

Smith & Tinker Raises Total of \$29M, Looks to Merge Online Games with Collectible Toys Gregory T. Huang 8/25/09

In one of the Seattle area's biggest tech financings this year, Bellevue, WA-based Smith & Tinker has raised a total of \$29 million in venture funding to deliver and market a hybrid game for kids that bridges the online and offline worlds. The latest funding round was led by new investor DCM, based in Silicon Valley, with existing investors Vulcan Capital, Foundry Group, Alsop Louie Partners, and Leo Capital Holdings also participating. The amount of new funding, which closed in July, was not announced—the \$29 million also includes seed and first-round funding raised by the company since its inception in 2007.



Earlier this month, **Smith & Tinker launched its flagship game, Nanovor**—sort of a cross between a collectible card game (like the original Pokemon) and a massively multiplayer online game, only different. I recently visited co-founders Jordan Weisman and Joe Lawandus at company headquarters (pictured above), to see the Nanovor game up-close and to talk about the 50-person company's intriguing strategy for marketing it in the U.S. and abroad.

“This is billed originally as a hybrid, across two \$21 billion industries,” says Weisman, Smith & Tinker's CEO. “It's targeted for ages 6-12. The idea is to merge their online lives with their face-to-face lives.”

The industries he's referring to are video games and traditional toys—and their respective market sizes in the U.S. If anyone can penetrate and bridge those ultra-competitive worlds, it's probably Smith & Tinker. Weisman is a renowned entrepreneur in gaming, with a long record of founding successful companies including FASA, Virtual World Entertainment, WizKids, and 42 Entertainment. He came to Seattle when Microsoft bought FASA Interactive in 1999. Lawandus, for his part, was a former executive with Cranium, Disney, and Hasbro, so he knows a thing or two about product management, sales, and marketing for toys and games. Together, they seem to have their real and virtual bases covered.

“Our vision is something that takes the best of both of those worlds,” says Lawandus, Smith & Tinker's president. “We're reinventing play for the connected generation. We believe there's nothing as cool to a kid as another kid in the room.”

It's a noble concept, at a time when kids—and adults alike—seem to spend more time looking at screens than each other. Here's how it works, in a nutshell: On a website, you choose and create your Nanovor characters—bug-like creatures said to inhabit silicon chips, in the game's back story. From there, you can make them fight with other players' characters, choosing various attacks based on the health, speed, strength, and armor of your characters. You can also train them and make them evolve by solving logic puzzles that are similar to Mastermind. The goal is to keep evolving and adapting strategies, and, of course, to have the best battle record.

The face-to-face aspect comes into play with “Nanosopes”—handheld players that you can use to battle someone in the room with you. These devices stick together using magnets when up to four characters at a time do battle, and the screens merge, so you can see a Nanovor scurrying from one handheld to another. “We started with the idea that it had to be wireless,” Weisman says. “But wireless isn't magical to [kids], they grew up with

wireless.” Hence the merging-with-magnets action. (Nanoscopes will be sold for about \$50, starting in October, in stores like Toys ‘R’ Us, Best Buy, and Amazon.com.)

Kids can also trade Nanovor characters, sort of like old-fashioned baseball cards. The creatures themselves were inspired by Weisman’s own kids’ first encounter with dust mites. “It was simultaneously the grossest and coolest thing they’d ever heard of,” Weisman says. “We knew we wanted a battling monster game. We [also] wanted something rooted in our world.”



Smith & Tinker’s business model is fairly unique. The company plans to break even on retail goods like action figures, Nanoscopes, and other Nanovor tie-ins (see photo, left), and make its real money in online transactions. The game is free to start with, and then it transitions to a token-based micropayment system, where you pay for additional characters and skills. The strategy behind playing the game looks pretty sophisticated and challenging.

The company’s latest venture round will help it launch a massive marketing campaign this fall, including YouTube videos, anime episodes, and TV ads. The money will also go towards ongoing product development. “The thing with an online game, it’s unlike a packaged software title,” Lawandus says. “It’s about ever-fresh content, releasing new monsters, new animated episodes. We’re in a couple of noisy markets, so we need disruptive marketing.”

Today’s announcement aside, I asked Weisman about the broader challenge of raising money in the gaming industry. “There doesn’t seem to be a lot of ‘venture’ left in venture capital,” Weisman said. “They view entertainment as hits-driven. They’re more comfortable with services. A lot of VCs are uncomfortable in the entertainment-driven space.”

But don’t count DCM, or the rest of the Smith & Tinker syndicate, among them. What’s more, DCM’s expertise in Asia—the firm has offices in Tokyo and Beijing, and partner Gen Isayama splits his time between Japan and Silicon Valley—could also help Smith & Tinker expand to Asia in the coming years. This would be the opposite of most collectible card games, like Pokemon, which tend to start in Asia and migrate to the U.S.

Lawandus says the company won’t be doing any “rampant hiring,” but rather will fill out the team internally. Given the amount of money raised, I asked him whether Smith & Tinker could someday be a billion-dollar company. “We hope to be a very sizable company,” Lawandus replied. “Hundreds of millions is what we’re shooting for here.”

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