

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

THE WALL STREET JOURNAL

WSJ.com

Toys Learn a Number of Tricks In Surprising Place: Silicon Valley

By DEAN TAKAHASHI | Staff Reporter of THE WALL STREET JOURNAL

[Intel](#) Corp., not content to be inside most personal computers, also wants a place in the toy chest.

The semiconductor giant, working with [Mattel](#) Inc., is developing a line of toys that work with PCs to deliver new interactive experiences. Intel's X3 Digital Video Microscope, one of two products scheduled for release this coming fall, magnifies slimy slugs, dust bunnies or anything else you want to examine and displays the image on a computer screen. Its Me2 Cam, a digital camera atop a PC, captures kids' video or still images and transfers them into a cartoon-like environment, creating a kind of live TV fantasy.

Mattel Forecasts Sluggish Sales Growth as It Posts 70% Drop in 4th-Quarter Net

Intel's first move into toys is one of the biggest developments in toyland as the industry prepares for the International Toy Fair in New York next week. It reflects a broader push by

established companies and new entrants to boost the IQ of toys, combining moving images and real-life play in ways that are less passive and more intellectually stimulating.

For example, Zowie Entertainment Inc., a start-up funded by billionaire Paul Allen, will show products that include a pirate ship that connects directly to the computer in lieu of a computer mouse or keyboard. A child can press a button on the toy and lob a cannon ball at another ship on the PC screen.

"Parents have told us in our research that they're tired of kids staring blankly at the computer and clicking the mouse," says Amy Francetic, Zowie's vice president of development. "We see this as a way the computer can extend their normal play activity."

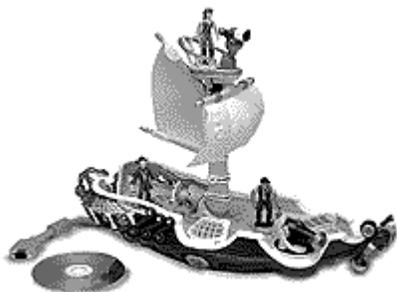
The new smart toys are expected to sell for \$50 to \$100. Mattel will make and distribute the Intel toys, which will carry the brand name Intel Play and cost about \$99. [Microsoft](#) Corp., [Hasbro](#) Inc. and Lego Group AG are also expected to describe updates to their interactive toys at the toy fair.

Toy Story

Few new toys become major hits. But Intel, which earned \$6.1 billion last year on sales of \$26.3 billion, doesn't expect a huge payoff from the low-margin toy business. Rather, the Santa Clara, Calif., company wants to accelerate the pace of innovation in toys and other devices that attach to PCs -- stimulating demand for the chips that account for the bulk of

its business. It expects to stimulate the market further -- with toys that include speech recognition and Internet connectivity.

"The whole peripheral category is going to explode going forward," says Ronald Whittier, senior vice president of Intel's content group. "This is all connected computing for us. If there will be a billion connected computers, there could be 10 billion connected peripherals."



Red Beard's Pirate Quest does special tricks when you plug it into a PC.

Microsoft helped invent the smart-toy category a couple of years ago with its talking Actimates, including a plush Barney figure that utters playful sentences by virtue of a software program on the computer. The Barney toys sold hundreds of thousands of units and generated \$50 million in their first year, says Donald Poyner, group product manager in hardware at Microsoft, which is based in Redmond, Wash.

At the toy fair, Microsoft plans to unveil new Actimates based on the characters in PBS's popular "Teletubbies" TV show. The Teletubbies Actimates can make running commentaries on TV shows and ask children questions, such as "Do you want to dance?" or "Is he sad?"

'Sophisticated Trained Seals'

The new smart toys are designed to offer more than a predetermined menu of activities. "Tech toys in the past have been sophisticated trained seals that go through a repertoire of tricks and aren't a great deal of fun," says Sean McGowan, a toy analyst at Gerard Klauer Mattison. "With drops in costs for computing power, you can create new play patterns."

Intel's new microscope includes a digital camera connected by a wire to a 200-megahertz or higher-performance PC and displays images 100 to 350 times their actual size on the computer display. The child can record the image and even turn it into a video presentation.

"The kids can look at ants from the backyard, dust bunnies from the refrigerator, scabs on their arms, or make time-lapse movies where they can watch brine shrimp grow in a water dish," says Mary Ann Norris, Mattel's director of strategic planning.

Intel developed the underlying technologies at its Intel Architecture Labs in Hillsboro, Ore. In the past, Mr. Whittier says, Intel might have spun off the technology because it wasn't related to its core business of making computer chips. But the company has taken a more aggressive stance about using its resources to build markets, including equity investments in more than 200 smaller companies.



A look at the Intel X3 Digital Video Microscope.

Engineers from Intel and Mattel collaborated in a downtown Portland building that was once used to create Viewmaster toys. While Intel wanted Mattel's toy expertise, benefits of working with Intel also were apparent to Mattel, which recently paid \$3 billion for education giant Learning Co.

"We have to be as confident dealing with bits as we are with atoms," says Douglas Glen, a senior vice president at Mattel's El Segundo, Calif., headquarters. Zowie next week will show Red Beard's Pirate Quest, Ellie's Enchanted Garden and Muppets From Space, the latter based on a coming Muppets movie from Jim

Henson Productions Inc. The toys, expected to come out this fall at \$50 to \$60, connect to a computer and are enhanced with CD-ROMs.

The pirate figures on Red Beard's ship, for example, have sensors that detect their position on the toy ship and send signals to the computer. When a child moves a pirate, the character's image moves across a similar ship on the computer screen that shows the action from different angles, such as the view of the ocean from the crow's nest.

Copyright 2012 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com