

MMORPGS

Present and Future Trends

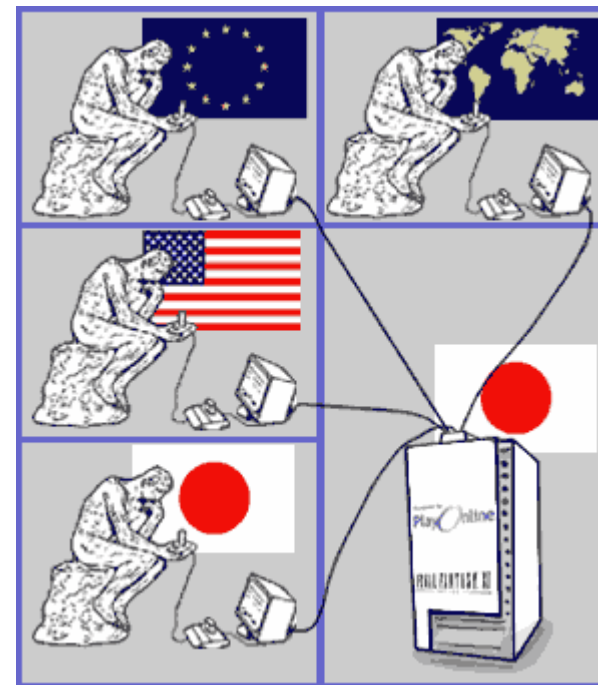
MMORPGS: Massively Multiplayer Online Role Playing Games

- Thousands of players exist in the same game world at the same time
- The game can only be played online
 - The PC, rather than a console, remains the preferred platform for MMORPGS
- The environment is perpetual
 - People log on, create a character known as an avatar, join the game, and leave whenever they wish, but the game continues
- It can take months, or even years, to advance to the highest game levels



Global MMORPG Statistics

- By the end of 2006, there were 30 million subscriptions in total to all MMORPGs
 - The Asia-Pacific regions - including China, South Korea and Japan - accounted for 73% of the subscriptions
- 189 million games were sold online in 2006
 - The Asia-Pacific region accounted for 74% of the sales
- Prominent Games:
 - World of Warcraft, Lineage, Star Wars Galaxies, Second Life



Global Online Game Revenues

- Global online game market generated US \$3.8 billion in 2006
- Predicted global revenues of US \$11.5 billion by 2011
- Compound Annual Growth Rate of over 25%
 - [Online Games Global Market Forecast, by Strategy Analytics](#)
- “The main driver for sustained growth in the online games market will be the continued uptake of broadband services around the world”
 - [David Mercer, Principal Analyst at Strategy Analytics](#)

Global Online Games	2006	2007	2008	2009	2010	2011	CAGR
Total US\$ (Million)	3,823	5,153	6,916	8,847	10,564	11,754	25,2%

Chinese MMORGs

- In 2006, MMORPG revenues hit \$662 million in China, while casual game revenues reach \$153 million
 - MMORPG revenues increased 69.1% compared to 2005
 - Casual game revenues surged almost 100% compared to 2005
- Revenues from MMORPGs in China are predicted to reach \$1.96 billion by 2011
- Popular Chinese MMORGS
 - Shanda's MIR series, NetEase's Westward Journey series, The9's World of Warcraft, Shanghai ZhengTu's Zheng Tu



American v. Chinese Business Models



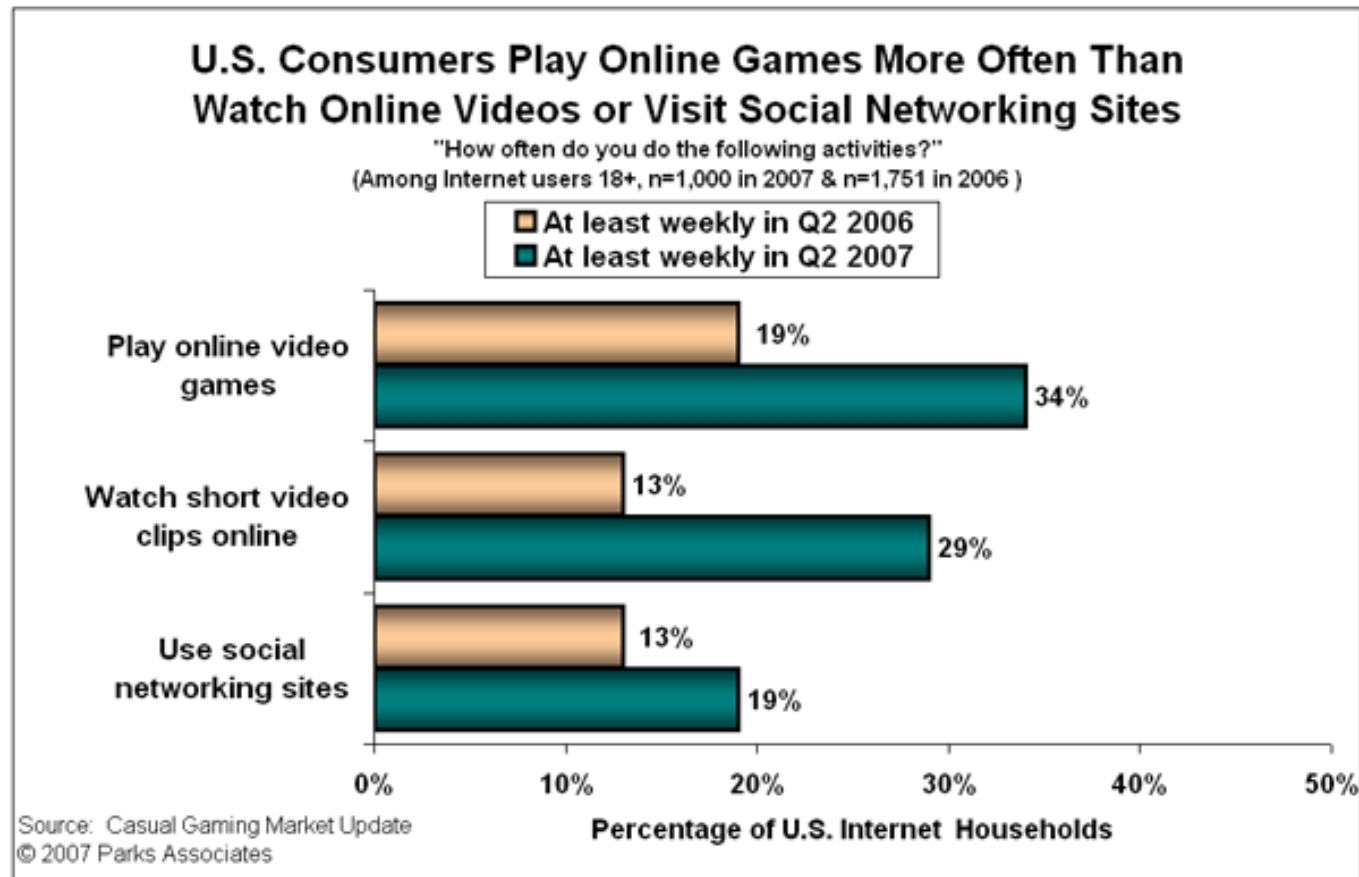
- **United States**
 - A monthly subscription fee is the customary revenue model
 - World of Warcraft: \$15 per month
- **China: The Free-to-Play Model**
 - Operators charge users according to virtual items or enhanced abilities, not by time
 - Adopted by industry leader Shanda Interactive in November 2005
- **Shanda Users**
 - 20 million active users
 - The average player spends 2-3 hours online per day
 - The majority of users - 90% - are adults
 - Active players spend an average of US \$8 per month

Chinese MMORPGs: Future Trends

- In-game advertising
- Increased competition from casual games, which are less time consuming and growing in popularity
- Copyright and royalty fees that must be paid to foreign companies will gradually decrease as domestic companies develop
- Government regulations in response to concerns about addiction to online games



In the U.S., Gaming Remains the King of Online Entertainment



Blizzard Entertainment, Inc.'s World of Warcraft (WoW)

- Blizzard Entertainment, headquartered in Irvine, CA, is a division of Vivendi Games
- July 2007: WoW reaches the milestone of 9 million subscribers worldwide
- Launched in November 2004 in North America, Australia, and New Zealand
- Subsequent launches in South Korea, Europe, mainland China, Singapore, and the regions of Taiwan, Hong Kong, and Macau in 2005, Malaysia in 2006, Thailand in 2007
- Available in seven different languages based on the region in which it is played



WoW in China



- The9 Ltd., based in Shanghai, holds the exclusive license to operate and distribute WoW in China
- October 2007: World of Warcraft: The Burning Crusade surpasses the milestone of 800,000 concurrent users in mainland China

Warcraft or “Warcrack”?



- Concerns about the addictive nature of World of Warcraft
- April 2007: New Chinese law limits the amount of time minors can spend playing online games
- Online games must include software that prompts players under 18 once they have played for more than 3 hours
- After 5 hours, the game limits the abilities of characters/avatars

NCsoft's Lineage and Lineage II

- **Lineage**
 - Released in 1998 by the South Korean computer game developer NCsoft
 - At one time, the world's most popular MMORPG, boasting more than 3 million subscribers
 - March 2007 Highest Concurrent Usage
 - Korea 149,034; Taiwan 193,119; US 3,205
- **Lineage II**
 - Launched in South Korea in 2003
 - Very popular in South Korea and Taiwan
 - March 2007 Highest Concurrent Usage
 - Korea 123,332; Taiwan 46,768; US & Europe 32,767



LucasArts' Star Wars MMORPGs

- LucasArts released Star Wars Galaxies in June 2003
- Star Wars: Unleash the Force will be available on the Wii home video system from Nintendo in the Spring of 2008



Linden Lab's Second Life

- "Fashion is big business in Second Life, along with entertainment and land development." New York Times, Sept. 9, 2007
- Land is the biggest-ticket item in Second Life, with Linden Lab selling islands for \$1,675, plus a \$295-a-month maintenance charge

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Recent American Legal Developments

- Marc Bragg v. Linden Research, Inc. and Philip Rosedale
- The Dispute
 - April 2006: Bragg acquired a parcel of land for \$300 in Second Life
 - Linden, the operators of Second Life, advised that the land was improperly purchased, took the land away from Bragg, and froze his Second Life account
 - Bragg sued Linden for unlawfully confiscating his property

The Litigation

- **May 30, 2007: The District Court for the Eastern District of Pennsylvania denied the defendant's motion to dismiss for lack of jurisdiction**
 - "Ultimately at issue in this case are the novel questions of what rights and obligations grow out of the relationship between the owner and creator of a virtual world and its resident-customers. While the property and the world where it is found are 'virtual,' the dispute is real."
- **September 27, 2007: Case settled**
- **Linden Labs Press Release**
 - "The parties agree that there were unfortunate disagreements and miscommunications regarding the conduct and behavior by both sides and are pleased to report that Mr. Bragg's 'Marc Woebegone' account, privileges and responsibilities to the Second Life community have been restored."

Antonio Hernandez v. Internet Gaming Entertainment, Ltd.

- May 31, 2007: Class action suit filed in the Southern District of Florida against IGE's practice of "gold farming"
 - Generating virtual assets in World of Warcraft by using cheap labor in developing countries and then selling the assets on eBay and other industry websites
 - "IGE's gold farming activities not only substantially diminish the enjoyment and satisfaction consumers obtain by earning, through the expenditure of vast amounts of time and energy, virtual assets within World of Warcraft, they also violate the express terms of agreements Subscribers enter into to participate in World of Warcraft."
 - Amended Class Action Complaint, ¶ 3.

Eros, LLC v. John Doe, aka Volkov Catteneo

- Eros, LLC sells adult-themed virtual objects for use within Second Life
- Volkov Catteneo: online player who made and sold unauthorized copies of a virtual sex bed
- Litigation
 - July 3, 2007: Eros sues Volkov Catteneo in the Middle District of Florida for Lanham Act violations and copyright infringement
 - October 24, 2007: Eros files an Amended Complaint naming Robert Leatherwood as the real-life person behind the avatar Volkov Catteneo



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