures seems to be the norm.

Why Merge?

Mergers and acquisitions have been with us for a long time, and represent a normal part of organizational growth and development in the business environment. Through mergers and acquisitions, organizations can gain access to technology, resources, knowledge workers, as well a market share. In 2007, the global value of mergers and acquisitions hit an all time high of $4.5 trillion. This was 24% higher than the previous year. According to Reuters (9/21/07), the first nine months of 2007 saw a 37% increase in global M&A activity over the record year of 2006. Although the recent economic recession has decreased the number of mergers, prospects for 2009 are seen as representing good deals and opportunities. Unfortunately, the overall record of M&A’s indicates that most mergers end up in failure.

Understanding Why Most Mergers Fail

According to Lundberg (2001) corporate combinations fail to achieve their anticipated benefits 70% of the time. Research conducted by Harding and Rovit (2004) involving over 50 case studies, 15 years of merger and acquisition data, and surveys of 250 senior executives found a 70% failure rate. The response rates for failure are attributed to the following problems:

1. Ignoring potential integration challenges (67%)
2. Over-estimating expected synergies (66%)
3. Having problems with the integration of management teams and/or retaining key managers (61%).
Here, an interesting question comes to mind: if the failure rate for mergers is so high, why do businesses (80% of the Fortune 100 over the past 20 years) continue to engage in mergers and acquisitions? One answer is given by De Backer:

“Most CEOs today recognize that their businesses can't succeed without acquisitions. Companies need to add new capabilities to find the next wave of profitable growth, and the vast majority will think that an acquisition is the most efficient way to deliver what they are looking for. Yet acquisitions can be treacherous. In buying their way to growth, many companies lose sight of the fundamental rules for making money in their industries” (De Backer, 2004:1).

Harding and Rovit, from Bains and Company, consider M&A’s as a necessary growth option for many companies: “Unless you have a killer business model ... it's virtually impossible to build a world class company without doing deals.” (Harding and Rovit, 2004). Most of these deals however, are built on the assumptions of conventional economic theory, an approach that makes merger success difficult to attain.

Why Conventional Economic Theory Fails:

Conventional economic theory and the Resource-Based View (RBV) of business strategy do not effectively address the problems mentioned above. Instead, the importance of firm-specific knowledge is recognized as either a factor of production, or a resource that creates value. Often competitors merge without creating market power, but still profit by leveraging the combined proprietary knowledge of the merged firms.

By combing different companies, each business organization saves both time and money, learning what the other firm knows about the technology, production, and marketing of expanded operations that result from the merger. The evolution of a business, learning to be more efficient and effective, is complex. Copying another organization’s proprietary knowledge is also quite difficult. It is thus easier to acquire another firm’s organizational learning by simply buying the company (Haley, 1986).

According to the RBV view of competitive advantage, counting copyrights, trademarks, patents, manufacturing plants, stores, employees and market share, are “good” measures of success. From this perspective, M&A activity becomes similar to playing monopoly with companies accumulating tangible resources. If this is the case then, why not simply count the number of deals that a company does? Clearly this view misses the point, because most merger deals end in failure.
The resource based view (RBV) of a firm’s performance has evolved to incorporate intangible resources that possess inimitability, variety, and non-tradability (Cho & Pucik, 2005:556). But empirically it is hard to find confirmation of this more sophisticated RBV model of sustainable competitive advantage, (Newbert, 2002). Competitive advantage however, is a dynamic, not a static concept.

The failure of the conventional approach lies in its inability to explain how individuals, teams, and organizations actually learn, and how they interact in dynamic, and often times chaotic environments. Let’s look at an example of merger failure.

**AOL-Time Warner: A Classic Failure**

A classic example of failure was the unsuccessful combination of AOL Time Warner. In order to resolve the litigation claims that resulted from the merger, Time Warner paid shareholders over $3 billion for misleading them about the value of the deal. Share holders suffered even more, as stock prices plummeted from the time the merger was first announced.

A major part of the failure of this merger was the fact that developing a “learning culture” was never considered, and no strategic vision was created for the newly merged organizations. For example Time Warner Cable’s high speed Internet services, Road Runner, as part of its profitable cable operations was never integrated with AOL as Case explained in his 2005 article in the Washington Post (6/ 11/05: B01). The first AOL Time Warner Annual Report (2000) claimed that it was fostering “… a nimble, entrepreneurial culture that recognizes that it can only succeed if everyone supports the new organization based on a shared set of values and common goals.” Unfortunately, the team-work necessary to integrate the two companies never happened, because there was no shared strategic vision of what the merger should be, and where it would be going.

**Merger Failure and the Need for a Culture of Learning**

According to some estimates, 85% of merger failures are related to the mismanagement of cultural issues. Awareness of cultural differences is then seen as an issue of primary concern when organizations merge. According to Miller (2000:8):

> “Once you develop an understanding of the current culture, and have compared that with the goals of the merged organization, it is time to think through what it will take to implement that strategy. This process requires consideration of a number of factors, including organizational structure, operating and decision-making apparatus, reward systems, and people related issues.”
From a systemic perspective, organizational culture is intended to create shared identity, shared purpose, and shared vision among organizational members so that they can together function with optimum flexibility and creativity in the realization of organizational goals and objectives.

In our view, merger success can be greatly enhanced when organizational culture is based on learning. When this happens, continuous interaction with internal and external environmental changes can effectively and efficiently take place. Internal conflicts can be better managed, and necessary adaptations to changing environments can be made.

**Identifying Major Factors for Merger Success**

Failure however, need not be the fate of organizational mergers. Our previous analysis of mergers has revealed the following conditions enhancing the prospects for merger success (Haley and Sidky, 2005):

A. The existence of transformational leadership

B. The creation of a new shared strategic vision

C. The development of learning teams and organizational learning

D. The creation of a learning culture

**A. Transformational Leadership and Organizational Learning at Disney Pixar**

Transformational leaders are necessary for creating the organizational environment and culture needed for growth, and for encouraging the development of creative thinking and problem solving. Transformational leadership recognizes the central importance of knowledge workers in their acquisition of competing firms and businesses, as well as the importance of product and process technology compatibility. Transformational leadership provides a clear vision of the future. It can encourage the organization to change more rapidly in meeting the challenges of dynamic and competitive environments (Tichy & Ulrich, 1984; Crossan & Vera, 2004).

At Disney Pixar, the functions of transformational leadership are well defined. In this organization, creative power comes from creative leadership. Leadership builds the support structures, the necessary resources, and access to an organization wide brain trust led by John Lasseter and other directors on the Steering Committee. (Exhibit 1.)

To successfully manage the changes resulting form the merger, Disney wanted Steve Jobs, the head of both Pixar and Apple, to join Disney as a corporate
director and Disney’s largest shareholder. Commenting on Jobs and the Disney Pixar merger, Safo, a director at the Institute for the Future says: “He’s the only guy who has applied systems thinking to media, he’s the only person who bridges both hardware and software,” (The New York Times, January 21, 2006: B6).

**B. Sharing a New Strategic Vision**

The chances for merger success can be enhanced greatly if merging organizations can develop a shared vision of goals and objectives. This gives direction, reduces the anxieties and uncertainties related to the merger process, and provides a unified game plan for meeting the challenges facing the newly merged organizations.

In our view, effective and efficient organization learning can emerge if there are diverse learning teams, led by leaders sharing a common strategic vision, and embedded throughout the organization. From this, organizations can create sustainable competitive advantage. This makes it possible to manage the increased complexity of economies of scale and scope in a unique way, and making it more difficult for competitors to easily copy. Mergers and acquisitions represent a means to accelerate this process.

This process seems to be happening in the Disney-Pixar merger where a formal team of leaders has been created to integrate Pixar with Disney. One result has been the appointment of Pixar Vice President, Lasseter, as the chief creative officer of the Pixar and Disney animation studios. He has the authority to “green light” films for both studios, although Disney CEO Iger has the final approval. To ensure these two leaders can effectively work with each other, a steering committee has been created which includes Iger, Jobs, and Lasseter. Their task is to oversee feature animation at both studios, and to help maintain the Pixar “culture”.

Making mergers work however, requires more than a team of leaders. Success depends on the emergence of learning teams throughout the new organization, and committed to implement the strategic vision of the merger. Pixar’s “brain trust” of seven directors and creative executives are also listed as company assets, and the agreement requires that a majority of them agree to join the combined company. Those employees include "Finding Nemo" director Andrew Stanton; "Monsters, Inc." director Pete Docter; "The Incredibles" director Brad Bird; director/writer Bob Peterson; story artist Brenda Chapman; editor Lee Unkrich; and sound designer Gary Rydstrom (see Exhibit 2). This seems to be a formal way for uniting the leadership of both organizations with a new shared strategic vision of what Disney Pixar should be.
C. The Importance of Team Learning

Peter Senge defines team learning as “…the process of aligning … the capacity of a team to create the results its members truly desire. It builds on the discipline of developing shared vision. It also builds on personal mastery, for talented teams are made up of talented individuals.” (Senge, 1990:326).

The prospects for merger success can be greatly enhanced when organizational learning and learning teams are recognized as essential for merger success. Diverse learning teams, led by a team of leaders sharing a strategic vision, can be embedded throughout the organization. At Pixar, this takes place in very creative ways. Ed Catmull describes the relationship between learning teams and management in a 2007 speech at Stanford’s Graduate School of Business Entrepreneurship Conference:

“Pixar trusts the teams they build to do their jobs and gives them the freedom to do them well. Executives don’t go to story meetings, they recognize that is a job they’ve hired artists for and they trust the artists to do it. There is little micromanagement.

More than just managerial style, everything at Pixar is designed to encourage collaborative and efficient work, even the building layout.” (Gilbert, 2007:1).

Pixar recognizes the role of building layout as an important way for encouraging personnel interaction: “Most buildings are designed for some functional purpose, but ours is structured to maximize inadvertent encounters,” Catmull writes. “At its center is a large atrium, which contains the cafeteria, meeting rooms, bathrooms, and mailboxes. As a result, everyone has strong reasons to go there repeatedly during the course of the workday. It’s hard to describe just how valuable the resulting chance encounters are.” (Silverthorne, 2008:1).

Creativity lies at the center of team activities. This includes not only the hiring of talented people, but also conducting on-going training and education for animators at Pixar University. Here, new and existing animators take three-month long courses, always looking for new and improved animation technologies (Pixar.com). It is no wonder that Disney Pixar films have won numerous Academy Awards and nominations in multiple areas (see Appendix 3).

D. Creating a Culture of Learning:

Conventional management practice usually establishes a top-down, bureaucratically controlled, and narrow focused approach. This limits learning to the achievement of pre-determined objectives. A learning organization however,
while requiring a sense of direction, also creates a “space in which many possible actions and behaviors can emerge, including those that can question the limits being imposed” (Morgan, 1997:95). Successful mergers and acquisitions, which bring together competing organizations, need to find this “space”, in order to determine which organizational norms are necessary for the continuing growth and development of the new organization, and which norms have to be pushed aside.

An important part of effective and efficient learning is the development of structures and processes that can create this space, and institutionalize a culture of learning, thus moving towards the creation of a learning organization. Becoming a learning organization allows a system to explore new directions for growth and development, making it possible to handle challenges and problems in ways beyond pre-determined organizational norms, goals, and objectives.

Merging organizations can benefit greatly by striving towards becoming a learning organization. This involves moving away from what Argyris and Shon (1978) called “single-loop learning”, to a more dynamic “double-loop learning” environment. Single-loop learning involves the ability to detect errors and make corrections relative to pre-established operating norms. Dodgeson (1993:8) considers single-loop learning as related to activities which “add to the knowledge base or firm-specific competencies or routines of the firm without altering the nature of their activities.” Firm-specific competence is seen as “individual to the particular firm, and is a crucial factor in affecting their competitiveness.

Double-loop learning on the other hand, adds an additional step to the learning process by incorporating means and methods through which the operating norms of an organization can be questioned. (Dodgeson, 1993:8) sees double-loop learning as involving “changing the firm’s specific competencies and routines. In double-loop learning, the organization must have the ability to ask serious questions regarding its operating norms.

Morgan (1997:92-93) presents some of these questions:

1. What business are we in, is it the right business?
2. Can we create fundamentally new products and services?
3. Can we redefine the boundaries between different industries and services so that new niches emerge?
4. Can we structure our organization around business processes that reflect a customer viewpoint rather than the influence of traditional department structures?
5. Can we redesign business processes in a way that will increase the quality of production and reduce costs?
6. Can we replace our organizational hierarchy with a network of self-managing teams?
Gareth Morgan says that “all these questions contain a double-loop learning potential because they invite the questioner to examine the status quo and consider alternative modes of operation. These kinds of questions encourage us to understand the key organizational attributes from the standpoint of a new frame” (Morgan, 1997:93).

Becoming a learning organization is not an easy task, and requires the internalization of the learning process, and the institutionalization of organizational learning. In this way, organizations can anticipate and plan for change, instead of simply reacting to change. In this day and age of increasing chaos and uncertainty in the global economy, such flexibility, and proactivity can be major instruments for ensuring sustainable goals and objectives. Ed Catmull describes how this process is taking place at Pixar: “Pixar is a community in the true sense of the word. We think that lasting relationships matter, and we share some basic beliefs: Talent is rare. Management’s job is not to prevent risk but to build the capability to recover when failures occur. It must be safe to tell the truth. We must constantly challenge all of our assumptions and search for the flaws that could destroy our culture.” (Catmull, Harvard Business Review, September 2008). This is double-loop learning in action, within a dynamic culture of learning.

Creating Synergies for Future Success

In our view, the Disney Pixar merger represents a good example of how necessary “synergies” for success can be created through the merger process. Costing $7.4 billion in stock, this combination seeks to backward integrate Disney’s distribution and production of traditional animation with Pixar’s advanced technologies. The merger also set up a "steering committee" whose job is to oversee feature animation at both studios, and to help maintain the Pixar "culture," among other duties. The committee consists of Disney/Pixar Animation President Edmond Catmull, Lasseter, Jobs, Iger, Walt Disney Studios Chairman Dick Cook, and Disney Chief Financial Officer Tom Staggs. The Steering Committee must meet at Pixar headquarters at least one full day every other month (see Appendix 4).

The merger agreement protects Pixar’s right to eschew employment contracts, and mandates that the studio continue to be called Pixar. The branding of films made after the merger is finalized will be changed to "Disney Pixar.” The ground breaking animation company will, however, stay in Emeryville, California, with a sign at its gate that "shall not be altered" from "Pixar," the agreement said” (Keating, 2006). So far, it appears that Disney is leveraging the technology of Pixar’s creative talent by protecting their autonomy from the rest of Disney. In this way, the creative culture of Pixar is preserved by being structurally separated from the Disney side (Puranam & Srikanth, 2007; Haspeslagh & Jemison, 1991).
Creating the Conditions for a Successful Merger

Before Disney and Pixar could learn the lessons for creating a learning culture, they had to share space just to talk to each other. Ironically, the Disney Pixar merger almost never happened. Both companies broke off talks concerning the extension of their distribution agreement in 2004. This was primarily due to a strained relationship with Jobs, the largest investor in Pixar, and Disney’s former CEO, Eisner. With the demise of Eisner in 2005, the new Disney CEO, Iger, extended an olive branch to Jobs. This ultimately led to the $7.4 billion merger with Pixar, and made Jobs the largest investor in Disney Pixar.

The merger between Disney and Pixar has also created what seems to be an evolving partnership between Disney and Apple, providing more space to collaborate. Disney now has agreements in place to sell hit ABC prime time shows, such as “Desperate Housewives”, as well as content from ABC sports and ESPN on Apple’s popular iTunes music and video store. The 2006 Disney Pixar Annual Report states, “With our groundbreaking deals last year to make our television shows and movies available on iTunes, as well as our new on-demand services provided through ABC.com and DisneyChannel.com, we have been at the forefront of responding to the consumer”.

Teamwork, leadership, and integration are continuing to make the Disney Pixar merger work. Disney has been working with Pixar for years distributing box-office hit movies such as Toy Story, Monster’s Inc., and Finding Nemo to name a few. In this way, Disney and Pixar have come to know how to work together, learning to integrate on many levels, and still preserving their particular identities. For example, Pixar’s smash hit Cars characters are available for purchase on Disneystore.com.

The Disney owned TV network ABC has made many of its hit television shows available exclusively on Apple’s subscription download site, iTunes. Walt Disney Records is making its music, as well as its soundtracks from both classic Disney films and Disney Pixar animated films, exclusively available on iTunes. This level of synergy creates value that is reflected in Disney Pixar’s stock price. This has significantly appreciated since the merger was announced in January of 2006. Steve Jobs, as Apple’s CEO and Disney Pixar’s director, brings proven leadership and additional integration ideas to the newly merged company. His leadership has the potential to make the merger work, and create the possibilities for the creation of synergy between Disney, Pixar, and Apple.

Mergers and acquisitions can make an organization that is willing to learn, become aware that new and better ways of doing business are possible. In order
to sustain the advantage of a learning organization, so-called intangibles like leadership, strategy, team work, and organizational culture still matter. At Disney Pixar these intangibles seem to be materializing with the merger. Its policies, reported to the Securities Exchange Commission (SEC), clearly define how its team of leaders in the steering committee works with the learning team of the brain trust in creating Disney's future (See Appendix 2).

**Future Prospects and Challenges: Is the Disney-Pixar Merger Sustainable?**

Our preliminary study of the Disney Pixar merger indicates that serious steps are being taken towards the creation of a learning culture in which both companies can experience synergized creativity. It remains to be seen whether this culture of learning can be sustained.

At this writing, the Disney-Pixar combination seems to have the necessary ingredients for successfully sustaining their merger for years to come. But important challenges and problems remain. Serious questions need to be asked regarding the sustainability of this merger:

1. Can the Steering Committee members continue providing the transformational leadership needed to keep the two companies together?
2. Can the culture of learning be institutionalized throughout the new company?
3. Can the new company keep Pixar's creative talent together?
4. Can the unionized culture of Disney co-exist with the non-unionized Pixar?
5. Will keeping the two parts of the Disney-Pixar merger as separate organizations create the conditions for future separation?

These questions and others will be considered in our continuing research into the Disney-Pixar merger. So far, the merger of the two organizations seems to be working as demonstrated by a 10 for 10 string of hit movies including Ratatouille, WALL-E, and their new hit film *UP!* It seems that the Disney-Pixar merger is putting the magic back into Magic Kingdom.

**REFERENCES**

AOL Time Warner Annual Report 2000


Pixar Animation Studios (2009) Pixar.com


Reuters (September 21, 2007)


http://python.rice.edu/~arb/Courses/750_04chapter10.pdf
Exhibit 1

Disney Steering Committee\textsuperscript{1}

John Lasseter, Chief Creative Officer.
Steve Jobs, Disney Board of Directors
Robert Iger, Disney CEO
Dick Cook, Walt Disney Studios Chairman
Tom Staggs, Disney Chief Financial Officer
Edwin Catmull, President of Pixar and Disney Animation

Exhibit 2^2

Pixar’s Brain Trust

- *Finding Nemo* director, Andrew Stanton
- *Monsters, Inc., Up*, director, Pete Docter
- *The Incredibles* director, Brad Bird
- Director/Writer, Bob Peterson
- Story artist, Brenda Chapman
- Editor, Lee Unkrich
- Sound Designer, Gary Rydstrom

^2 Disney Annual Report 2004
Exhibit 3\textsuperscript{3}

Pixar Critical and Commercial Successes

**Theatrically Released Films**

<table>
<thead>
<tr>
<th>Film</th>
<th>Year</th>
<th>Director(s)</th>
<th>Writer(s)</th>
<th>Budget</th>
<th>Worldwide Gross (\textdagger)</th>
<th>MC</th>
<th>RT</th>
<th>Length (Min)</th>
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<tr>
<td><em>Toy Story</em></td>
<td>1995</td>
<td>John Lasseter</td>
<td>Andrew Stanton, Joel Cohen,</td>
<td>$30,000,000</td>
<td>$361,996,233</td>
<td>92</td>
<td>100%</td>
<td>77</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Alec Sokolow, Joss Whedon</td>
<td></td>
<td></td>
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<tr>
<td><em>A Bug's Life</em></td>
<td>1998</td>
<td>John Lasseter, Andrew Stanton</td>
<td>Andrew Stanton, Don McEnery, Bob Shaw</td>
<td>$45,000,000</td>
<td>$363,398,565</td>
<td>77</td>
<td>91%</td>
<td>96</td>
</tr>
<tr>
<td><em>Toy Story 2</em></td>
<td>1999</td>
<td>John Lasseter, Lee Unkrich, Ash Brannon</td>
<td>Andrew Stanton, Rita Hsiao, Doug Chamberlain, Chris Webb</td>
<td>$90,000,000</td>
<td>$485,015,179</td>
<td>88</td>
<td>100%</td>
<td>92</td>
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<tr>
<td><em>Monsters, Inc.</em></td>
<td>2001</td>
<td>Pete Docter, Lee Unkrich</td>
<td>Andrew Stanton, Daniel Gerson</td>
<td>$115,000,000</td>
<td>$528,970,172</td>
<td>78</td>
<td>95%</td>
<td>94</td>
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</tbody>
</table>

\textsuperscript{3} 100 is the highest rating for Metacritic, which is a leading critic website.
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<thead>
<tr>
<th>Film</th>
<th>Year</th>
<th>Director</th>
<th>Writers</th>
<th>Budget</th>
<th>Gross</th>
<th>Runtime</th>
<th>Rating</th>
<th>Domestic Box Office</th>
<th>Foreign Box Office</th>
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<tr>
<td>Finding Nemo</td>
<td>2003</td>
<td>David Silverman</td>
<td>Andrew Stanton, Lee Unkrich, Bob Peterson, David Reynolds</td>
<td>$94,000,000</td>
<td>$866,592,978</td>
<td>89</td>
<td>98%</td>
<td>100</td>
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<td>The Incredibles</td>
<td>2004</td>
<td>Brad Bird</td>
<td>Brad Bird</td>
<td>$92,000,000</td>
<td>$635,564,642</td>
<td>90</td>
<td>97%</td>
<td>115</td>
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<tr>
<td>Cars</td>
<td>2006</td>
<td>John Lasseter, Joe Ranft</td>
<td>Dan Fogelman, John Lasseter, Joe Ranft, Kiel Murray, Phil Lorin, Jorgen Klubien</td>
<td>$120,000,000</td>
<td>$461,982,881</td>
<td>73</td>
<td>75%</td>
<td>116</td>
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<td>Ratatouille</td>
<td>2007</td>
<td>Brad Bird, Jan Pinkava</td>
<td>Brad Bird, Jan Pinkava, Jim Capobianco</td>
<td>$150,000,000</td>
<td>$624,445,654</td>
<td>96</td>
<td>96%</td>
<td>111</td>
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<td>WALL-E</td>
<td>2008</td>
<td>Andrew Stanton</td>
<td>Andrew Stanton</td>
<td>$180,000,000</td>
<td>$532,936,655</td>
<td>93</td>
<td>96%</td>
<td>96</td>
<td></td>
</tr>
<tr>
<td>Film</td>
<td>Release date</td>
<td>Director(s)</td>
<td>Writer(s)</td>
<td>Budget</td>
<td>Refs</td>
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<tr>
<td>Toy Story 3</td>
<td>June 18, 2010</td>
<td>Lee Unkrich</td>
<td>Michael Arndt, Andrew Stanton</td>
<td>$175,000,000</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Cars 2</td>
<td>June 24, 2011</td>
<td>Brad Lewis</td>
<td>N/A</td>
<td>N/A</td>
<td>[4]</td>
<td></td>
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Appendix

POLICIES FOR MANAGEMENT OF THE FEATURE ANIMATION BUSINESSES

The following sets forth certain policies and principles which shall be adopted and implemented with respect to the management and operation of the Disney and Pixar Feature Animation Businesses, all of which are subject to the authority of the Disney Chief Executive Officer to take such actions as are in the best interests of the shareholders of Disney.

Management Responsibilities

Edwin E. Catmull shall be the President of Pixar and Disney Animation, heading the combined animation businesses of Disney and Pixar, reporting directly to Robert A. Iger and Richard Cook jointly.

John A. Lasseter shall be the Chief Creative Officer of Pixar and Disney Animation and Walt Disney Imagineering, reporting to Robert A. Iger. John A. Lasseter will have “green lighting” authority for Disney and Pixar feature animation productions, subject to final approval by Disney’s CEO.

Steering Committee

Upon the effective date of the Disney – Pixar merger, a Committee (“Committee”) shall be immediately established to help provide oversight to the Feature Animation Businesses of Disney and Pixar.

The principal objectives of the Committee are: (i) to help maintain the Pixar “culture,” (ii) to help supervise Pixar and Disney Feature Animation, (iii) to oversee Pixar compensation practices and (iv) to approve the film budgets of Pixar, all subject to final approval by Disney’s Chief Executive Officer.

The Committee shall initially consist of the following members: Edwin E. Catmull, John A. Lasseter, Robert A. Iger, Richard Cook, Thomas O. Staggs, and Steven P. Jobs.

It is intended that the Committee will meet at the headquarters of Pixar in Emeryville for at least one full day during every other calendar month.

Pixar Compensation Practices

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Pixar shall retain its existing compensation philosophies and practices, including not using employment contracts, the granting of employee stock options, the maintenance of executive employee bonus plans and employee medical benefits and other fundamental human resource policies and practices for at least five years or such shorter period as the Committee may decide.

Branding Arrangements

Pixar will continue to be called “Pixar”.

The branding of Pixar’s previous films and products will not be altered.

Future films produced by Pixar will be branded Disney Pixar.

Location

Pixar’s operations will continue to be based in Emeryville, California. The Pixar sign at the gate shall not be altered.

Pixar shall retain its existing compensation philosophies and practices, including not using employment contracts, the granting of employee stock options, the maintenance of executive employee bonus plans and employee medical benefits and other fundamental human resource policies and practices for at least five years or such shorter period as the Committee may decide.

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