

# gaming | industry | news

## Xbox on the Mind

Microsoft is scoring mind share, but it must make one more deal to have a shot at winning the console war

“People are acting like our desire to make a profit on a product we sell is some sort of unforgivable sin.”

That’s a Microsoft executive whom we’ve known since before Bill Gates made his first billion. He’s worked on all sorts of projects for Redmond since the 1980s, and he’s furious about the response to early news about Xbox Next. “People don’t even know what it’s going to be, and already we’re getting all this talk about how one potential feature or another is a betrayal. Grow up. If the second Xbox has the same business model as the first, there’s never going to be a third. Believe me. Is that what the hardcores want?”

Why is the reaction to rumored features so vivid and intense? Because the Xbox has captured the imagination of the gaming public and is generating the sort of pop-culture references that the PS2 once enjoyed. You hear more and more sports stars and pop stars citing it, and every urban downtown area seems full of green X stickers. (Green is the favored hip-hop color nowadays, as both halves of OutKast showed on Grammy night.) It’s even cool to modify the Xbox with an alternate operating system or increased processor speed—it’s like customizing a favored vehicle. One colleague likens the ascension of the Xbox to that of the Cadillac Escalade: “It’s another big, overweight, ugly box that happens to be extremely capable.”

This hasn’t happened by itself, of course. Microsoft regularly brings “influentials” to its Redmond campus, among them groups of DJs and performers. The company has seeded these influentials with Xboxes. Public relations veteran Richard Laermer, author of *Trendspotting*, acknowledges, “There’s a huge PR machine behind the Xbox. When you have a machine like that, you can feed the marketplace. You can go

to conferences, hand out fliers, talk to influencers. There’s absolutely nothing organic about this.”

But such PR campaigns are successful only if there’s an audience ready to accept them. “People are throwing all sorts of money at our culture,” says Kevin Liles, who stepped down as president of hip-hop stalwart Def Jam earlier this month as part of the Lyor Cohen/L.A. Reid shakeup. “And sometimes that money is attached to something we do like.”

Adds an executive at Island Def Jam Music Group, “The cars in our culture are big. The clothes in our culture are big. Our game machine is going to be big, too.”

### THE VIDEOGAME ESCALADE

Indeed. In keeping with the Escalade analogy, the physical size of the Xbox makes it attractive by making it look more substantial. And since the Xbox’s controller is larger than those for competing consoles, it fits big American hands better. Some observers cited Xbox’s American origins—it’s the only one of the Big Three consoles designed Stateside—as a reason for the Xbox’s increasing “coolness.” Says one developer who has worked on games for all major platforms, “Say what you like about Microsoft, but even its first-generation Xbox has the best graphics on the market. And since the big differentiator these days seems to be having the most sophisticated graphics, Xbox looks more attractive. Just compare *Grand Theft Auto III* on PS2 and Xbox. It’s no contest.”

We also heard from developers that the Xbox is particularly attractive to PC developers because it runs on a customized version of Windows. The relatively easy transition from PC game development to Xbox game development—and the opportunity that offers—underlines how much more

important it is for Microsoft to play well with others in the console space than those in the PC space. Microsoft has bet heavily on online gaming as a strong selling point of the Xbox, and the company is making steady progress in attracting subscribers, but Xbox Live will not be sustainable until Microsoft makes a deal to include the enormously popular Electronic Arts games on the system. Online isn’t the only key, though. As any console player will tell you, exclusive content and low retail prices will still make quarterly numbers go down more easily.

“Microsoft saw with *Halo* and *Half-Life* how wonderful things can happen when you meet gamers’ needs,” says an executive who worked with Redmond on one of those games. “Especially with the sports games, it’s inevitable that gamers are going to demand quality games with online play. EA knows that and Microsoft knows that. Microsoft is in this arena to win. It’ll make whatever deal it needs to to win.” So being cool and being the box with mind share add up to a good start, but it only lasts so long if you don’t deliver what your audience wants.

### AND WHAT WAS THE GOOD NEWS?

**“Twenty-three development studios shut their doors in Europe in 2003, up from 14 in 2002 and a mere eight in 2001. Although several new studios have sprung up from the ashes of those companies, the stark reality in those facts is clear: This is a sector in crisis, and no amount of sugar-coating the figures can change that fact.”**

—*Financial Times*

# Crime Pays, Persia Doesn't

Except for Electronic Arts, which occupies its own rarefied space, the two game companies entering the holiday season with the highest hopes were Activision and Ubisoft. "Both were extremely well positioned with a collection of really good games," notes the CEO of a competing publisher. "There was only one difference: Activision had really good games that people wanted to buy."

"Both companies emphasized quality over quantity, which is a very good thing," says Simon Price, an industry consultant in England. "Activision, in particular, cranked quality to 11." He contends that despite the critical raves awarded to *Beyond Good & Evil* and especially *Prince of Persia*, "Those games are not where the gamer is anymore. They had beautiful design but not what gamers were looking for."

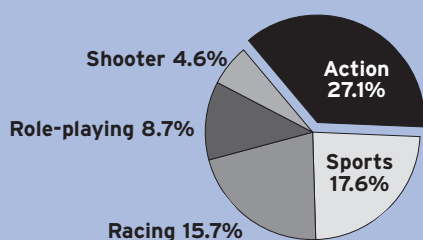
An executive at Electronic Arts says:

"Activision was so smart. *True Crime* is a good game, maybe not as good as *Prince of Persia* or *Beyond Good & Evil*, but the big difference was that Activision understood the market. They held off on games that didn't follow trends and worked hard to make sure the *Grand Theft Auto* fans knew that *True Crime* was right up their alley. They picked the right title at the right time, and they executed. I'm glad there aren't more companies like that!"

An editor at a (non-Ziff Davis) consumer game magazine says he's disappointed: "I'm glad Activision broke through with *True Crime*, but we absolutely loved those two Ubisoft games. I guess these days having a great game isn't enough. You have to have the right game at the right time. And more people want to go to L.A. [the location of *True Crime*] right now than ancient Persia."

## WHAT CONSOLE GAMERS ARE PLAYING, ACCORDING TO A TRADE GROUP

We're not so sure these are useful differentiations. *Grand Theft Auto* could fit into every category here except sports. Maybe it's an attempt by an industry organization to minimize the popularity of one kind of genre: shooter.



Source: Entertainment Software Association

## TABLE OF CONTENTS

### EXIT INTERVIEW

Ed Fries opens up to John Davison about his 18 years at Microsoft

PAGE 6

### FEWER SMACKDOWNS, MORE CUDDLING

Romance comes to videogames

PAGE 8

### MOBILE MATTERS

Nokia's N-Gage prepares for round two

PAGE 10

### TOO SOON TO VERIFY

The latest industry tips, unfiltered

PAGE 11

#### EDITOR-IN-CHIEF

Jimmy Guterman

Jimmy\_Guterman@ziffdavis.com

#### ZIFF DAVIS MEDIA

500 UNICORN PARK DRIVE

WOBURN, MA 01801

781-938-2639

ART DIRECTOR: Jason Babler

COPY DESK: Tom Edwards, Greg Ford,  
Susie Ochs, Maritza Refuerzo

PRODUCTION: Carlos Lugo, Michele  
Manousos, Anne Marie Miguel

CIRCULATION DIRECTOR: Chris Wilkes  
Chris\_Wilkes@ziffdavis.com

#### ZIFF DAVIS GAME GROUP

SENIOR VICE PRESIDENT: Dale Strang

PUBLISHER: Lee Uniacke

EDITORIAL DIRECTOR: John Davison

BUSINESS DIRECTOR: Cathy Bendoff

Copyright © 2004, Ziff Davis Media Inc.

All rights reserved. No material in this publication may be reproduced without written permission. Bulk orders, reprints, and site licenses are available.

Subscriptions cost \$995 per year. Visit <http://www.gamingindustrynews.com> for

our best subscription offer. *Gaming*

*Industry News* is a trademark of Ziff

Davis Publishing Holdings Inc.

# Seeing the Phantom

Now people will stop wondering if Infinium's much-rumored PC console is real. But is there a market for it?  
By Dean Takahashi

When Xbox cocreator Kevin Bachus became president and chief operating officer of Infinium Labs, he knew he would face skepticism. Infinium seemed like a no-name start-up heading on a suicide mission by launching a videogame console for PC games.

In meetings with the media at last May's E3 convention, the company, based in Sarasota, FL, indicated it would launch its Phantom console for PC games in August 2003. Didn't happen. In September, the website HardOCP wrote a story that made it seem like Infinium Labs was a sham.

Then Bachus joined last month, reviving interest in the company because of his high profile in the gaming industry.

"I was shocked that Kevin went there," says a former colleague of Bachus.

The challenges a start-up faces by taking on Nintendo, Sony, and Microsoft are huge. David Cole, an analyst at DFC Intelligence, says Infinium won't have enough Phantom-exclusive games, won't have the money to advertise, and may have no clear idea which gamers will gravitate to its unique solution.

But Bachus, who helped sign up 200 developers for Xbox in the console's early days, says the challenge reminded him of creating Xbox. He has \$15 million in funding commitments from two investment companies, SBI USA in Irvine, CA, and Los Angeles-based Trilogy Capital Partners. Tim Roberts, the CEO who founded Infinium in December 2002, says that he's given Bachus a mandate to revamp the company's operations and marketing from top to bottom.

## SELLING HARDWARE OR SERVICES?

"I started talking to the Infinium Labs guys a couple of months ago, and to say I was skeptical was an understatement," Bachus says. "I had launched a console. I knew from that experience what it took to get to

market."

Bachus says that Infinium Labs is misunderstood as being a hardware company when it really should be viewed as a service company. He believes that it has a chance to establish a downloadable game service that works better than anything else available—including downloading onto a PC—because it is targeted to a single, stable piece of hardware. Infinium wants to make a whole library of PC games available for download, and its hardware exists to carry out that mission, much like DirecTV sells its satellite boxes so that it can make money off of its satellite TV service. If the Phantom works, Infinium will create an easy way to buy, rent, and install games.

"PC games are facing barriers, with challenges for people who don't want to go to CompUSA, sift through the products, pay their \$50, and load the games," Bachus says. "They want things to be more simple. That's what Infinium Labs has tried to address."

Much of the misunderstanding is Infinium's own fault. The HardOCP article noted that CEO Roberts hasn't been successful in a number of previous ventures. Roberts confesses to being a serial entrepreneur who's been involved with nine companies, including some that haven't survived. But he notes that he has conducted his business honestly and that he has never been involved in litigation at his prior companies. He says that some of the companies, such as Broadband Infrastructure Group and Digital Broadcast Network, went belly up as the fortunes of the dot-coms soured—victims of overzealous business plans, not fraud. Says Rich Skoba, Infinium Labs' executive vice president and a partner in one of Roberts' former ventures, "You can name 15 other companies with credible management teams that didn't survive."

Not every company was a failure. In 1995, Roberts founded Savvis Communications, a

networking services company that went public in 2000 and has a market capitalization of \$325 million. The potential Infinium investors, who are awaiting SEC approval, say that they're aware of Roberts' background but believe that the timing is right for Infinium.

"I view Infinium's opportunity like the introduction of the compact disc, when a whole new channel for distribution opened up," said Shelly Singhal, managing director of SBI USA.

Bachus has the credibility to get the industry's attention. Downloadable games are available from vendors like RealNetworks, but they haven't made a dent in traditional retail. Bachus says that's because the vendors have to deal with the problem of downloading games onto a wide variety of hardware configurations.

Bachus acknowledges that there is a lot of work to be done. Infinium will have to spend a great deal of energy counteracting its own public relations mistakes, Cole says. Bachus says the company is doing another marketing survey to figure out exactly who its customers will be and what kind of hardware they want. (This is something the company should have done long before Bachus arrived.) At the same time, Infinium has to launch its box this year. That way, it can exploit a small hardware advantage over the aging consoles and avoid getting lost in the marketing hype when the new consoles start launching in 2005.

Bachus says this is more like a course correction, not an overhaul. "Everyone has been looking for signs this was a hoax company," he contends. "There was a vision. It wasn't articulated well. They needed help from folks in the game industry to refine the message."

**CONTINUED ON NEXT PAGE**

# gaming|industry|news

## CONTINUED FROM PAGE 3

### IT'S REAL, BUT WILL ANYONE BUY IT?

Defining the target audience will be crucial. Hardcore PC gamers aren't likely to part with their machines just so they can play PC games on a TV set, which is what Infinium's Phantom console proposes to do. That's because many PC games look lousy at analog TV resolutions, and very few gamers have digital TV sets. Phantom will also run only a subset of Windows XP, not the entire operating system. And with some hefty hardware specifications, it could cost as much as a full PC. That is not a promising value proposition.

Bachus notes that publishers won't have to do anything to their PC games to make them run on Phantom, so the box will have many titles. On the other hand, because of the looming launch date, it won't have any exclusive titles at the outset. Without those exclusives, Infinium will have to fall back on the pitch that its box is cheaper and easier to use than a PC.

Ben Sawyer, an analyst at Digitalmill, maintains that Infinium completely mismanaged its public image in the beginning. But he says its best chance is to produce a box that creates an easy experience for the user, an experience with an integrated approach. A few hundred thousand subscribers might be enough for profitability and might be realistic. "Infinium has got to get past the rookie mistakes and start executing," Sawyer says.

There is still the question of how far the company's promised \$15 million will go. The funding commitments aren't locked in stone and are contingent upon certain terms being fulfilled, including the aforementioned SEC filing. Infinium has 29 people now; Bachus says he expects to increase the staff to about 80 people.

Bachus always shoots big. His last company, Capital Entertainment Group, tried and failed to turn game production on its head. The very fact that he joined Infinium Labs has given the company some credibility. But it has a long way to go.

"I understand what they're doing now," Cole says. "It's going to be a lot of fun to watch."

## Lock Your Assets

The latest software makes backing up PC games easier than ever, but antipiracy systems are becoming tougher to crack—for now

By Howard Wen

It once took the skills of a hacker and the patience of a saint to plow through the confusing interface of buggy software in order to copy PC games protected with proprietary antipiracy systems. Nowadays, all it takes is a few mouse clicks.

At CES in Las Vegas last month, 321 Studios announced *Games X Copy*. 321 wants to do for PC games what it did for DVDs with its popular *DVD X Copy* by providing consumers with a way to easily make backup copies of their PC games. (The company endured a lawsuit with Hollywood studios over *DVD X Copy*, although it managed to emerge victorious.) Unlike most competing applications, which attempt to copy all types of software, *Games X Copy* is aimed specifically at PC games.

Paul Pullen, general manager of Alcohol Soft, which makes a backup program called *Alcohol 120%*, explains: "Our software does not promote piracy. It's designed for people to create a single backup of their expensive game discs before they become too damaged to run on a PC."

It is legal, as courts have ruled. But software piracy continues to be a vexing problem for any game developer. The Entertainment Software Association estimates that the gaming industry loses about \$3 billion to piracy every year. (This number includes both PC and console games.) Thus, many companies have no choice but to add an antipiracy lock to protect their assets or to at least stem casual pirating. In turn, backup application developers try to support the consumer's right to make copies of legally purchased software for personal use. It's an uneasy balance—a constant back-and-forth between the latest antipiracy technology and the latest backup technology.

### PUBLISHERS MUST ACT QUICKLY

"No major game publisher expects the protection to last a long time. They'll be happy with a few days," says Ted Pestekides, sales director of MLS LaserLock International,

maker of an antipiracy scheme used by many game publishers. "Anything that is done by man, man can undo. Copy protection is not an exception to this. Banks use a long list of security measures, and burglars still break in. Is this a reason for banks to quit these measures and save costs? Software titles also need security to diminish theft as much as possible."

"The main mistake game producers make is to focus on protection as a pure cost and then minimize this as with any other cost," says Hans Pedersen, CEO of Link Data Security, maker of the *CD-Cops* antipiracy system. "But would you pick the cheapest lock for your front door at home?" (Commercial locks aren't cheap: Macrovision's *SafeDisc* royalties can go as high as 25 cents per disc.)

So, in general, how effective are the latest protection schemes used on PC games these days? Surprisingly, the backup-software developers admit it is becoming harder for the everyday PC user to make reliable working copies of games. Marketing Manager Fabrice Meuwissen of VSO Software, creator of backup software *BlindWrite*, observes that the latest protections are "better and better, and pretty

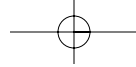
### QUOTE OF THE MONTH

"In the past, videogames wanted to look like TV. Now TV wants to look like videogames."

—Greg Lassen, senior director of interactive and electronic licensing for the National Basketball Association

much impossible to back up correctly now."

Patches and hacks designed for specific game titles are becoming increasingly necessary to get copies made of these games to work, and even then it's iffy that they will work flawlessly. Robb Lewis, product manager for Macrovision's *SafeDisc* antipiracy system, claims the latest version of *SafeDisc* presently "is proving its worth, creating



chaos on the crack download sites that host incomplete cracks.”

“In a lot of cases, it’s more a question of the hardware that you use to create a backup,” says Pullen, explaining why antipiracy system makers now hold the advantage. But he doubts this will last long—the pendulum between these two forces tends to swing

back and forth. “Adding expensive copy protections only encourages hackers and crackers to find a way to circumnavigate them,” he points out. “It’s like waving a red flag at a bull.”

*Next month, we’ll examine the state of console-game copying and the strange world of mod chips.*

## KNOW YOUR COPY PROTECTION

These are the most commonly used proprietary antipiracy systems in the PC gaming industry. How do they fare against backup programs?

### SafeDisc (Macrovision)

*SafeDisc* is the most popular antipiracy system used by game publishers, but its original version also became known as one of the easiest to circumvent. The second version, unlike the original, uses a patterning system of “weak sectors” on the disc surface to confirm a legit copy. Early-model PC CD-R/RW drives cannot burn these sectors, but many of the latest ones can. The result: Version 2 started out as tough to crack until CD-writer-drive technology caught up. Macrovision hopes that the third time will be the charm: While version 3, released in September 2003, can be similarly defeated, it has added protections and features similar to those of Sony’s *SecuROM*.

<http://www.macrovision.com/>

### LaserLock (MLS LaserLock International)

This scheme creates a locking parameter on the CD by burning marks onto the surface of the CD with a special laser and adding encryption during the mastering process. These unreadable errors make it virtually impossible to copy the CD under standard methods. But there are patches available on the Internet that will bypass this scheme entirely.

<http://www.laserlock.com/>

### StarForce Professional (Protection Technology)

*StarForce* analyzes the physical parameters of the original CD during the mastering process. Based on this information, this antipiracy system then generates an

alphanumeric key. Since a disc containing a backup or illegal copy of the game will have physical parameters that are naturally different from the original CD’s, the key will recognize this and prevent the game from running. Earlier versions of *StarForce Professional* can be defeated with most backup programs, but no way has been found to defeat the latest version. At least, not yet.

<http://www.star-force.com/>

### SecuROM (Sony)

*SecuROM* is one of the oldest protection schemes on the market and one of the first to be cracked. Its latest incarnation incorporates two layers of protection—one physical and the other involving “code degradation.” A spiral track burned onto the original disc during replication at the manufacturing plant causes the drive to take either more or less time than usual to read a sector, which creates a unique reading-speed pattern. A backup copy won’t be allowed to run, since this spiral track cannot be duplicated by a typical CD-R/RW drive. Some commercial backup utilities can still create a duplicate of the game’s entire disc image, mount it onto the user’s hard drive, and emulate the peculiar actions of this protection system. This is where the second feature of *SecuROM*, called Trigger Functions, can be implemented by the developer. If at any time the disc is verified as not legitimate, the game code can be altered so that, for example, model textures or sound effects don’t load—or the whole game crashes. A copied image of the game disc mounted onto a hard drive may not be able to reliably fake its way through the multiple levels of security checks of the Trigger Functions. <http://www.securom.com/>

# Editor's Note

## At last, a website

By the time you read this, we’ll have launched a website only for you, our subscribers. We’ve had a public site at [gamingindustrynews.com](http://gamingindustrynews.com) that introduces readers to the newsletter and the people who produce it, but now we also have a site to expedite what’s already been happening via e-mails and phone calls: the transfer of information between *Gaming Industry News* readers and contributors. The site won’t waste your time. It has a sparse look and no graphics except for our logo. (You can upload a picture to enhance your profile; however, you don’t have to fill out a public profile if you don’t want to.) The idea is that you’ll be able to get to business quickly. You can comment on our news and analysis. We also have a Rumor Mill section, which you can contribute to anonymously. (Anonymously contributed entries will be vetted by the editors here before they are posted. If you post under your own name and are willing to stand by your words, there won’t be a delay.) We’ve worked to make the site useful even if you don’t want to visit it. You can get Rumor Mill stories sent to you via e-mail or you can have your RSS reader pull down news headlines.

We look forward to seeing you there.

## AND THE LOSER, ER, WINNER IS...THE VIDEOGAME INDUSTRY!

Every January, *Wired News* ([www.wired.com](http://www.wired.com)) announces its Vaporware Awards, “celebrating” those products promised during the previous year that never got released. Its top 10 runs the gamut across all tech products, but its top four are all game related:

1. *Half-Life 2*
2. *Fallout 3* (abandoned when Interplay dissolved Black Isle)
3. Phantom gaming system (see our view, page 3)
4. *Team Fortress 2* (in 1998, Valve said it would be released “shortly”)



# Exit Interview

Ed Fries on 18 Years at Microsoft **By John Davison**

*After 18 years, capped by a stint as vice president of games publishing for Microsoft Game Studios, Ed Fries has left Redmond. Ziff Davis Game Group Editorial Director John Davison spoke to Fries about his time shepherding Xbox, his future, and the industry's future.*

**Q: Why leave Microsoft? Why now?**

There is never a good time to leave. As far as bad times go, this is probably the best. The original Xbox project is winding down, and it's time for everyone on the project to decide if they are going to sign up for another five-plus years of very hard work. For me, I was willing to stay, but only if there were some changes to the way the group works today. [Chief Xbox Officer] Robbie [Bach] and I spent a lot of time trying to find a solution that would work for both of us, but we weren't successful. I'm incredibly grateful for all of the opportunities I've been given by Microsoft over the years, and I will continue to support them however I can in the future.

**Q: What's next?**

I'm going to continue to do what I love to do. I'm going to work with the world's best developers and publishers and help them take interactive entertainment forward. I'm just going to do it at a pace that's more in my control and more compatible with my family and friends.

**Q: What were your biggest achievements with Xbox?**

My biggest achievement was making Microsoft a respectable name in the gaming business.

**Q: If you could go back and do anything differently, what would it be?**

There are a million things! Games we passed on that went on to be big hits with other publishers, deals we got outbid on. Probably the hardest things to do were to take the group from being a PC game publisher to being a console game publisher, and then going from there to becoming a true first-party console game publisher. In hindsight, that process could have happened more quickly, but I think we moved

as fast as we could.

**Q: Are games going "mainstream"? Is the future of interactive entertainment in games that anyone can understand, like karaoke games?**

Not karaoke games, no. For games to become mainstream, they need to become much more accessible and they need to be even more ambitious from a content point of view. We need to reach out and grab our audience at least as well as a blockbuster movie does, and we need to make our designs so simple that anyone can pick up the controller and immediately be successful.

**Q: Is technology outpacing the speed at which developers can effectively make use of it?**

Technology is becoming less and less important. There is a huge difference in power between the current generation of consoles, but how many real gamers (not game reviewers or game developers) actually notice? The number-one-selling console today is the weakest. In the next generation, all the machines will be so powerful that power will matter even less. The future of this business is in content. It's not in technology.

**Q: Which trends in the gaming industry bother you?**

I'm not a big fan of cel shading. It perpetuates the myth that videogames are only for children.

**Q: What's the hottest trend in games right now?**

The best games today have incredibly high production values, great marketing, and are in tune with what's cool with their audience. It's pretty easy to say, but it's very difficult to do all of those things well.

**Q: Which trend has peaked?**

Hopefully it's becoming clear that games don't sell simply because they are violent or crude; they actually have to be well-designed and fun to play.

**Q: What do you think of the direction(s)**

**that the handheld market is taking? Is the future in specialized devices like Nintendo DS or "one for all" ones like PSP?**

I don't want to walk around with three or four different devices in my pockets, but at the same time, there are things I won't compromise on with my portable gaming device: It needs to have good control, a good screen, good battery life. So can all of these things be integrated? Probably, but not yet.

**Q: What do you think Nintendo needs to do to get back in the game, at least in terms of consumer perceptions?**

It's hard for them because Miyamoto is so brilliant, but at the same time, he tends to make a certain kind of game—or at least a game with a certain kind of look. That look has always been popular with younger kids, but it seems to have moved more and more out of tune with what mainstream older gamers want these days.

**Q: Sony's strategy of consolidating entertainment devices has a lot in common with Microsoft's Media Center. Is this the field for the next battle?**

I'm more interested in how things are becoming distributed rather than how they are converging. In other words, the idea of having all your media in one central place, but then being able to access it on screens distributed around the home, is more exciting to me than the idea of throwing lots of different functions into a single very expensive box that can sit at only one TV.

**Q: How can the Xbox and Windows gaming teams at Microsoft work better together?**

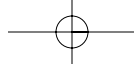
Dean Lester is in charge of DirectX now, so gamers should be excited about the future. He has a long history in this business and really knows his stuff. Look for big advances in the next major release of Windows.

**Q: Doom or Quake?**

Neither.

**Q: Half-Life 2 or Halo 2?**

Both!



# Five Big Questions

Kevin Bachus may be running Infinium now, but the Phantom's not the first console he has helped prepare for market **By Dean Takahashi**

*Kevin Bachus, cocreator of Xbox, left the team in the spring of 2001 before the console's launch. After a grueling battle to get the box off the ground, Bachus said at the time of the fall launch that it felt like his baby was going out into the world. A few years later, he has bounced around a couple of different jobs and is now trying to launch another new console (Phantom) as president and chief operating officer of Infinium Labs. He took a moment to reflect on Xbox.*

**Q: How well did Xbox turn out, given the skepticism about it at the beginning?**  
 Xbox has handily exceeded my expectations. There was tremendous skepticism at the beginning about whether the product would even ship. The fact that it delivered sales on par with Nintendo's offering is a tremendous achievement. Anyone looking for Microsoft to displace Sony as the leader was clearly not paying attention. This is not the *Highlander* syndrome, where there can be only one survivor. Is this a sustainable business that third-party publishers can make money on? The answer is yes. People inside the game industry always thought there would be just one winner. But if you look back, that has never been the case. There were always a couple of

players that were slugging it out. Xbox has been successful at elevating the importance of games in the public's mind. It has kept the other guys honest, and so it's doing good things for the publishers. Competition is a good thing.

**Q: If Xbox didn't meet the wildest expectations, where did it fall short?**  
 I would like to have seen more exclusive content from third parties. I would like to have seen more effort on Microsoft's part to make that happen. I have a sneaking fear that the plan for Xbox 2 is that they want it to be profitable above all else. If they can just get to market on time, their thinking goes, they can beat Sony. The problem is that the Sega Dreamcast tried that approach. They beat Sony to market and lost out to a better brand and better content. My hope is that with Xbox 2 we can see a much stronger portfolio of exclusive content.

**Q: What does the Xbox still have to accomplish in this generation?**  
 This generation will play out on pricing. The market share is established now. *Halo 2* will launch, but nothing will change. I would focus on Xbox 2 now. Take advantage of all the opportunities available for the next generation. They will sell Xbox for another couple of years. But the focus should be where they can do things better.

**Q: What did Sony do right?**  
 Locking up exclusive content. Marketing the crap out of the box. Focusing on the right online strategy.

**Q: What were the most crucial decisions for Xbox?**  
 The decision to build from strengths, starting with the Win32 [Windows platform] applications programming interface, the hard drive, the x86 architecture. Those were critical decisions. The specs on the Xbox were critical. The decision to run it as an initiative of the Home and Retail division, where it was the biggest part of revenues, instead of making it a part of the

## PCS? YES. CHEAP GAMECUBES? NO.

What are gamers planning to buy over the next six months?

New PC or PC upgrade for better gaming .....	23.6%
Online service subscription (e.g., Xbox Live) .....	12.5%
PS2 .....	12%
Xbox .....	12%
GameCube .....	10.8%
Internet-enabled mobile phone for gaming .....	10.6%
Handheld (e.g., Game Boy) .....	10.5%

Source: e-Poll/Gigex report *Today's Gamer*, [www.epoll.com](http://www.epoll.com)

huge Windows division. The decision to invest appropriately in assuring a competitive retail price and competitive marketing budget. And the acquisition of titles like *Halo* and focus on the box as a gaming device. I can't tell you how many times Microsoft executives asked what the silver bullet would be. We said it would have the best games that were out there. Maintaining focus on games was incredibly important when everybody had ideas to make the box into something else.

### UP/DOWN

#### Up: Becoming a Jedi

As part of its multipronged attempt to deal with churn in the massively multiplayer online game, Sony is making it easier for *Star Wars Galaxies* players to go from shining others' lightsabers to wielding their own.



#### Down: Uru dead

Ubisoft cancelled *Uru Live*, the online part of the latest *Myst* game, due to lower-than-expected subscriptions. Turns out that people like to wander austere landscapes alone.



### UP/DOWN

#### Up: EA's next year

Expect huge games from all its big franchises. And deals with Marvel, Free Radical, Criterion, and WB offer healthy diversification.



#### Down: EA's next quarter

In its conference call, EA adjusted guidance lower due to product delays, most important among them *The Sims 2*.



# Fewer Smackdowns, More Cuddling

A little romance might add some spice to game companies' bottom lines **By Jason Compton**

The entertainment media tells love stories every day in countless novels, poems, songs, plays, musicals, television shows, and films. What's the gaming industry's contribution? Well, there's *Leisure Suit Larry 6*.

Granted, the RPG genre in particular has been tentatively weaving romantic involvement into games for years, and *Max Payne 2* fancies itself a Bogart noir. One of last year's top-rated games, *Star Wars: Knights of the Old Republic*, prominently features two potential love stories. Yet "More romance!" has not become a bullet point on the backs of any boxes. Fears of the unknown and of backlash from the teen male demographic have largely kept the mushy stuff out of games.

The evidence is mounting that this thinking is not simply outdated, but invalid as well. Never mind that the testosterone-heavy Xbox user base snapped up *KOTOR*. "Most of the 16-year-old guys I knew in high school cared more than a little about receiving the admiration of women," says David Freeman, president of game consultancy The Freeman Group.

To some, that's no secret. In Japan, dating sims have long done a brisk business with a heavily male audience, and players wax poetic about the relationships in various *Final Fantasy* installments. *KOTOR* studio BioWare has made romance a calling card with the inclusion of strong romance threads in four other titles since 2000, and it plans to keep that trend rolling in upcoming releases.

All the while, publishers fret that they haven't done enough to expand their outreach to female gamers. From feel-good to hanky soaking, love stories attract women by the gross in other media. The gap between games and emotional story lines isn't technology—titles that make a conscious effort to have an emotional impact have been making players laugh and cry for more than 20 years. "One problem involved in pulling something like this off is

that it requires that the writer has skills equivalent to those evidenced by the best writers in film and television," Freeman says.

## TAKING A CHANCE ON ROMANCE

The real hang-up comes from the devil on every publisher's shoulder, which threatens that taking a risk on a game meant to evoke Valentine's Day will instead conjure up April Fools' Day. We heard several voices in the industry terrified of being burned by a "chick flick" mentality that sends men to another aisle and still fails to rope in the more casual female market.

While Majesco's upcoming *Advent Rising* includes subplots with the protagonist's fiancée, "I'm not going to tell you we put that there to woo women," says Ken Gold, marketing VP at Majesco. Gold says that Majesco is choosing to stick with safer, better-charted territory to appeal to women, such as puzzle games for Game Boy Advance.

Despite the hesitation, *The Sims* is a solid reminder of the potential to capture a female audience. "No one suspected it would appeal to so many women, because there was no precedent for a game having that kind of feminine draw," says Freeman. And draw it has, pulling in legions of women to play a game that is fundamentally about building relationships.

Still, studios aren't beating down publishers' doors with romance subplots, mainly because they're not being asked. "It's hard

## CALL PRICES GOING UP

Those playing the massively multiplayer online game *Asheron's Call* are about to see the first real change since developer Turbine Entertainment purchased the game back from Microsoft. On March 1, the monthly subscription rate will increase from \$9.95 to \$12.95. It's the first price increase since the game's launch in 1999. Will the \$12.95 price point last five years, too?

## UP/DOWN

### Up: Videogame/pop music convergence

*Billboard*, the trade newspaper for (what's left of) the music business, has added a Top Videogame Rentals chart.



### Down: Videogame/database convergence

Oracle's enormous grid for *The Sims Online* turned out to be unnecessary and the company has just signed a deal to help Atari "accurately predict and meet demand" across its distribution network. Maybe if Atari can anticipate demand, it'll spare us another Terminator.



to convince a publisher that there are a lot of people out there who *would* buy this," says Tim Cain, co-CEO of Troika Games.

Even with its time-tested experience of selling romance in its games, BioWare won't promise that more love equals more sales. ESA numbers put the female gaming population at 39 percent of the whole, but in the fantasy-RPG space BioWare plays in, the company puts the numbers closer to 10 percent—and holding. "We're aware for a portion of our player base that our romances are really important, but I don't think it's a selling feature," says David Gaider, senior writer at BioWare.

As romantic stories do creep in under the radar, the industry will have to feel out the boundaries of acceptable content. Enough games have featured strippers and prostitutes to work out rating and retail sensibilities for the seedier side of love, but no one is entirely sure if Bentonville will stock a game that gets much more intimate than *The Sims: Hot Date*, and Wal-Mart didn't answer our hypothetical question. And don't forget that earlier this month, the family entertainment of 22 men smashing into one another was scandalously marred by the brief appearance of a nearly bare



breast. The same moral sledgehammer awaits a publisher who pushes the boundaries. "Who wants to unnecessarily exclude large groups of potential buyers by giving a higher rating to a game just for the sake of one or two moments?" Freeman says.

Given the negative press games have received for less-than-nurturing relationships between men and women, a unique opportunity exists to establish a higher ground and a better example of games that project more traditionally caring relationships. Just don't expect any change to be immediate.

Further down the road lies the prospect of including a fully developed same-sex

relationship in a mainstream game. To date, most game romances have utilized a traditional hero-and-princess or male-hero-and-female-sidekick model. While *KOTOR* put a crack in that particular plate of glass and older titles such as *Fear Effect 2* provided girl-girl interaction for a voyeuristic audience, once again the market seems willing to sit back and let EA scout and win new ground—*The Sims 2* is very on the record about enabling same-sex relationships.

How long will publishers consider romance an occasional gimmick or a niche phenomenon, then sit back in amazement when another *Sims* installment pockets untold millions by further allowing players

to create close, personal relationships? Sex sells, but in the main, the gaming industry has steered clear of the cuddlier aspects of sex and gone straight for the jiggle. "The jiggle has proved to sell much better," says Billy Pidgeon, senior analyst with the Zelos Group. "But not surprisingly, it's the new, original things that break out of the pack and become hit games." When we called one major publisher, two of its reps simply swore up and down that it had no games in its lineup with the barest shred of romance and declined to elaborate. James Ohlen, director of design for BioWare, points out that there is no setting, no market, and no audience too rough-and-tumble to embrace a little companionship. "Even Conan the Barbarian has romantic interests."

## Selected Revenue Results

Microsoft may have gained acclaim for its Xbox (see our story on page 1), but that hasn't translated into a profitable console business. And despite the high-profile tumbles of *Prince of Persia* and *Beyond Good*

& *Evil*, various *Splinter Cell* permutations helped Ubisoft increase revenues. It's good to have more than one or two games to get you through a quarter. The big question is how Take-Two's future results will look

now that the company has restated the past five years. It releases results from its first quarter under its "new methodology for recording price concession reserves" on March 1.

COMPANY	WHAT IT RELEASED	NET REVENUE	DIFFERENCE FROM LAST YEAR	NET INCOME	DIFFERENCE FROM LAST YEAR	NOTES
Activision	Q3	\$508.5 million	+\$129.8 million	\$77 million	+\$32.7 million	
Atari	Q3	\$190.6 million	-\$20 million	\$23 million	-\$7.1 million	
Electronic Arts	Q3	\$1.475 billion	+\$241 million	\$392 million	+\$141.8 million	
Hip Interactive	Q3	\$178.6 million	+\$31.9 million	\$8.1 million	+\$2.3 million	
Hollywood Entertainment	Q4	\$473.6 million	+\$61.5 million	\$23 million	-\$119 million	Game Crazy segment had a quarterly operating loss of \$5 million
Konami	Q3	\$776 million	+\$39 million	\$75.8 million	-\$3.4 million	
Mad Catz	Q3	\$42 million	+\$1.9 million	\$1.6 million	-\$1 million	
Microsoft	Q2	\$1.27 billion (home entertainment division only)	-\$60 million	\$1.55 billion (entire company)	-\$320 million	Home entertainment division includes Xbox
RealArcade	Q3	\$3.9 million	+\$1.9 million	N/A	N/A	Game division of RealNetworks
Sony	Q3	\$3.48 billion (game division only)	-\$160 million	\$877.45 million (entire company)	-\$241.55 million	
Take-Two	Q4 (restated)	\$277.6 million	+\$60.3 million	\$26.3 million	+\$4.5 million	Restated revenues were \$801,000 less than originally reported; restated income went down \$358,000
Ubisoft	Q3	\$285.3 million	+\$46.6 million	N/A	N/A	
Vivendi Universal	Q4	\$320.11 million (game division only)	-\$47.83 million	N/A	N/A	Full-year game division revenues were \$719.62 million, down 28 percent from 2002

Source: company releases

# A Market Too Big to Ignore

Despite the failure of N-Gage, the number of mobile-phone gamers is heading straight up **By John Gaudiosi**

With the introduction of new mobile phones that support true 3D graphics and online gameplay, videogame makers, game publishers, handset manufacturers, and wireless providers continue to see the United States as a growing market. It's expected to grow even more next year when mobile phones that support 3D games will fall to mass-market price points.

Although the United States currently makes up just 10 percent of the worldwide mobile-phone marketplace, 2003 saw the deployment of new color handsets and a wireless infrastructure that is helping this burgeoning market catch up. Gaming in the mobile-phone space has become a data-traffic driver for operators and a revenue generator for game publishers.

"Games are one of the best ways for carriers and handset manufacturers to promote the color screens, polyphonic sound chips, and additional memory that new phones include," says Amy Francetic, producer for the trade show DEMOMobile. "A large population of consumers will upgrade their handsets and service so that they can download games, music, and e-mail, with games being the biggest driver."

Francetic says that 2004 will see an increased focus on advertising new phones and services to a younger generation, males and females ages 16 to 25. It's this demographic that has led mobile-phone adoption in Japan for years, fueled by downloadable ring tones and games.

## MOBILE GAMING NATION?

"By the end of this year, almost everyone who owns a mobile phone will have played a game on it," says Doug Dyer, vice president of Warner Bros. Online's wireless division. "In five years, mobile gaming has the potential to be the biggest handheld gaming category."

That's a bold prediction given the dominance of Nintendo Game Boy devices, of which more than 155 million have been sold since 1989. And with this fall's arrival of Nintendo DS, which will be a separately

marketed gaming device competing head to head with Sony's PSP, there will be more options in portable gaming than ever.

But the argument goes that while portable game devices will flourish with a growing audience, when it comes down to it, a mobile phone will always be taken on trips to the supermarket and on vacations. One can live, after all, without a GBA in his or her pocket. Many expect new multi-function mobile phones to help broaden the market for better games. Current phones provide graphics on par with those of the old Game Boy Color, but new handsets shipping this year will bring GBA graphics to the table. The direction that many mobile-phone companies are taking is to offer phones that are utilitarian first with gaming as a secondary option.

## NOKIA PREPARES FOR ROUND TWO

The one exception to this rule is Nokia, which launched its first N-Gage videogame phone in October 2003. The portable gaming device, which can also be used as a phone, initially retailed for \$299, but it quickly dropped in price; game bundles and rebates brought the phone and three games down to \$199 or (much) less. Despite the price cut, U.S. sales have been poor. The Finnish manufacturer has shipped 600,000 N-Gage units worldwide, but analysts say that of the 200,000 to 400,000 devices sold so far, most were in Europe. After horrible Christmas sales, leading specialty videogame retailer GameSpot has stopped selling N-Gage devices in 450 of its 1,500 retail locations.

"The N-Gage may be able to compete with other specialized lifestyle phones, which is to say it may sell a few hundred thousand units given another year, but an installed base of at least 5-10 million devices is a prerequisite to establishing a dedicated game-publishing business that can support the investment of third-party publishers," says Billy Pidgeon, senior analyst for the Zelos Group. "Bottom line, N-Gage and other phones with superior support for games will not gain market share from dedicated handheld game devices."

## ONE MOBILE ESTIMATE

While Europe and Asia are far ahead of the U.S. market in terms of mobile-phone games and other consumer-focused media (due in part to far-superior wireless networks), the number of mobile-phone-game users in the United States is projected to grow from an estimated 13 million in 2003 to 70 million by 2008, according to research published by International Data Corp. and DataMonitor. The estimated \$350 million revenue from 2003 is expected to grow to about \$4 billion in revenue in the United States by 2008.

Nokia maintains that it will meet its sales goal of 6 million units worldwide by October 2005 (we'll be sure to follow Nokia's progress). The company has allotted a reported \$100 million in marketing to promote the N-Gage brand. And sources close to the company say that a second N-Gage gaming device will ship this year. "We have every intent on being in this business for the long haul," says Nada Usina, general manager of entertainment and media at Nokia. "Announcements such as our current reorganization and our acquisitions of Sega.com and Snap Technology are all part of our longer-term strategy."

Nokia has another fighter in its corner: speed. It has a history of bringing new phones to market far faster than its competitors deliver handhells (Sony, after all, hasn't even released its first gaming handheld). And expect to see an attempt to hammer out some sort of wireless-gaming standard at E3.

That dovetails with one thing N-Gage will certainly have going for it: the increased consumer awareness that the mobile phone has generated for gaming. Television, print, and online ads for mobile-phone gaming has increased as game companies such as THQ Wireless, Sega Wireless, and GameLoft get consumers used to paying for game downloads. Sprint sold more than 5 million of

the games purchased in 2003, and it's not even the largest game carrier. Sprint's library consists of 200 games from 20 publishers.

Taking a page from Microsoft's Xbox Live, Sprint has launched Game Lobby, a place for Sprint customers to create a single gamer tag and find friends instantly online through their phones or PCs. The Lobby will have 50 to 75 games available by the end of 2004.

"By extending game functionality, including uploading high scores and the ability to meet, chat with, and even taunt other gamers, gameplay becomes more interactive and a community is built," says Jason Ford, general manager of games and entertainment for Sprint.

#### HOLLYWOOD HEARS THE CALL

Hollywood studios have also jumped on what they see as a bandwagon. Rio Caraeff, vice president of wireless services at Sony Pictures Digital Entertainment, says that the company is integrating the marketing and promotion of upcoming 3D-enabled mobile games with the worldwide marketing of theatrical films. This summer's *Spider-Man 2*, which includes 3D gameplay, should also help the market's growth.

One trend that's likely to continue, according to Mark Nagel, product manager at Cingular Wireless, is the simultaneous release of PC and mobile-phone games, like Ubisoft Entertainment and GameLoft did last fall with *XIII* and *Prince of Persia: The Sands of Time*. More traditional game companies are entering the mobile-phone gaming space, which has a much lower cost of entry than the portable game market—and a much larger audience.

With improved graphics, lower-priced phones, and the introduction of wireless-gaming communities, the future looks bright for mobile-phone games. While functionality such as communication and PDA storage capacity will always be important, games are a key factor in driving the younger demographic. For mobile-phone makers to continue to push new products, they must attract the early adopters who allow Sony to make PlayStation 3—these consumers will play a pivotal role in the success of mobile-phone gaming.

# Too Soon to Verify

The hottest industry tips, unfiltered

*Throughout Gaming Industry News, we endeavor to stick close to the facts and make assertions based only on the evidence. But not here. Every month in this space, we report the juiciest of stories—those we're pretty sure won't get us sued...or you fired.*

Xbox rumors this month are all about looking backward. Xbox Next might not offer compatibility with original Xbox games and might not include a hard drive. From what we hear, what's more important to Microsoft is including some TiVo/PVR functionality in the upcoming device. Two sources (one inside Microsoft) tell us that serious consideration was given to including those features in the existing Xbox, but those plans were dropped when research showed that the key selling feature of a PVR in a game box is the ability to record while playing a game. That is technically possible, but it would tax the microprocessor so much that games would run too slowly. With Xbox Next being stuffed with three 64-bit microprocessors (advanced versions of what now powers Apple's G5 line), suddenly the PVR option looks much more attractive to Redmond.

And what about this year's model? American Technology Research analyst PJ McNealy received much attention in the mainstream press for asserting that Xbox's price could drop to \$99 by Labor Day. From what we're hearing, if that happens, it will be the second Xbox price cut of the year. Xbox may have the mind share (see page 1), but Nintendo's \$99 GameCube price is hogging the low end of customers. Microsoft, we're told, needs to make a move now.

Not that Nintendo will remain so competitive. We hear it's cutting sales targets for this quarter, and analysts from Goldman Sachs and others have cut their ratings on the company. "The price cut gave Nintendo a one-time boost," says an electronics-chain console buyer. "It was great while it lasted, but no one was counting for it to last after the first of the year."

It's too early to see where Sony is going with PS3—it will likely be the last of the three companies to launch its next console—but it isn't too early to know how Microsoft and Nintendo will position themselves. Xbox Next will be about speed and power, while Nintendo says its "next-generation machine," to be unveiled at E3 2005, will feature "new types of gameplay." So as our man at Sony suggests, "Nintendo has ceded the technical high end to Microsoft and us."

Long before PS3 emerges, we'll see another war between Nintendo and Sony on the handheld front as Nintendo DS and Sony PSP are released this fall. PSP has some big guns signed up for launch (EA, THQ), as does Nintendo (Konami, Namco), but we're hearing more and more that LCD supplies are quite tight these days, which, in the words of one correspondent, "will either push up the price or cause delays, which is not what you want at launch, although I guess that didn't hurt the PS2 in the long run."

Every report tells us that people are moving from television to videogames, so it shouldn't surprise us to hear that ACNielsen, longtime chronicler of TV watching, is about to start collecting game-purchase information, putting it in competition with NPD.

Who's sniffing around Atari? Warner Bros. just opened an online division, and three people tell us that Atari is a possible partner and takeover target. We've also heard that Electronic Arts has intentions.

"Why is no one from Microsoft speaking at the Game Developers Conference in San Jose next month?" one correspondent asks. "We're not an open-source convention, for Pete's sake." With Ed Fries gone, who at Microsoft will take this role?

*Do you know who'll take that role? Do what your colleagues are doing: Sign up for an anonymous e-mail account and write to me at Jimmy\_Guterman@ziffdavis.com. We can't do it without you.*

# gaming|industry|news

## GAMING INDUSTRY NEWS SUBSCRIPTION FORM

Complete this form to join the community of executives and investors who want analysis and insights about the game industry that are unavailable anywhere else. You may also subscribe via our website, [www.gamingindustrynews.com](http://www.gamingindustrynews.com).

Subscribe now and you can receive *Gaming Industry News* for the charter rate of only \$695 per year, a **30 percent** discount off our standard \$995 price. Your subscription includes both the monthly print newsletter and exclusive weekly e-mail commentary.

Your subscription also entitles you to a free electronic copy of Ziff Davis Media Game Group's "Digital Gaming in America 2003," our sixth annual U.S. population study. If you subscribe online, you can download the document immediately. If you subscribe via fax or postal mail, we'll e-mail you instructions for downloading it.

NAME \_\_\_\_\_  
 TITLE \_\_\_\_\_  
 COMPANY \_\_\_\_\_  
 ADDRESS \_\_\_\_\_  
 CITY \_\_\_\_\_  
 STATE \_\_\_\_\_  
 ZIP \_\_\_\_\_  
 COUNTRY \_\_\_\_\_  
 TELEPHONE \_\_\_\_\_  
 FAX \_\_\_\_\_  
 E-MAIL (required to receive weekly e-mail report) \_\_\_\_\_  
 URL \_\_\_\_\_

- Please contact me regarding a site license so my colleagues can read *Gaming Industry News*.  
 Check enclosed.

- Charge my credit card.  American Express  Discover  MasterCard  Visa

CARD NUMBER: \_\_\_\_\_ EXPIRATION DATE: \_\_\_\_\_

NAME ON CARD: \_\_\_\_\_

BILLING ADDRESS: (if different from mailing address) \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

Please fax this form to 847-291-4816. Payment must be included with this form. If you wish to pay by check, please mail this form with payment to Gaming Industry News, P.O. Box 3515, Northbrook, IL 60065-3515. For faster action, you may also subscribe via our website, [www.gamingindustrynews.com](http://www.gamingindustrynews.com).