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Disney Acquires Web Site for Children

By [BROOKS BARNES](#)

LOS ANGELES, Aug. 1 — Racing to solidify its dominant position in children’s entertainment on the Internet, the [Walt Disney Company](#) said Wednesday that it had acquired a subscription Web site aimed at preteenagers, Club Penguin, in a deal that could total \$700 million.

Disney said it would pay \$350 million for Club Penguin, a virtual community that has soared in popularity since its founding in late 2005. More than 700,000 users now pay \$5.95 a month to customize penguin characters and then chat and play games with other “penguins.”

And Disney has agreed to pay the founders, three fathers based in Kelowna, British Columbia, up to \$350 million more by the end of 2009 if the site meets growth targets. “They could earn all of it or none of it,” said Thomas O. Staggs, Disney’s chief financial officer. “The growth they have to achieve is attractive enough that we would be pleased to pay.”

Separately, Disney announced third-quarter earnings, saying that profit for the quarter that ended June 30 had grown to \$1.18 billion, up from \$1.13 billion a year earlier. Revenue increased 7 percent to \$9.05 billion as growth in television, parks and consumer products offset weaker results from the movie studio.

The media giant has been in danger of falling behind on the Web as children flock to an array of upstart sites, and the company has stepped up its online efforts over the last year. In January, it unveiled a mix of features on a redesigned [Disney.com](#), including social networking, games and video. It has also been developing stand-alone gaming sites based on franchises like “Pirates of the Caribbean,” its blockbuster movie series.

Media companies like Disney and [Viacom](#), the owner of Nickelodeon, are being forced to rethink how they reach young people, who often do not see television as the door to the world of movies, toys and video games.

“Kids are starting to go to the Internet first, so it is important for us to operate in that space,” [Robert A. Iger](#), Disney’s chief executive, said in an interview.

Some analysts have been skeptical of Disney’s ability to compete because a handful of smaller companies — Club Penguin being a primary example — have been able to figure out better ways to captivate children online. Mr. Iger said that Disney can “succeed online by growing organically” but that it considered Club

Penguin “too good of a strategic fit” to pass up.

Disney sees strong growth potential for Club Penguin, particularly in Europe and Asia. “While it is not a global brand today, our intent is to make it one,” Mr. Iger said.

Mr. Iger said that Disney plans to integrate Club Penguin with its other businesses, including consumer products and theme parks. Disney certainly wasted no time on the Web: three minutes after Disney announced the purchase, Club Penguin was featured on Disney.com’s home page.

Disney will need to strike a delicate balance when it comes to the main Club Penguin site, some analysts warned. One reason parents allow their children to spend time there is its lack of advertising and corporate feel, which could be sullied by too many promotions.

Another potential pitfall is the fickle nature of the Web, on which today’s popular site can seem stale when a newer one pops up. Viacom’s Neopets, which lets visitors adopt animals from make-believe species, was once an Internet darling but has slowed significantly. Neopets had 4.8 million unique visitors in June, a 16 percent increase over June 2006, according to [comScore](#) Media Metrix.

Club Penguin, by comparison, attracted 4.7 million unique visitors in June, an increase of 159 percent over a year earlier. Such fast growth is important to Disney. Although the company’s business has come back to life over the last two years at its studio, theme parks and media networks, it could now struggle to maintain that growth.

Club Penguin’s founders will continue to manage the site. One of them, Lane Merrifield, will become an executive vice president of Disney’s Internet group. Mr. Merrifield said his first job was operating animatronic insects in a “Lion King” parade at [Disneyland](#). “In building Club Penguin, we constantly looked at how Disney operates its theme parks in terms of creating an atmosphere that continues to evolve and stay relevant,” he said.

He said the company turned down other bidders in part because “all they could offer was money.” With Disney, Mr. Merrifield said, “there was really an existing infrastructure that would help us expand.”

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