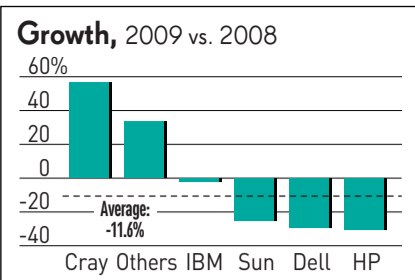
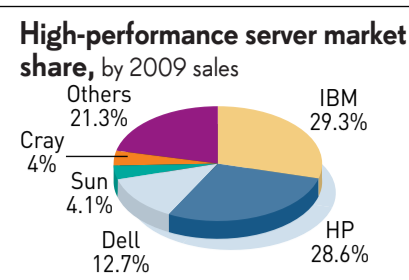
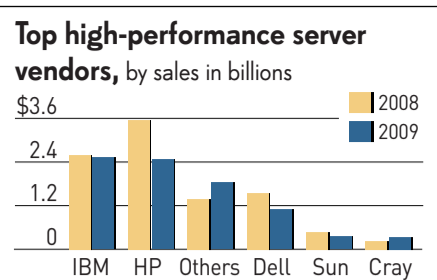
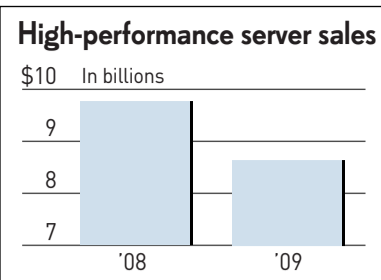


DATA BUS

Supercomputer Sales Super-Soft

Sales of high-performance computers used in technical fields fell more than 11% last year as unit sales plunged 40%. IBM and HP were statistically tied for the lead. Supercomputer pioneer Cray saw the biggest growth but remains far behind rivals.

Source: IDC (idc.com)



INTERNET & TECHNOLOGY

Video Game Makers Losing To Casual, Social Gaming Trends

EA And Activision Refocusing

Low-cost games for iPhone and Facebook stealing the thunder from console titles

BY PATRICK SEITZ
INVESTOR'S BUSINESS DAILY

The video game industry is in upheaval, as traditional console game sales are falling while newer forms of gaming, such as Facebook and iPhone games, are rising fast.

Console game publishers, including **Electronic Arts** (EARTS) and **Activision Blizzard** (ATVI), are rethinking how they do business. They're looking for ways to make money with online games and broadening their reach into digital downloads.

The game makers are cutting back on the number of packaged software titles they're releasing to focus just on those with the best hit potential. And they're slashing expenses to reduce overhead costs.

Video game publishers also are responding to the growth of online casual and social games and smart phone games through in-house development and acquisitions.

The state of the video game industry is "not great," said Todd Greenwald, an analyst with Signal Hill Capital Group. "It's definitely under pressure. Publishers realize they're putting out too much content. They need to pare it back. The challenge is to make sure they're canceling the underperforming titles while keeping the strong titles." Meanwhile, game development

costs have soared for the high-definition consoles, **Microsoft's** (MSFT) Xbox 360 and **Sony's** (SNE) PlayStation 3. Games that sell 1.5 million to 2 million copies used to be considered hits, but now they might just break even for publishers, Greenwald says.

Last year, U.S. retail video game hardware and software sales fell 8% to \$19.7 billion, according to the NPD Group.

Analysts say the recession hurt sales. Plus, users are hanging onto old games longer, thanks to online multiplayer modes and services such as Microsoft's Xbox Live.

"The 'Call of Duty' player or 'Medal of Honor' player played for 10 or 20 hours, finished the game, put it aside and bought a new one," said Michael Pachter, an analyst with Wedbush Securities. "The new guy is on his hundredth hour and going strong because online multiplayer is so fun and it just doesn't stop. The longer you play that game online, the less incentive you have to go buy something else."

Game publishers are trying to figure out how to make money off the online game-play. Future business models might be based on usage rather than the upfront sale of game software, says David Cole, an analyst with DFC Intelligence.

The next version of Activision's "Call of Duty" is likely to feature some type of pay scheme for online play, Pachter says. Players might have to pay for the ability to earn achievements, such as getting promotions in rank and better in-game weapons for their soldiers.



But getting players to pay for something they now get for free can be tricky, Greenwald says.

Activision, though, understands how to make money with online games. That's thanks to its blockbuster massively multiplayer online role-playing game "World of Warcraft." About 11.5 million gamers worldwide subscribe to play "World of Warcraft."

Adding to the video game industry's woes today was an unsustainable surge in sales from music-based video games, such as Activision's "Guitar Hero" and EA's "Rock Band," and **Nintendo's** (NTDOY) Wii console.

From 2000 to 2005, the number of video game titles released each year

was stable at around 800, Pachter says. After 2005, the number ballooned up to 1,300.

"There are a lot of games being made that nobody's buying," he said, "like the 15th version of some party game for the Wii."

The Wii expanded the video game market with its intuitive, motion-sensing controller and easy-to-learn family games. But Wii owners don't buy many games. They stick with the core games from Nintendo.

Music video games goosed industry sales for a few years as households bought plastic guitar controllers, drum sets and microphone peripherals. But once the market was saturated, sales tanked.

"There is still an audience for

Activision, Electronic Arts and other makers of high-end console video games will be concentrating more on surefire hits — including Activision's "Call of Duty: Modern Warfare 2," above — as their sector loses momentum to newer types of low-end games made for social networking sites such as Facebook and for handsets like the iPhone. AP

music games, but the bloom is off the rose on that one," said Billy Pidgeon, an analyst with Game Changer Research.

The video game industry is settling down and "reverting to the mean," or its historical average, Wedbush's Pachter says. Growth will return naturally as console sales rise.

Meanwhile, online games and downloadable games are booming.

Online games available through social networking site Facebook are "taking off," Greenwald says. This trend has opened the door for smaller, venture capital-backed companies to prosper.

Many of these upstart companies could go public or be acquired in

the next 12 to 24 months, he says. They include Zynga, Playdom, CrowdStar and PopCap Games. (See Q&A, A5.)

"There's a real shakeup in the established power structure" of the video game industry, Cole said. "We're seeing a ton of growth in these small, lower-cost products that have much higher margins, but they're not going to generate the hundreds of millions of dollars that existing products do."

The revenue generated by Zynga's popular, and mostly free, Facebook game FarmVille, for example, is minuscule compared with a hit console game that sells millions of copies at \$50 or more each.

But Pachter says online social and casual games probably are not affecting console game sales, because they attract different customers.

"The 'Call of Duty: Modern Warfare 2' online player is not going to stop and then start playing FarmVille," Pachter said. "That's just not happening."

Still, the growth of these emerging areas has attracted the attention of the large video game publishers.

In November, Electronic Arts bought Playfish, a creator of social network games, for more than \$300 million.

Besides Web browser-based games, the new generation of video game developers is focused on downloadable applications for PCs, game consoles, smart phones and other mobile devices. **Apple** (AAPL) set the stage for downloadable mobile games with its App Store for the iPhone, iPod Touch and iPad.

THERE'S NO GUARANTY HER ROOF WON'T LEAK THIS SPRING.
THERE'S NO GUARANTY HER DAUGHTER WILL FOLLOW IN HER FOOTSTEPS.
THERE'S NO GUARANTY SHE'LL MAKE IT TO YOGA TONIGHT.
BUT THERE IS A GUARANTY FOR HER MUNICIPAL BONDS.

Now more than ever, it's important to make sure investments are secure. At Assured Guaranty, we put our capital behind every bond that we insure. In addition to our guaranty of principal and interest, investors can rely on our careful analysis and ongoing surveillance, creating a more liquid market for their municipal investments. For the stability you need in a changing world, trust the global leader in bond insurance.

**ASSURED
GUARANTY**
FAMILY OF COMPANIES

ASSURED GUARANTY CORP.
ASSURED GUARANTY MUNICIPAL

THINKASSUREDGUARANTY.COM

AGO
LISTED
NYSE

Q&A

Casual Game Firm PopCap Is Making Noise

Success of 'Bejeweled' and other games has it thinking IPO is possible

BY PATRICK SEITZ
INVESTOR'S BUSINESS DAILY

PopCap Games is part of a new breed of video game companies.

The Seattle-based company makes so-called casual games. They are easy to learn but tough to master, and can be played in short increments. Its games such as "Bejeweled" and "Peggle" (both are puzzle games) have been described as fun and addicting and can be played on personal computers and smart phones either online or offline through downloads.

While traditional console video game publishers struggle, PopCap and other casual game vendors are seeing brisk growth. (See story, A4.)

PopCap is exploring its strategic options, which could include making an initial public offering or putting itself up for sale.

PopCap Chief Executive David Roberts recently spoke with IBD about the casual games market and his company's future.

David Roberts

■ PopCap Games
■ CEO
■ 48 years old
■ B.S., computer science, Dartmouth College; MBA, Stanford University

■ Of note: Before joining PopCap in 2005, he was an executive with stock photography company Visual Communications Group, which Getty Images bought in 2000

IBD: What impact are casual online and downloadable games having on the traditional console video game industry?

Roberts: The demographic for most online games is a lot more diffuse than what you see in the traditional video game space. So the impact is probably not huge.

The problem with the console games business today is they're building bigger and more expensive games for relatively smaller and smaller audiences. The more complex those games get, fewer people are going to jump in — for instance, at "Final Fantasy XIII" — and start to pick up the game.

You are seeing a lot of growth with people who didn't play video games before. That's our focus, so I'm probably a little biased.

That doesn't mean we don't sell to hard-core gamers. I've always theorized that probably a third to a half of the revenue in the casual space comes from hard-core gamers. But our price points are so low that it's kind of a toss-away to those guys.

"Plants vs. Zombies" is one game where we've had huge crossover success. We've sold a ton of it on Steam (a game download store). When it first came out, Steam was selling more \$10 "Plants vs. Zombies" in total dollars than they were getting for "Left 4 Dead," which costs \$50 or \$60. And Steam is definitely not a place where soccer moms hang out.

If they're good games, hard-core guys like them too. It's just not necessarily what they're going to spend the bulk of their dollars on.

We've never liked the "casual" moniker. We think of them as "games for everybody."

IBD: Not only is pricing different for casual games, but how they're consumed is different, right?

Roberts: Absolutely. People play them in five minutes. That's the biggest differentiator from a game-play perspective. It's why we have a broader appeal.

Look, I'm almost 50 years old and a few years ago after I sold my company and was hanging out doing nothing, I had plenty of money and plenty of time and I tried to play Xbox games. And it wasn't fun. You have to spend hours and hours and hours just to get bad at it. It wasn't how I wanted to spend my day. It's a beautiful, immersive experience and the games are unbelievable to watch on the big screen with surround sound and all that, but it wasn't fun. That's the thing that gets missed sometimes.

IBD: What are the hottest areas for your business?

Roberts: The biggest areas we see growing are games on social networks — on Facebook in particular.

We went from zero to 25 million "Bejeweled Blitz" customers in a

little over a year, which is crazy. There was no way we could get 25 million people to play our games before. And these aren't hard-core gamers. These are our typical demographic. They're mostly women and they're mostly over 25. The social outlets, channels and games are bringing whole new sets of people into the fold.

The iPhone is obviously very hot. That platform is so great for consuming and selling. Apple^{APPL} has built a great ecosystem (with the App Store). Hopefully the iPad will be hot too. We'll (have games) there as fast as we can.

Microsoft's^{MSFT} Xbox Live has al-

ways been great for us. Any time there's electronic distribution, we like it.

IBD: You're investigating strategic opportunities for the company. Is it more likely you'll be acquired or have an IPO?

Roberts: Who knows? If you'd asked me two years ago if we'd go public, I'd have said you're crazy. But the way the market is changing and the way we've been growing, things are different now.

There's going to be another successful, big company that does for general-purpose gaming what Electronic Arts^{ERTS} did for (video console) gaming more than 25 years

ago. There's an argument that there could be one or more public companies that do that. We're certainly looking to position ourselves that way (for an IPO), if things keep working out like they have.

IBD: Can you disclose revenue?

Roberts: Not quite yet. We're a little closed about that still. But we'll try to roll out more of that (information) this year. We don't want to tell our competitors more than they need to know.

IBD: Is PopCap profitable?

Roberts: Oh, yeah. We've always been profitable. We've been profitable since the start, which has been 10 years now.



CEO David Roberts says PopCap's "Plants vs. Zombies" game — that's the iPhone adaptation above — has been a hit even with hard-core gamers.

THE BAR JUST GOT A LITTLE HIGHER.

*1 of 24 leading national money center banks and thrifts in the KBW Bank Index.**

*A Top 30 U.S. Bank by market capitalization.***

"This is a bank that can clearly stand on its own two feet."

- Jim Cramer, CNBC⁺

Investment-grade credit rating by S&P, Moody's and Fitch.

What does it take to grow while the industry is still in a state of flux? A rock-solid vision, inspired leadership and a company-wide commitment to deliver nothing but the best service to its customers. That's why First Niagara has maintained an unbroken record of dividends and profits, increased business and consumer lending, and raised nearly one billion dollars of capital from our shareholders. We're growing—and can help you do the same. The power to get more out of your money. The power of First Niagara.



Visit us at fnfg.com

MEMBER FDIC

*Keefe, Bruyette & Woods, Inc. has not endorsed the information contained in this presentation and accepts no responsibility for its content. The KBW Bank Index is a registered trademark of Keefe, Bruyette & Woods, Inc.

**Ranked as of 2/17/10.

+ Jim Cramer, *Getting Back to Even* (Simon & Schuster).