



Rhode Island
Economic Development Corporation

Building the 21st Century Innovation Economy

**RIEDC Board Meeting
July 26, 2010
Video Game Industry &
38 Studios Opportunity**

Video Game Industry

- **Size & Growth...**
 - \$72 billion global industry including both hardware and software revenues
 - Global Revenues projected to reach \$124 billion by 2013.
- **Market...**
 - More than 2/3 of American Households play PC or video games.
 - Average gamer is 35 years old.
 - 42% of American households own a gaming console.
 - By 2014 60% of American households forecasted to play an “online” game
- **Dynamics...**
 - Online gaming industry has advantage of generations of loyal users
 - Increasing market penetration and rising average user age
 - Constantly evolving technology ensuring users fresh and exciting product
- **Clustering...**
 - Nearly 70% of US video game companies are in one of 7 metro regions
 - Boston ranks 6th and NYC ranks 5th in # of US companies
- **Jobs & Workforce...**
 - More than 1,200 jobs in Massachusetts’ video game industry
 - Types of jobs include: Engineering, Artist, Game Designer, and Quality Assurance

Rhode Island's Video Game Assets

- RISD

- Majors: Film Animation Video, Graphic Design, Illustration, & Digital Media
- Curriculum includes culture, story, media, art, design, and technology
- Many RISD grads & interns currently work in the video game industry
- Over 100 RISD graduates stay in RI each year & over 3000 RISD alum in MA and RI

- URI

- Computer Science curriculum includes interactive and collaborative gaming track as well as computer programming, software engineering, & interactive 3D graphics research
- Gaming track led by Dr. Jean Yves-Herve

- Brown

- Computer Science & Visual Arts curriculum includes software engineering, 3D animation, & innovating game development
- Strengths in machine decision and game theory, interfaces in virtual reality
- Dr. Chad Jenkins author of “Creative Games: Mechanics, Content & Technology”

- RI Companies Involved in Video Games, and Digital Animation

- Hasbro
- GTECH

38 Studios

Project Review

- Relocation & Expansion – within 3 years 450 direct and 1,113 indirect jobs
- Two studios...38 Studios in Maynard, Ma (86 employees)...Big Huge Games (BHG) in Baltimore, Maryland (79 employees)
- Average wage ~ \$67.5k/yr
 - Programming, engineering, artist, designer, production, quality assurance
- Proposed transaction: \$75.0 million credit enhanced bond
- Kingdoms of Amalur: Reckoning...single player multi platform game for release in fall 2011. Publishing and Retail Distribution Agreement between EA & 38 Studios.
- Project Copernicus...38 Studios developing a Multi-player Online Game (MMOG)

38 Studios

Management & Visionary Team

Management team includes 100+ years of industry specific executive and development experience with top tier companies such as EA, Sony Online, Comcast, Nintendo, etc.

- Jennifer MacLean, CEO
 - Comcast, VP of Games - products, strategy, and business development.
 - Chair Emeritus of the Board of Directors of the Int'l Games Developer Association
- R.A. Salvatore, Executive Creator of Worlds
 - Author on NY Times and WSJ best selling lists
 - Lucasfilm, New Jedi Order series of novels and Attack of the Clones.
 - Wrote 40 novels which have sold over 15 million copies worldwide
- Todd McFarlane, Executive Art Director
 - Creator of “Spawn” comic book and Emmy Award winning HBO series
 - Owner McFarlane Toys
 - Artist of Spider Man comic books for Marvel/Epic comics
- Curt Schilling, Founder

38 Studios

Design & Production Team

Extensive Expertise in RPG Genre, MMOG Design and Development:
over \$11B in Shipped Product Sales

- Lead Designers from:
 - Morrowind, Oblivion, Fallout 3
 - World of Warcraft
 - EverQuest and EverQuest II
 - Rise of Nations, Rise of Legends, Catan, Civilization II
- Selected Titles from other Team Members:
 - Star Wars: The Force Unleashed
 - Fable
 - Half-Life

Rhode Island's Economic Opportunity

- Job Creation
 - 450 direct jobs & 1,113 indirect jobs
 - Estimated income tax revenue in excess of \$3.5M per year
 - Spawning potential = 200 direct & 686 with multiplier – within ~ 5 years
 - Leverage video game industry growth and growth of industry jobs in Boston market
- Build Creative and Knowledge Industry
 - Develop a vertical market that intersects some of Rhode Islands best growth assets
 - Commercialization of ideas is faster than other knowledge economy industries
- Foster Entrepreneurial Activity
 - Spark starts within RI's most active entrepreneurial communities
 - Wide range of industry entry points given the breadth of platform opportunities
- Retain Talent
 - Provide compelling job opportunities for local college graduates
 - Develop feeder programs at RI universities

Key Credit Structure Risk Mitigation

- Requirement to locate in RI's Knowledge Economy
- 10 year term; 20 year amortization – minimizes annual appropriation risk
- 1 year debt service reserve
- 25% of Excess Earnings placed into Balloon Payment Fund
- Funds drawdown schedule focused on relocation and job creation
- Initial draw requires a signed enforceable lease acceptable to RIEDC
- Job penalty fee of \$7,500 for each job short of 450 target
- Deferred Fee between \$15.25 - \$18.8 million
- Debt is not assignable or assumable
- Relocation outside of RI triggers debt acceleration...company bears all associated costs
- Documentation to include legal counsel with expertise in IP
- Bond Underwriter (s) acceptable to RIEDC

Risk Analysis

Negatives

- Investment in Pre-revenue company
- Initially a binary revenue stream (Kingdoms of Amalur: Reckoning and Copernicus) when games are released...licensing and other platform revenue potential follows successful launches
- Hit driven product
- Job Creation Guaranty Program concentration...60%

Risk Analysis

Positives

- Experienced management team with track record of successful game development
- EA publishing agreement on Kingdoms of Amalur: Reckoning
- Game development, specifically Kingdoms of Amalur: Reckoning is on track
- Significant equity investment to date in company
- Favorable industry outlook
- Strong alignment with high potential RI assets
- Valuable connections to build strong public/private attraction effort
- Potential for 1500 high wage knowledge based jobs within 3 years
- Creates compelling opportunities for RI graduates
- Presence and spawning fosters increased entrepreneurial activity
- Total RI State ROI is 47% (financial plus economic return)

Key Economic Metrics

10 Year Economic Return Metric

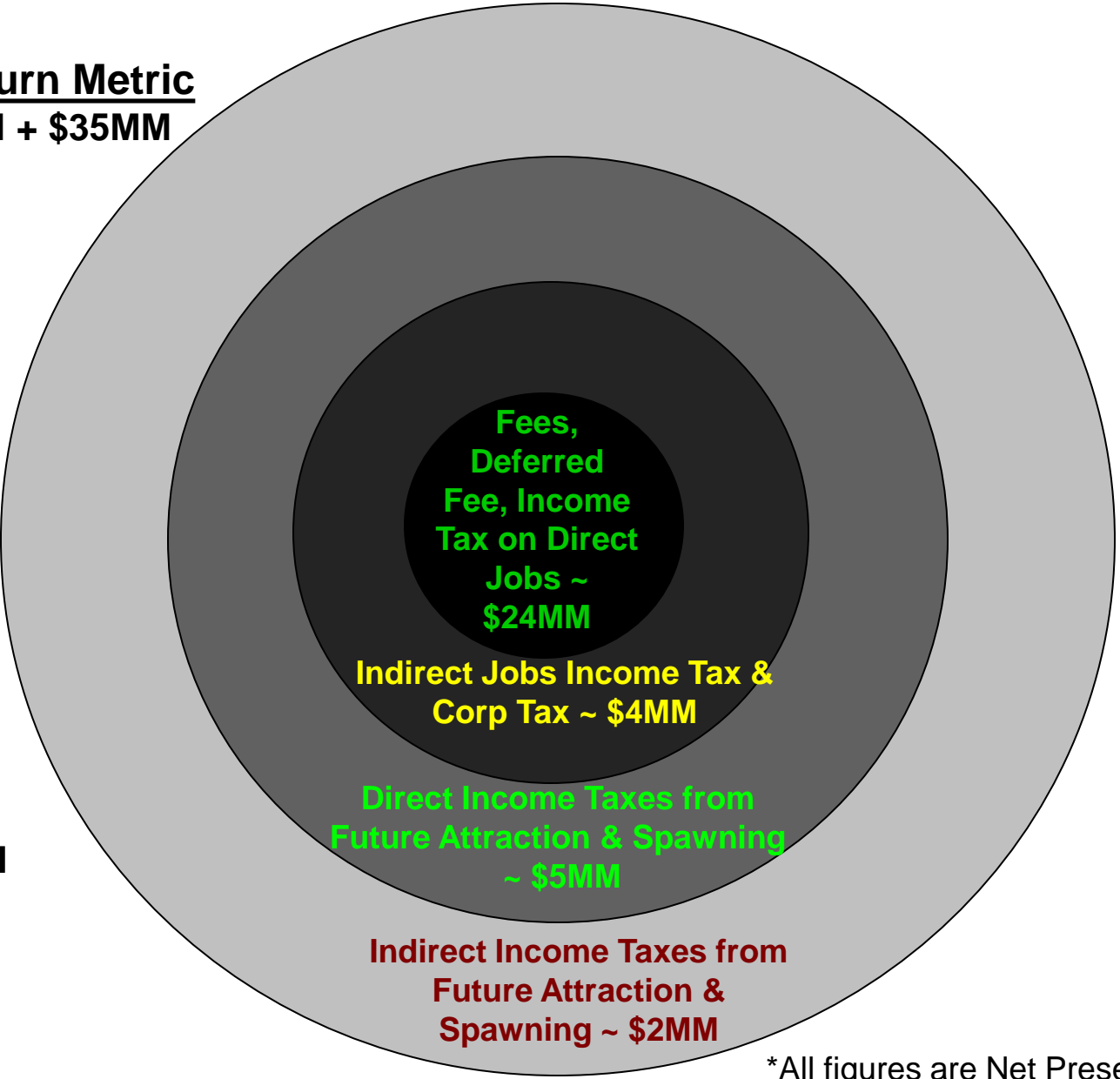
Recover \$75MM Principal + \$35MM
= 47% ROI

3 Year Job Creation

- 450 Direct Video Game Industry Jobs
- 1,113 Indirect Jobs

5-7 Year Job Creation

- Spawn 200 Direct Video Game Industry Jobs
- 486 Indirect Jobs
- Additional \$133MM in RI based payroll annually



*All figures are Net Present Value (NPV) of benefits over a 10 year repayment period