

Club Penguin founders strike it rich

Disney pays Kelowna entrepreneurs \$350-million for virtual penguin world

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They may be flightless in the real world but penguins are soaring in the virtual one, as borne out by Walt Disney Co.'s agreement to pay \$350-million (U.S.) for Kelowna, B.C.-based [Club Penguin](#).

The online club lets subscribers take on the identities of penguins that waddle and chat in spots such as a ski hill, custom-furnished igloos and a coffee shop. The deal, announced yesterday, generates a windfall for the company's three founders, who are its only shareholders, and highlights the burgeoning appetite for social networking sites that cater to a preteen audience.

Having fended off multiple offers from venture capital investors and would-be buyers, Club Penguin's creators decided deep-pocketed Disney would be the best partner to help a company based on a flightless bird spread its virtual wings, co-founder Lane Merrifield said yesterday.

"We have been offered a lot of money from a lot of different people at various different points," Mr. Merrifield said on a conference call with reporters.

Lane Merrifield, centre, co-founder and CEO of Club Penguin, holds Puffles along with co-founders Lance Priebe, left, and Dave Krysko at the company office in Kelowna, B.C., Monday, June 25, 2007. Puffles are stuffed toys that members of Club Penguin can buy on the website as pets. Visitors to the Club Penguin site adopt a penguin pet character, then enter an animated world that is a mix of gaming, chat and fantasy. (*Jeff Bassett/CP*)

"For us, this whole decision was based around being able to connect with infrastructure that we wouldn't be able to build on our own and being able to take this thing further, and to more countries and more children around the world than we would be able to on our own."

Club Penguin launched in October, 2005, and now has more than 700,000 subscribers who pay \$5.95 a month or \$57.95 a year. The privately held company does not release financial information, but Mr. Merrifield said it was designed to be self-sustaining from its inception and is profitable.

Founded by Mr. Merrifield, Dave Krysko and Lance Priebe, the site was designed to appeal to youngsters from 6 to 14 and provide an advertising-free zone that features penguin avatars through which subscribers chat, play games to earn cash and decorate their igloos. The founders, who all have children of their own, wanted to create a virtual playground that would emphasize fun and creativity.

As the site snowballed, picking up subscribers in the United States, Britain and across Canada, calls and e-mails started pouring in from would-be investors and purchasers who wanted to join the march of the penguins all the way to the bank.

The Club Penguin partners held out, aiming to find a partner that would respect the company's approach.

"For us, the process of finding the right partner was paramount," Mr. Merrifield said. "We are passionate about this, this is our baby."

Under the terms of the deal, Club Penguin and its current 130 employees will remain in Kelowna. The company's three founders will join Disney, which says it plans "no immediate changes" to the operation or business model of the company.

About 10 per cent of the purchase price will go toward Club Penguin's foundation, which is involved in child-focused charitable work in countries including Uganda, Kenya and Romania, Mr. Merrifield said.

Virtual worlds and immersive environments are key elements of Disney's strategy, said Steve Wadsworth, president of the Walt Disney Internet Group.

"So when something like a Club Penguin comes along, it's a very obvious fit," Mr. Wadsworth said.

Through Disney, Club Penguin hopes to see its waddling birds make inroads into markets in Europe and Asia and possibly branch out with more merchandise or even movies.

"That's going to be something that when the time comes, we will evaluate it, listen to the audience and see if that's something that the kids will want to see," Mr. Merrifield said.

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