RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION

MEETING OF DIRECTORS

PUBLIC SESSION

JUNE 14, 2010

The Board of Directors of the Rhode Island Economic Development Corporation (the "Corporation") met on Monday, June 14, 2010, in Public Session, at 4:00 p.m., at the offices of the Rhode Island Economic Development Corporation, located at 315 Iron Horse Way, Suite 101, Providence, Rhode Island, pursuant to notice of the meeting to all Directors, and public notice of the meeting, a copy of which is attached hereto, as required by the By-Laws of the Corporation and applicable Rhode Island law.

The following Directors were present and participated throughout the meeting as indicated: Governor Donald L. Carcieri, Mr. Alfred Verrecchia, Mr. Karl Wadensten, Mr. Shivan Subramaniam, Ms. Cheryl Snead, Mr. Dan Sullivan, Dr. Timothy Babineau, Ms. Donna Cupelo and Mr. Stephen Lane.

Directors absent: Mr. Lynn Singleton, Mr. Paul Choquette, Dr. David Dooley and Mr. George Nee.

Also present were: Executive Director Keith Stokes and Attorney Robert I. Stolzman.

Governor Carcieri presided over the meeting and Attorney Robert I. Stolzman acted as Secretary.

1. CALL TO ORDER

Governor Carcieri called the meeting to order at 4:00 p.m.

2. APPROVAL OF THE MINUTES OF THE MEETING HELD ON MAY 24, 2010

Upon motion duly made by Mr. Verrecchia and seconded by Dr. Babineau, the following vote was adopted:

VOTED: To approve the public session minutes of the meeting held on May 24, 2010.

Voting in favor of the foregoing were: Mr. Verrecchia, Mr. Wadensten, Mr. Subramaniam, Ms. Snead, Mr. Sullivan, Dr. Babineau, Ms. Cupelo and Mr. Lane.

Voting against the foregoing were: None.

3. EXECUTIVE DIRECTOR'S REPORT

In his report, Executive Director Stokes referred to the EDC's Immediate Priorities Implementation Plan that was approved at the April 25, 2010 Board meeting (See **Exhibit A**). He noted the very specific Policy and Vision statement and the Action Plan.

Mr. Stokes reported that the EDC has been very active and has already greatly enhanced access to credit, a capital guaranty program and created a soft asset guaranty program of up to $125 million. The programs are now in place to be put into use.

Mr. Stokes stated that work continues on a Regulatory Reform package and development of a 21st Century Workforce Program. With respect to renewable energy, Mr. Stokes noted that the EDC has an opportunity to build a green economy, reclaim the manufacturing industry and focus on growth oriented renewable energy, specifically, wind. He noted that nearly every piece that the EDC asked for in the recently ended legislative session has been received, which is a compliment to the Board's vision.

Governor Carcieri concurred that this last legislative session was one of the most productive session in his 8 year tenure. He commended the restructure of the EDC and noted that the House leadership has been very supportive of economic development matters. Governor Carcieri also highlighted the tax reform that has just taken place, including a significant tax cut which will primarily help those earning $75,000 to $175,000.

Mr. Stokes agreed that the reform of personal income tax structure is a plus for the State.

4. CONSIDERATION OF NEW BUSINESS OR INDUSTRY TO BE LOCATED IN RHODE ISLAND

Mr. Stokes announced that a new economic development opportunity has presented itself to Rhode Island, and introduced Mr. J. Michael Saul, who would act as moderator of three presentations at the meeting.

Mr. Saul introduced Mr. Harvey Cohen and Mr. Barry Gilbert, President and Vice President, respectively, of Strategy Analytics (SA). Mr. Gilbert explained that SA, together with Perimeter Partners, performed an evaluation of the development of a video game cluster in Rhode Island, particularly featuring 38 Studios, LLC, and put together a report for the Board's review (See **Exhibit B**). Using a power point presentation (See **Exhibit C**), Mr. Cohen described a video game cluster and pointed out where current video game clusters presently exist in North America. He noted that video-game development jobs pay higher than average salaries and that Rhode Island is well suited to support a video game cluster. Academically, Rhode Island's secondary education institutions, primarily RISD, Brown and URI, have excellent programs to educate future video game developers and designers. Presently, 80% of RISD graduates leave Rhode Island and over 50% of Brown graduates have a interest in the video gaming industry. In addition, Rhode Island already has a game industry presence with companies such as Hasbro and Gtech. Mr. Cohen stated that a video game cluster in Rhode Island could help to retain these talented graduates in Rhode Island.

Mr. Cohen also pointed out the risks associated with the game industry in general, as well as those associated with 38 Studios itself. He noted that video gaming is a constantly evolving industry and that gamers are always looking for new genres and new challenges.

Upon inquiry of Ms. Snead, Mr. Cohen described different facets of a cluster as including production (design and development with a strong distribution partner) and distribution.

Mr. Wadensten asked about "freemium" games, which Mr. Cohen described as free play offers which are enhanced by the purchase of digital goods. He identified "Zinger" as a freemium gamer, and noted that freemium games are free to play but the purchase of accessories allow the user to better enjoy game playing.

Upon inquiry of Dr. Babineau, Mr. Cohen explained that individual employees often spin out of larger studios and start their own companies. In addition, if a studio has a blockbuster hit, everyone starts to look at the region where the studio is located.

In response to a question of Mr. Sullivan, Mr. Cohen acknowledged that his research included meeting with local university officials, but that the schools are hesitant to commit to focusing on this area until a video game business comes to Rhode Island and is successful.

Mr. Verrecchia explained that companies like 38 Studios provide the creative content for video games but then rely on a big distribution partner, such as Electronic Arts (EA), to get the game out. The distribution partner generally takes about 2/3 of the profit from the sales of the games. He noted that the focus today is more on digital downloads as opposed to games in the form of DVD's. Mr. Verrecchia also explained that EA has mass market appeal and provides exposure for the games.

The next presenter was Mr. Mark Lamarre of Wells Fargo. A copy of his presentation can be found at **Exhibit D**. Mr. Lamarre explained that, for over 20 years, Wells Fargo has provided financial assistance to the interactive entertainment market. He also pointed out that the type of video gaming being discussed is not at all related to gambling.

Mr. Lamarre described the market for gaming consoles as being flat, while the gaming software is the growth part of the market. He stated that the U.S. and western Europe are the target markets for a company like 38 Studios, with EA being the top software publisher. Mr. Lamarre explained that the largest part of video gaming revenue is derived from entrepreneurial companies such as 38 Studios. Upon inquiry of Governor Carcieri, Mr. Lamarre stated that individual titles are the biggest source of revenue.

In response to a question of Mr. Subramaniam, Mr. Lamarre explained that EA in the past developed most of its own games, but that it now prefers to outsource its research and development and is always looking for innovative companies.

Mr. Verrecchia asked Mr. Lamarre to speak about franchise building aspects of video gaming. Mr. Lamarre explained that the biggest hits come from having multiple products from the same line, such as added versions, sequels and licensing of characters. He described triple-x games as being complex and hard to play.

Mr. Verrecchia stated that many video games are introduced but not all are successful.

Mr. Lamarre spoke about trends and drivers, as well as inhibitors to the industry, and noted that video game use has grown five-fold since 2003.

Upon inquiry of Ms. Snead, Mr. Lamarre explained that video games are both entertaining and educational, but primarily entertaining. He stated that "edutainment" is a small part of the market.

Mr. Lamarre described online PC gaming, which allows players to play and/or compete with others online, as a growing segment of the market.

Mr. Lamarre described 38 Studios as having a complete and experienced board of directors and management team, with an ability to hire and retain the right people.

Mr. Wadensten noted that EA is a titan in the industry, which is not typical, and asked how many people work for EA. Ms. Jen MacLean, CEO of 38 Studios, responded that about 3,000 people, spread out all over the world, currently work for EA. Mr. Wadensten noted that businesses in this industry do not have a need for a large physical plant.

In response to a question by Governor Carcieri, Mr. Lamarre reported that Montreal has over 6,000 jobs in the video game industry, represented by about 20 companies. He reported that this thriving cluster grew differently than clusters in the United States. The impetus was Ubisoft, a French company which located in Montreal for language reasons. Mr. Verrecchia noted that Montreal also has significant tax incentives for businesses, which is a reason so many people choose to work there.

Mr. Verrecchia commented that MMOG's (Massively Multiplayer Online Games) have been heavily influenced by Asian companies, and asked if 38 Studios is intended to be a global launch. Ms. McLean responded that the 38 Studios plans to launch its products in the U.S. and western Europe. She noted that it presenty is impossible to enter China's market without a Chinese partner.

Ms. McClean then introduced Curt Schilling, founder and Chairman of 38 Studios, LLC, to provide some background to the Board.

Mr. Schilling expressed his gratitude to the EDC for its interest in this project over the last six months. He stated that he has been into gaming for over 30 years, and used it as a way of keeping in touch with his sons when he was traveling as a major league baseball player. He noted that he found video gaming to be an educational tool with his sons.

Mr. Schilling stated that the most important attributes of 38 Studios are 1) People, 2) Accountability and 3) Philanthropy. He considers his Board of Directors to include people with leadership skills and accountability. 38 Studios is a product of Mr. Schilling's 20 year vision. He stated that he needed people and talent to execute this vision and that he wants to be the best in the business. He noted that most of his board members were present at the meeting, some having flown in from Europe. Mr. Schilling read letters of support from Mr. Todd McFarlane, Executive Art Director of 38 Studios, LLC, who was unable to attend the meeting, and from a representative of EA.

Ms. McLean then introduced Mr. R.A. Salvatore, Executive Creator of Worlds for 38 Studios, and a New York Times bestselling author. Mr. Salvatore explained that he thought he had retired 20 years ago, but he wrote a book, for which his publisher wanted sequels and now has 50 books published. He is also a gamer and was satisfied to be home writing books, when he was approached by Mr. Schilling about creating a storyline for 38 Studios. He noted that he considers this company to be something special.

Ms. McLean then introduced the management team, all of whom have extensive experience in design and development of video games, and the board members who were present at the meeting. She explained that the company's product has its own ecosystem, and that one story is not enough. She stated that there are 10,000 years of backstory to the game.

Ms. McLean used a Power Point presentation (See **Exhibit E**) to provide more information on 38 Studios, LLC to the Board. She explained the first product "Mercury" as a role-playing game that will form the background for "Copernicus". Mercury is a console game with downloadable add-ons, while Copernicus will be a downloadable game available through subscription. The release date has not yet been announced. Ms. McLean reported that 1/3 of the artists involved in 38 Studios are RISD students and/or alumni. Because 38 Studios is an independent closely held company, it can be flexible. The company has a Philanthropy Manager who oversees the company's philanthropic activities.

5. VOTE TO MEET IN EXECUTIVE SESSION

By open call prior to adjournment to Executive Session, upon motion duly made by Mr. Verrechia and seconded by Dr. Babineau, the following vote was adopted:

VOTED: That the Board adjourn to Executive Session to consider and possibly take action on such matters as permitted by subsections (6) (location of prospective business and/or industry in Rhode Island) and (7) (investment of public funds where premature disclosure would be adverse to the public interest), of Rhode Island General Laws, §42-46-5 (a), the Open Meetings Act.

Voting in favor of the foregoing were: Mr. Verrecchia, Mr. Wadensten, Mr. Subramaniam, Ms. Snead, Mr. Sullivan, Dr. Babineau, Ms. Cupelo and Mr. Lane.

Voting against the foregoing were: None.

6. RECONVENE OPEN SESSION

The public session was reconvened at 6:20 p.m. Attorney Stolzman reported that the Board discussed matters regarding a new business or industry to be located in Rhode Island, investment of public funds and confidential information regarding 38 Studios, LLC, and that no action was taken by the Board in executive session.

Mr. Stolzman then reviewed the proposed authorizing resolution, including the amendments discussed by the Board in Executive Session. He noted that this resolution is a preliminary approval only, and that the matter will come back before the board for final approval.

Upon motion duly made by Mr. Verrecchia and seconded by Dr. Babineau, the following vote was adopted:

VOTED: See text of Vote at **Exhibit F**.

Voting in favor of the foregoing were: Mr. Verrecchia, Mr. Wadensten, Mr. Subramaniam, Ms. Snead, Mr. Sullivan, Dr. Babineau, Ms. Cupelo and Mr. Lane.

Voting against the foregoing were: None.

There being no further business in Public Session, the meeting was adjourned at 6:25 p.m., upon motion made by Ms. Cupelo and seconded by Dr. Babineau.

Robert I. Stolzman, Secy
Robert I. Stolzman, Secretary

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RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION
PUBLIC NOTICE OF MEETING

A meeting of the Rhode Island Economic Development Corporation Board of Directors will be held at the offices of the **Rhode Island Economic Development Corporation, 315 Iron Horse Way, Suite 101, Providence, Rhode Island**, on **MONDAY, JUNE 14, 2010,** beginning at **4:00 p.m.**, for the following purposes:

PUBLIC SESSION

1. To approve the Public Session Minutes of the meeting held on May 24, 2010.

2. To consider, as may be appropriate, matters covered in the Executive Director's Report.

3. For consideration of new business and/or industry to be located in Rhode Island.

EXECUTIVE SESSION

4. If necessary, to consider and act upon such matters as may be considered at a meeting closed to the public pursuant to the Open Meeting Law, specifically matters permitted to be so considered under subsections (1) (personnel matters), (2) (sessions pertaining to collective bargaining or litigation, or work sessions pertaining to collective bargaining or litigation), (5) (acquisition or lease of real property for public purposes or disposition of publicly held property), (6) (location of prospective businesses in Rhode Island), or (7) (investment of public funds) of Rhode Island General Laws, Section 42-46-5(a) (the Open Meeting Law).

This notice shall be posted no later than 4:00 p.m. on THURSDAY, June 10, 2010, at the Office of the Rhode Island Economic Development Corporation, at the State House and by electronic filing with the Secretary of State's office.

Robert I. Stolzman
Secretary

The location is accessible to the handicapped. Those requesting interpreter services for the hearing impaired must notify the Rhode Island Economic Development Corporation at 278-9100 forty-eight (48) hours in advance of the meeting.

Dated: June 10, 2010

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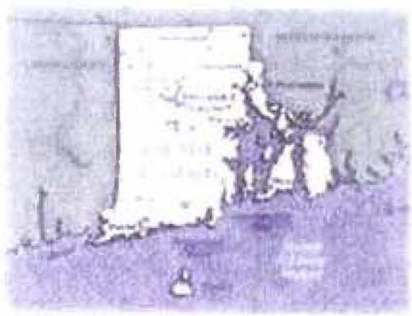
Evaluating the Development of a Video Game Cluster in Rhode Island



Prepared by:

STRATEGY ANALYTICS
INSIGHTS FOR SUCCESS

Working in Association with:

Perimeter Partners

Prepared Exclusively For:

Rhode Island
Executive Development Corporation (RIEDC)

June 2010

Draft: Not For Public Record

Executive Summary

This report is the culmination of efforts from both Strategy Analytics and Perimeter Partners to assess the opportunity for Rhode Island to develop a video game cluster. The evaluation performed presents a risk-adjusted assessment and takes into account RI's geographic location, access to critical talent pools, investment levels, and the opportunity to bring in an early-stage company, such as 38 Studios, into the region.

Development of a video game cluster in RI presents **clear opportunities for the State in terms of job expansion, economic growth, and retention of important knowledge and creative capital** emerging from RI's rich base of academic institutions. The market for video game offerings is expanding, albeit in a rapidly evolving market with business models that are transitioning. There are no simple solutions for any cluster development initiative; however, there are known critical success factors that can inform an aggressive holistic strategy to reach a successful outcome.

Our key findings regarding the **game business** include:

- The online game space is rapidly evolving, with double digit growth expected
- The move to online has forced a shift in business models and monetization schemes away from boxed product at retail, to various freemium models
- The MMO space specifically has had some breakout success (Blizzard's World of Warcraft 11.5 million, NCsoft's Lineage,), however, cracking the 300k+ subscriber level is a rare accomplishment
- Success in the MMO space is highly correlated to the value of existing brands and sequels

Our key findings regarding **game clusters** include:

- The development of a game cluster is a long term initiative, requiring a coordinated and sustained effort among academia, industry and government, without which there is a higher degree of failure
- Many game clusters exist across the globe and within North America, each displaying different characterizes and paths to growth – some more organic, and others with heavy interventionist strategies
- In the USA, the game industry employs approx. 45,000 workers with an average salary in excess of $70,000.
- The potential impact of a game cluster in RI is roughly estimated with approximately a 600 job potential and in excess of $100 million in annual salaries using the RIMS II model
- RI has numerous academic resources to leverage, and 38 Studios can serve as an anchor tenant to catalyze an aggressive cluster strategy.

Introduction

The state of Rhode Island, via its Economic Development Corporation (RIEDC) requested an evaluation of the viability of developing a video game cluster in the state. Rhode Island's interest in the video game industry is based on several factors, including:

- The relatively high knowledge worker salaries commanded by participants in the video game industry,
- The need to attract industry to Rhode Island to help address its high unemployment rate,
- The resources and infrastructure available in Rhode Island that might support an industry cluster such as video gaming,
- The relative high growth of the video game industry relative to other industry sectors,
- The interest and potential to attract an anchor tenant to Rhode Island in the video game industry, such as 38 Studios, and,
- The assessment of risk factors associated with an investment in a company with a profile similar to 38 Studios.

The RIEDC contracted with Strategy Analytics, Inc. (SA) and another game consultant Perimeter Partners (PP) to work collaboratively to provide an objective assessment of the overall merits of Rhode Island's interest in pursuing the development of a video game cluster. Both SA and PP are recognized industry experts and have performed analysis of this nature for other clients.

The specific goals and objectives of this assessment were to:

1. Perform a review of Rhode Island's assets that are vital for attracting a game cluster,
2. Provide an overview of the industry structure of the gaming business and examine elements that are considered critical success factors for stimulating and retaining a video gaming cluster in the state.

3. Provide snapshots of three markets in terms of the development of a gaming cluster, critical success factors, and a realistic view of the challenges and opportunities presented by the gaming industry segment.

4. Conduct an economic impact exercise to identify the collateral benefits that may be accrued by an investment in a core anchor gaming participant, such as 38 Studios, including an assessment of the potential employment opportunities in the state of RI, and the potential for attracting other gaming entities.

In order to address these issues it is first important to provide some background on the video game market and the specific segments that exist.

The overall gaming market is often categorized by the platform on which the game is played, and platforms consist of the following major types, including:

1. Consoles – this is typically associated with dedicated game machines provided from three key industry participants, including;

    a. Microsoft (Xbox 360),
    b. Sony (PlayStation III – PS3), and, its PS2 predecessor which is still actively marketed, and,
    c. Nintendo's Wii.

    In addition to these *fixed* devices (they typically reside in the home and are attached to a monitor/TV for viewing) there is a separate class of portable game console devices that include:

    d. Sony's PlayStation Portable (PSP),
    e. Nintendo DS series

    As with their fixed counterparts these portable game consoles are dedicated gaming devices with proprietary gaming architectures and operating systems. Games must be designed specifically for each platform.

2. PC Gaming – this form of gaming takes place either with a complete set of resident software on the PC, online, or a hybrid approach involving both modes. Many of the games found on consoles also have a variant that work on a PC, though with varied degrees of intensity as a function of their processors, graphics cards and memory.

3. Mobile Gaming – considered a newer form of gaming enabled by more powerful handset devices (cell phones) and faster wireless networks (3G+), mobile gaming is growing rapidly. Devices such as the Apple iPhone and other Smartphone

devices are seeing a significant uptake in game use and the games available for these devices are becoming increasingly sophisticated.

Independent of the device used for game play, there are various levels of games, such as hard core gaming (often associated with consoles), and casual gaming (typically accessed via a PC, netbook, or mobile device such as a Smartphone).

The Console Market

The console game industry is dominated by the major platforms noted in item 1 above, and these manufacturers largely dictate the rules for development on their platforms, all of which are proprietary. Each company sets its own policies with respect to royalties on their device. Console class gaming is considered to be associated with hard-core gamers who spend considerable time, effort, and resources to "game" on a specific platform.

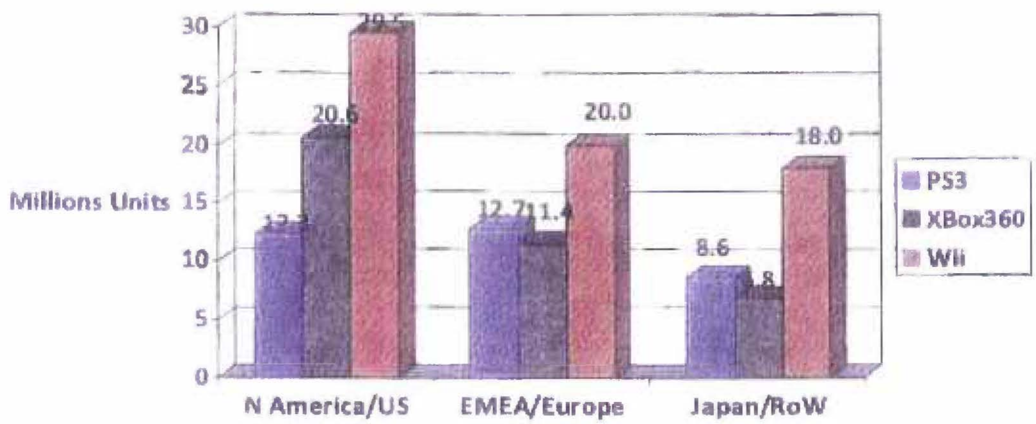
These platforms each have "live" internet enabled components which command subscription fees to the platform maker (Microsoft, Sony, Nintendo) that allow the gamer to interact with others engaged in the game on a global basis. This social aspect of gaming has become a key driver in adoption of multi-player game offerings. More recently, the consoles themselves have been focused on taking on the role of a media hub in the home entertainment world and support such external capabilities as video streaming from places like Netflix and internet access of social networks such as Facebook.

Currently, the major consoles are nearing the end of their lifecycles and both Microsoft and Sony have announced "mid-life" kickers to their existing platforms to extend their useful lives. These mid-life kickers include motion sensing technologies that eliminate the need for a more classic game controller, using instead camera sensing motion devices which allow gamers to mimic the activities they wish to execute. These are add-on devices that are expected to reach the market before the holiday season 2010.

Unlike most other technology products, game consoles attempt to have a longer useful life in order to recoup R&D costs that go into their design and development. Consequently, useful life expectations are in the 5-7 year range. Some analysts have argued that the console devices themselves are analogous to the razor and blade business model, where offering a low cost console will drive adoption and consequently the sale of more games. Next generation console devices are not expected until 2012, at the earliest.

The overall size of the fixed console market is depicted in the graphic below.

Games Consoles: Cumulative Sales to 2009 by Region



Source: Strategy Analytics' Connected Home Devices service, Feb 2010

More evident from the graph above Microsoft's Xbox and Sony's PlayStation III (PS3) are significantly smaller in overall volume than Nintendo's Wii. The Wii is found to offer a broader set of gaming experiences and Nintendo has been successful in finding niche markets, such as senior centers, which has helped to expand its base.

The console hardware market is a significant portion of the overall game market, however, with lifecycles being extended, average prices per unit dropping, and alternative means of gaming becoming available the market is experiencing some challenges as exhibited by the table below.

Global Console Market
Fixed & Portable Devices
2009-2014

GLOBAL CONSOLE MARKET	2009	2010	2011	2012	2013	2014	CAGR
Fixed Consoles (units shipped- millions)	45.1	35.1	36.7	39.1	40.5	43.5	-0.7%
Fixed Consoles ($ value shipped-billions)	13.4	9.9	9.4	8.7	7.8	7.2	-11.7%
Price Per Unit ($)	**297.1**	**282.1**	**256.1**	**222.5**	**192.6**	**165.5**	-11.0%
Portable Consoles (units shipped-millions)	42.4	36.5	27.8	27.8	26.1	27.5	-8.3%
Portable Consoles $ value shipped-billions)	4.9	3.3	3	2.7	2.8	3	-9.3%
Price Per Unit ($)	**115.6**	**90.4**	**107.9**	**97.1**	**107.3**	**109.1**	-1.1%
Total Console Values (Fixed/Portable) $ Billions	18.3	13.2	12.4	11.4	10.6	10.2	-11.0%

Source: Strategy Analytics, 2010

It is on both the PS3 and Xbox 360 that 38 Studios through Big Huge Games in Baltimore will release their single player role playing game (RPG) code named Project Mercury in September 2011 which EA has signed on to distribute.

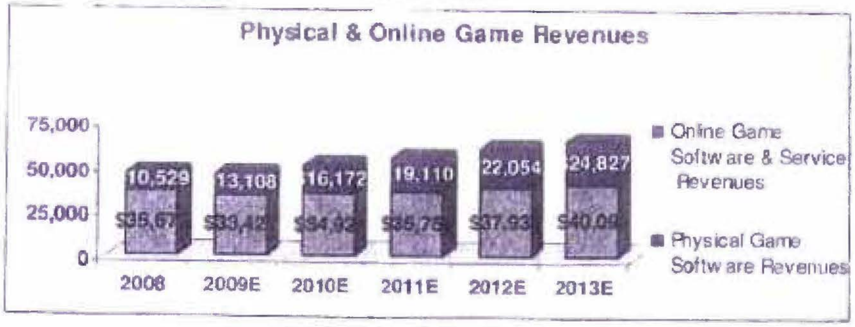
The PC Gaming Market

The PC gaming market consists of many of the same games found on consoles – albeit the user experience can vary dramatically as a function of the device on which the game is played. Additionally, thousands of games are available across a broad set of genres, sophistication levels, maturity ratings, and prices.

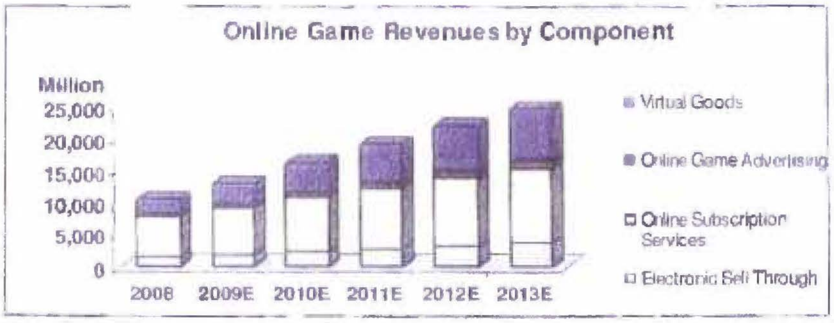
Games are available for purchase in retail stores, such as Best Buy, GameStop, and Target (as examples) as well as via online retailers such as Amazon, Buy.com, etc. In addition, a newer trend among game publishers is to bypass these retail stores and have direct digital game downloads. Some publishers offer digital downloads working in conjunction with retail box sales, and some in lieu of box sales. Bypassing a retail box sale, either in store or online, can save significant money for the developer, given the large distributors often command 40% or more of the retail sale. Regardless of how the gamer takes possession of a game, a royalty back to the platform maker is still required. Combined (royalties and distribution partners) can command two-thirds or more of the total sales.

SA estimates that total global sales of game software of $46.5 billion in 2009, broken down into physical game software of $33.4 billion and online game software and services of $13.1 billion. In total the market was relatively flat from 2008, however, online grew while physical game software shrank as noted below.

Global Physical & Online Game Revenues
2008-2013



Strategy Analytics further breaks out the online components above into electronic sell-through, online subscriptions, online game advertising, and virtual goods, as shown in the graphic below.



The segment of interest within the PC Gaming sector that we are focused is the Massively Multiplayer Online Game (MMOG) space, sometimes referred to as the Massively Multiplayer Online Role Playing Game (MMORPG) market. The definition of Massively Multiplayer varies, and could account for as few as a couple hundred players concurrently but we are referring to an environment that supports up to hundreds of thousands of simultaneous users off dozens to hundreds of servers.

Online subscription services, which incorporate MMOGs as well as subscriptions to the major console platforms such as Xbox Live, Sony PS3 live network services, etc. Overall, SA estimates that online services will grow on a global basis at a compounded annual growth rate (CAGR) of 13.9% over the next four years.

Background on MMOG Space

The market for MMOGs is a large, global industry that emerged from the mid 1990's and has expanded as a function of availability of bandwidth, broad penetration of PCs in households, and the development of highly immersive game offerings across a broad portfolio of gamer interests, referred to as game genres.

The market for MMORPGs varies dramatically based on:

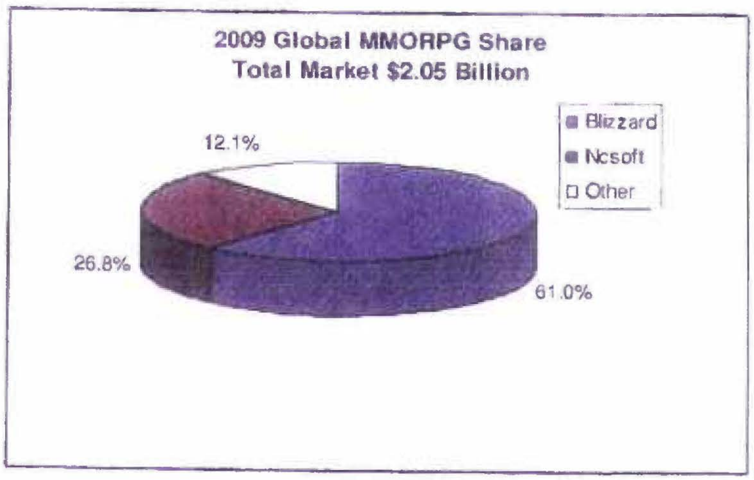
- Level of game – from more casual online games to highly sophisticated AAA games such as Copernicus being developed by 38 Studios.
- Game Mode – MMORPGs are typically found in two varieties
    - Browser based – where the full execution is server-based and the player requires only an internet connection and a PC – there is no software downloads or retail box purchases, though sometimes requires some small applets for proper execution
    - Software based on PC, either digitally downloaded or purchased through retail or online. In this environment much of the processing handled via

the PC and storage of game settings, completed exercises and scoring is often retained locally.

- Game Genre – including Sci-Fi, Fantasy, Racing, Shooter, Real Life, Sports, Historical, Super Hero, etc. Fantasy is the space we are focused on with Copernicus. The Fantasy portion of the MMORPG space is the largest, commanding over half of the total gamer base.
- Target age group
- Monetization Models
    - Subscriptions purchased for single play, monthly, 3 month, semi-annual, and annual subscription as well as lifetime subscription are some examples of subscription offerings. Typically, subscriptions for higher-end MMORPG range from a low of $5-7/month for a browser-based game such as Runescape from Jagex, to $15/month for Blizzard's World of Warcraft (WoW) though discounts are offered for extended game period play.
    - Freemium Model – this model basically is a newer mode whereby game monetization is facilitated primarily through digital item sales and advertising where the game itself is free to play.
    - Hybrid Models – where players can begin a game without a financial commitment and may aspire to subscribe to a premium subscription which offers an increased level of challenges and game play.

Size of the Overall Premium MMORPG Market

SA estimates that the overall global size of the *premium* MMORPG market is slightly over $2 billion as of yearend 2009. The premium sector is defined to include subscription-based payment models. Two leading players dominate the market with almost 88% of the revenues, including Blizzard and NCsoft.

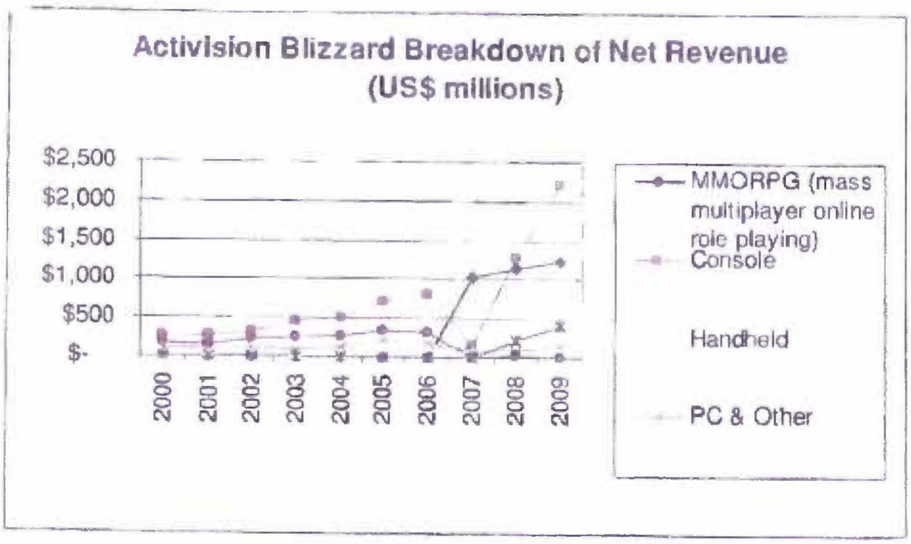


The "other" category, representing 12.1%, or approximately $248 million is comprised of several other notable participants, including Turbine (now part of Warner Bros.), Mythic (EA), Funcom, CCP, and Sony Online Entertainment (SOE) in addition to many much smaller companies.

Blizzard Entertainment, now part of Activision Blizzard (NASDAQ: ATVI) is the creator of World of Warcraft (WoW), initially introduced in 2004. In many ways it is an anomaly as it has grown approximately 4X larger than any other MMORPG in the AAA fantasy game space It now has approximately 11.5 million active subscribers globally with over half this base in Asia and the remainder between the US and Europe.

It should be noted that WoW appears to have reached a plateau based on its subscriber numbers. In December 2008 Blizzard indicated they had achieved an 11.5 million subscriber base while in their Q1 2010 financials they indicated that their base was a stable 11.5 million. Typically, a spike in subscribers will be observed with the release of a new extension to the game. Blizzard is expected to release its third major expansion, Cataclysm, by the end of Q3 2010.

The graph below shows the MMORPG (which is exclusively from Blizzard) relative to ATVI's other major revenue centers while below the Blizzard revenues (mostly WoW) are shown.

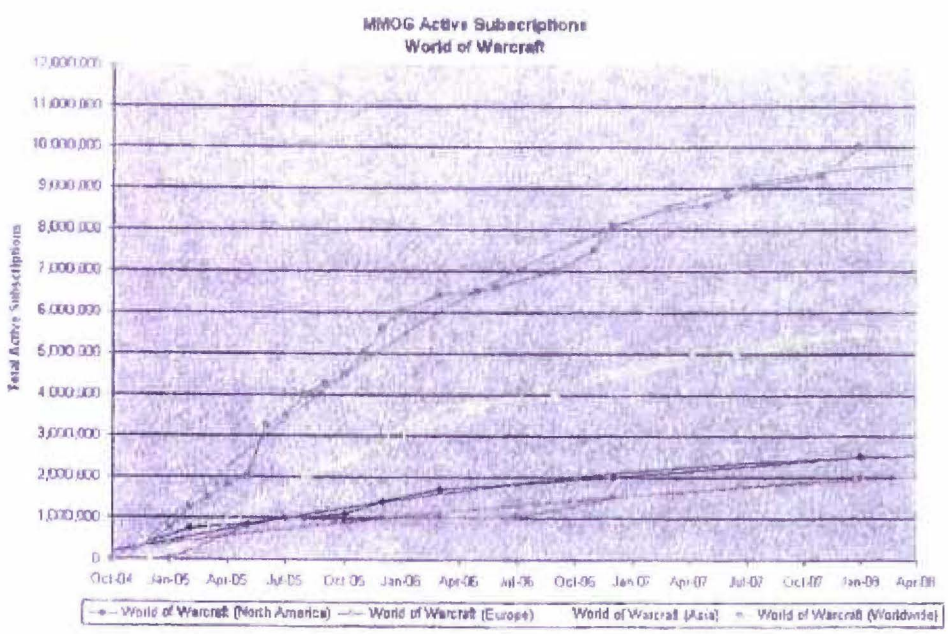


Blizzard's Contribution to the Activision Blizzard Combined Entity

Net Revenue	2,007	2,008	2,009
Activision ($ millions)	2,472	3,279	3,156
Blizzard ($ millions)	1,107	1,343	1,196
Distribution ($ millions)	408	410	423
	3,987	5,032	4,775

The space that 38 Studios is focusing with its Copernicus initiative is clearly classified in the high end, AAA class MMOG space in the Fantasy Genre – these are games that require significant initial investment, long development cycles (often 3-5 years+), and a vast array of talents ranging from technical to creative, strong management, etc. This is the same space occupied by Blizzard's WoW. 38 Studios aspires to replicate the success demonstrated by Blizzard's WoW.

WoW, launched in 2004 on an initial estimated development budget of approximately $100M, appears to have reached a plateau in subscribers. No other MMOG has come close to WoW in subscriber base and it should be noted that the Asian market accounts for over half of its total base. **Approximately 98% of Blizzard's revenues cited above are attributable to WoW.**



Source: MMOGchart.com

The next largest MMOG, Ncsoft's Lineage, Lineage II and Aion combined are somewhat over half the size of Wow. Lineage and Lineage II, released in 1998 and 2003 respectively, have a combined subscriber base at peak of less than half of WoW's total subscriber population. Ncsoft's Aion release has had significant success since becoming available in November 2008. To date, it has garnered some 2.7 million subscribers, however, it should be noted, again, that much of the activity is Asian-based.

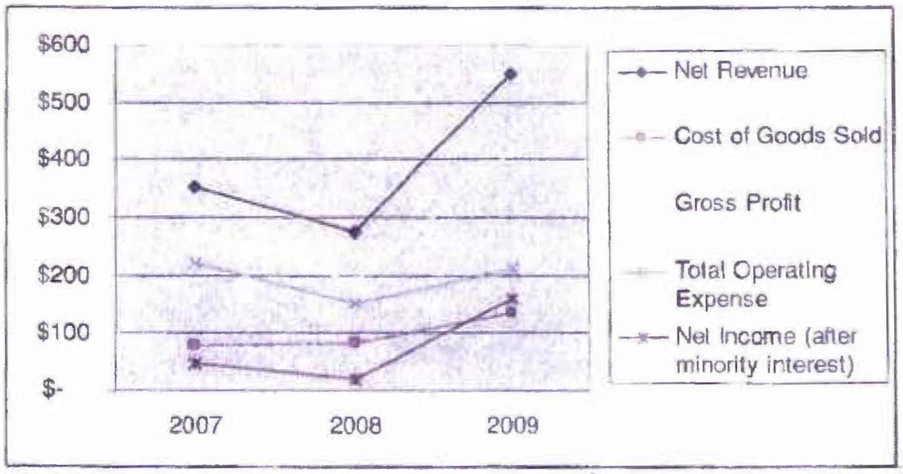
NCsoft's financials are compelling, and they demonstrate that profitability can be attained with critical mass, though this often can take several years to achieve.

As noted in the table below, NCsoft stumbled between 2007 and 2008, prior to releasing Aion, which helped it propel its revenues in 2009.

Ncsoft's Consolidated Financials
2007-2009
(Based on Currency Conversions from KRW to USD)

	2009	2008	2007
Net Revenue	549	275	352
Cost of Goods Sold	135	83	77
Gross Profit	414	192	275
Total Operating Expense	212	152	222
Net Income (after minority In	160	20	48
Total Assets	737	417	583
Total Liabilities	177	80	103
Total Stockholders Equity	560	337	480

NCsoft's 3 Year Financial Trend



Exploring Some Risk Factors

Typically risk factors can be classified around those which are in ones control and those that are not (systematic risks), such as market conditions, timing of other events such as movies that influence a given title or genre, etc.

Strategy Analytics believes that 38 Studios has done an excellent job in addressing some of the critical success factors within their control, including but not limited to:

- Attracting key talent, including creative, technical, and management. Clearly 38 Studios is being designed to support a world-class offering in the space it serves,
- Implementing a disciplined development approach using SCRUM which provides tight controls and integration of various development efforts in a timely manner, and,
- Formalizing a recruitment process to fill critical positions as they occur and ensure that the necessary talent base is resident when needed in the process.

Other risk factors include the following:

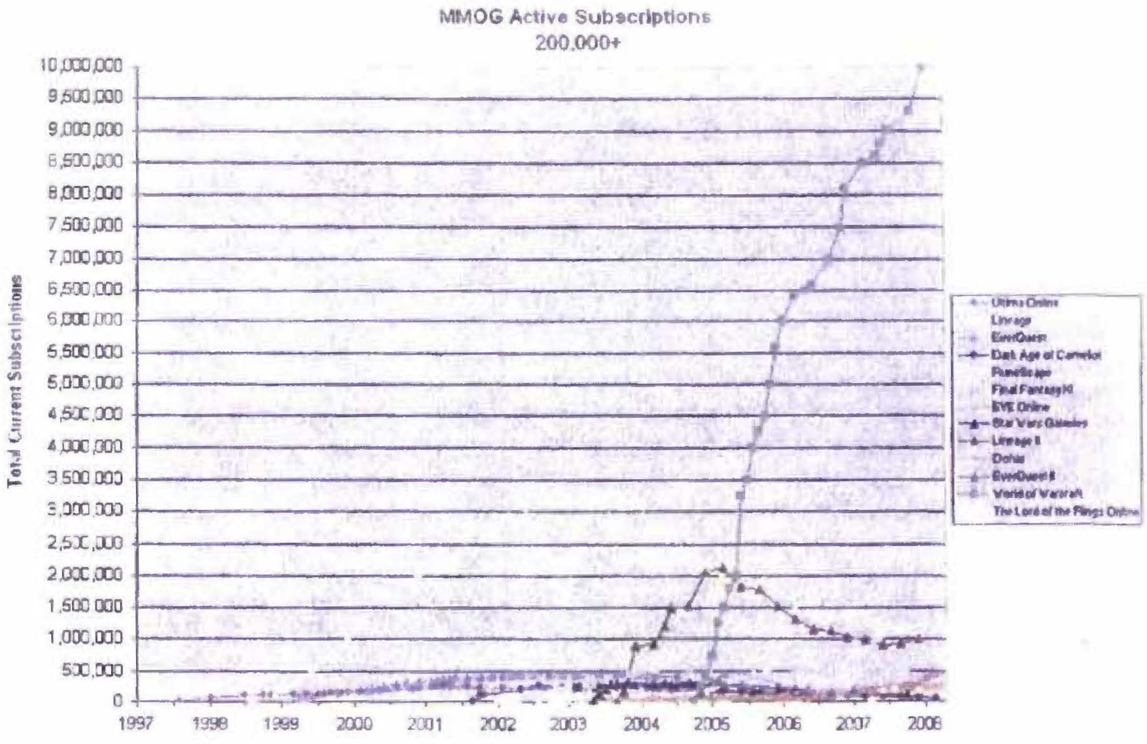
- **Few offerings have achieved greater than 300,000 subscribers**, which is considered near breakeven for Copernicus. The short list includes what is considered the "gold standard" with Blizzard's World of Warcraft (WoW).

  Others who have achieved respectable figures include:

  - NCsoft (Korean based company) with its Lineage (Launched Sept. 1998 and gamers of 3MM+ at peak) & Lineage II (Launched October 2003 with 2MM gamers at peak (approximately 3MM and 2MM respectively for Lineage). Aion Online, NCsoft's latest big release, has an accumulated gamer base of 2.7 million since its launch in November 2008.
  - Funcom's Age of Conan: Hyborian Adventures – while achieving a high of 700K in subscribers repeated problems now place it below 100K
  - Mythic's Warhammer – released in July 2008, achieved 800K subscribers and 1.2 million copies sold but quickly lost ground and reported about 300K subscribers after Mythic cut back servers due to huge losses at EA.
  - Sony Entertainment's Everquest & Everquest II, (550K and 350K subscribers respectively)
  - CCP's (Iceland) Eve Online – 330K – this is a Sci-fi focused genre though clearly has fantasy elements.

- Turbine's Lord of the Rings (200K), and Dungeons & Dragons: latest version "Eberron" hit 1MM
- Mythic (EA studio) Dark Age of Camelot. 300K
- Sony Online Entertainment (SOE) – SOE acquired Sigil Online and got Vanguard: Saga of Heroes – initially sold about 250K copies post launch in early 2007 but quickly gave up most of coverage.

The above list provides a snapshot of some of the more successful MMOGs in the market out of the many dozens who have attempted. Strategy Analytics believes that while 38 Studios is doing "all the right stuff" the ultimate market conditions will be the true test – as is the case in any hit driven business.



Source: MMOGChart.com

- **Shifting monetization model** – the more established games, such as Blizzard's World of Warcraft (WoW), use a two-part subscription model involving either a software download or retail box purchase (retail $60.00) which includes a trial online subscription of 30 days, followed by the requirement to purchase a subscription in various time increments, ranging in price from $12-15 monthly.

However, Strategy Analytics is observing a shift to a "freemium" model, or hybrid premium/freemium model, where players can play for free and are attracted by the opportunity to purchase digital goods. A recent example of this is Turbine's[1] Dungeons & Dragons Online: Eberron Unlimited (D&D Online) which reported over a million new players since launch in September 2009. Interestingly, D&D Online first launched with a traditional subscription model, but was struggling and forced Turbine to convert to a freemium model. The switch saw a 500% increase in revenue for the game[2].

In addition, Lord of the Rings Online will transition to a free-to-play game in Q3 2010 despite being developed and published under the subscription model. This is a key example of a massive brand with strong appeal migrating to the freemium model. Warner Brothers now owns the Lord of the Rings franchise as a result of the Turbine acquisition and is expected to continue a large investment in this franchise. Other anticipated releases using this model include THQ's Company of Heroes Online and LucasArts and Sony Online Entertainment's Star Wars Clone Wars Adventures Online.

Strategy Analytics believes that this model is gaining traction among gamers. Given that 38 Studio's release of Copernicus is over two years from launch they may have to consider a variation of this model in their business planning as it will impact their subscription estimates.

In other gaming spaces, especially casual gaming, the freemium model is proving quite successful, the latest example being Zynga which offers its causal games via Facebook and other social media networks and has garnered over 200MM gamers. Zynga monetizes its games with the sale of digital items. Zynga estimates that 90% of its revenues come from 2% of players who purchase digital goods. With an estimated $150 million in 2009 revenue Zynga recently received a valuation of over $4.5 billion[3].

Strategy Analytics estimates that digital goods will grow from approximately $460 million in the US in 2009 to nearly $1.5 billion by 2013, or a 44%+ CAGR.

- **Timing of Release** – Other major MMORPGs released between now and 2012

  Over the next two years several major MMOGs will be released including:

[1] Turbine, based in Westwood, MA was recently acquired (April 2010) by Warner Bros for a reported $160MM and had a cumulative venture capital base of $94MM since its inception in 1994.
[2] Turbine press release dated February 26, 2010.
[3] See Wall Street Journal, May 4, 2010 under Digits.

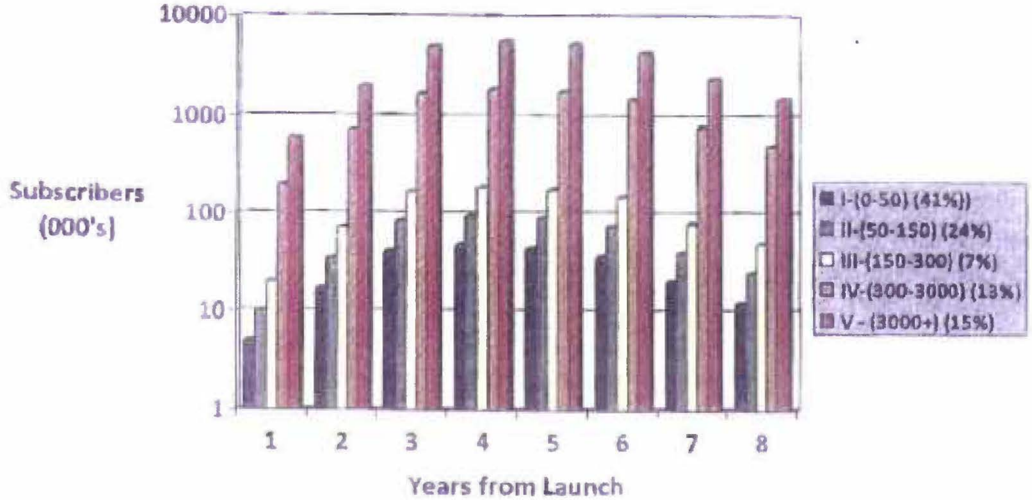
- Final Fantasy XIV – Square Enix is in development of its next generation effort as a follow-on to Final Fantasy XI which is about 5 years old.
- World of Warcraft: Cataclysm is a major release from Blizzard and expected out later this year (Q4 2010).
- Star Wars: Old Republic – this is Bioware's first MMORPG and has a significant investment behind it. It is a Sci-Fi genre which hasn't historically had significant take rates but speculation on this one may prove different.
- Guild Wars 2 – backed by NCsoft which has had much success with its previous MMORPGs Guild Wars 2 is being primed with a book covering the Art of Guild Wars 2.
- Trion Worlds will be launching Rift: Planes of Telara as a fantasy MMORPG using new server technology. Trion is also developing two other MMOs over the next two years, including End of Nations and a joint effort with Syfy with a Syfy Action MMO.

The number of entrants is helpful in that it validates a demand and interest in the space that 38 Studios plans to participate. It also is important to note that many of the efforts cited above are second, third generation games which already have a significant following while 38 Studios will be entering the market with its initial release without the benefit of much history aside from the RPG console game (Project Mercury) that will be released a year earlier.

Other expected releases in the space include Funcom's Secret World, APB: All Points Bulletin, Need for Speed, and DC Universe Online, however, these genres are not focused on the Fantasy theme and will not compete directly with Copernicus.

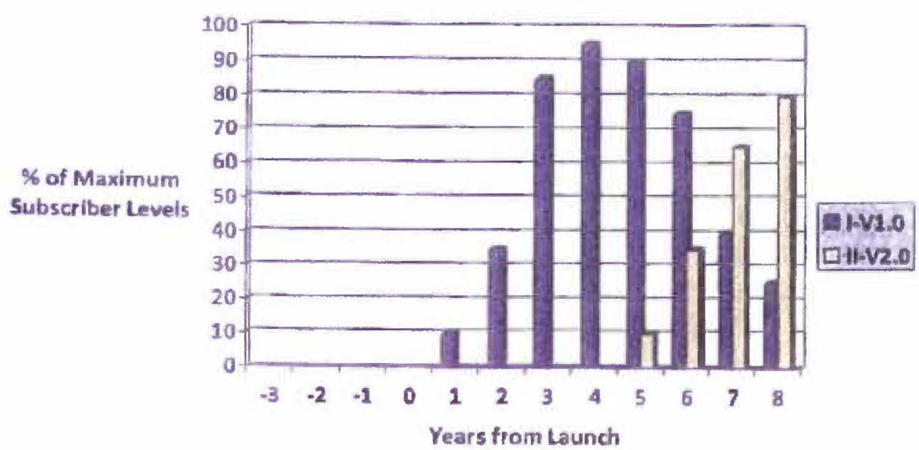
- **Development Cycle Observations**

SA reviewed the life cycles of many of the MMORPGs and examined their trajectories in terms of percentage of subscriber base attained over what periods of time. While we recognize "typical" isn't necessarily associated with the expectations of Copernicus, it none-the-less provides some insight on historical performance that can serve as a baseline for discussion.



The above graphic depicts life cycles of MMOGs based on the size of the subscriber base attained over different periods of time. We examined five groups based on their maximum attained subscriber base and looked at the length of time it required to reach their maximums. The data is fairly consistent across all sizes of subscriber bases in that it typically is four years +/- from launch to achieve maximum subscriber penetration – after which either a second major release is offered, such as was the case with Lineage and Lineage II, or the brand will experience a decline.

The graph below shows the decline after year 4 and the subsequent release of a version II of an *existing* brand.



It is critical that the development of a 2nd generation game be in the works soon after release of the first generation given the extended development times necessary for production. Again, this is a capital intensive requirement so any constraints on capital would directly impact the ability to provide a sustainable market offering.

Other concerns include:

- No Use of motion sensing technologies in RPG release – while Project Mercury is not incorporating any of the Project Natal (Microsoft motion controller capabilities) in its initial release 38 Studios indicated they are closely watching this for user receptivity. Given that the release of Project Mercury is about 1 year after the planned release of Natal Strategy Analytics believes this is highly advisable as it will require development time to modify Project Mercury.

- Traction from RPG to MMOG conversions – 38 Studios plans to gain some traction from Project Mercury in terms of fostering interest in Copernicus and leveraging that base. Strategy Analytics believes there are some gamers who will continue with Copernicus but many gamers often stick with either console class games, such as a single player RPG or MMORPGs – the crossover may not be that significant.

  Further, given the release of the RPG, Project Mercury, is at least a year ahead of Copernicus, success with the RPG is critical in order to attract a key distribution partner for the MMO. Should the RPG not meet EA expectations they may not want to engage in a similar arrangement on the MMO, especially since the RPG is considered something akin to a "chapter" in the MMO.

- Fallback position – With a large single focus the MMORPG 38 Studios will have little wiggle room upon release – this is analogous to an "all in" hand in poker. Getting it right becomes essential given no other game options in its inventory.

Risk Mitigation

Clearly the above factors should be considered when assessing an investment in gaming and within the space that 38 Studios is positioning, however, it should be noted that each of these factors are addressable given the timing of the releases of both Project Mercury and Copernicus.

For example, if the market shifts more towards freemium models over the next two years, 38 Studios could run an alternative pro forma estimate based on a larger initial subscriber base catalyzed by a free to play model and include digital item sales. While we believe digital goods are part of the Copernicus offerings, they are not currently estimated to be the major source of revenue generation.

Another option available to 38 Studios is to move to full digital distribution compared with using retail box purchases where 65-70% of the box sales go to distribution partners. Strategy Analytics sees digital online distribution growing by greater than 20% CAGR through 2013.

A key benefit of this approach in mitigating risk is that a game developer, such as 38 Studios, can take the minimum viable product (MVP) approach to release its initial offering and spend a smaller portion of its development budget for its initial release. Then, by monitoring player behavior to gain insight on how to best spend the remaining portion of their development budget, it can tailor future releases. This preserves capital and provides a vehicle to monitor the market.

Exploration of Game Clusters

A cluster is a geographic concentration of related businesses, suppliers and associated institutions in a particular sector. The father of cluster theory and management guru, Michael Porter, claims the benefits of clustering to be:

1. an increase in productivity
2. greater innovation
3. the stimulation of new businesses

As such, the development of clusters is an attractive economic development activity of regional/national governments and industry organizations.

A cluster is generally thought to exist in a given geographic region where:

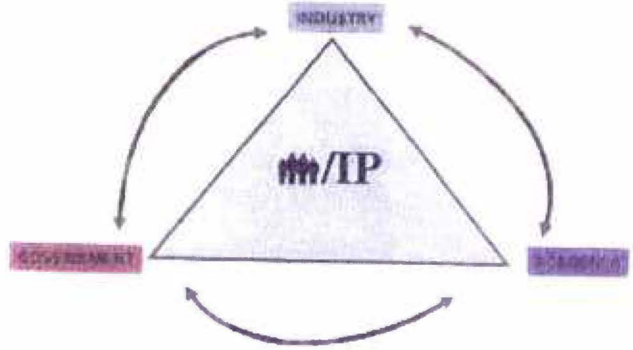
1. there is a critical mass of sector specific resources and competences
2. the critical mass provides a key position in economic activity
3. there is a sustainable competitive advantage versus other locations

For much of its existence, the global game industry has evolved in a mostly organic manner with clusters developing "unassisted". Targeted economic development activity to grow game clusters first started in the mid-90s in pioneering countries (e.g., Canada, Australia). Only within the past couple of years has aggressive cluster development efforts been pushed by national, state and city based economic development agencies.

Cluster Theory/Tools

It is helpful to understand clusters via different frameworks and tools. Following is a handful of such tools.

Stakeholder Triangle



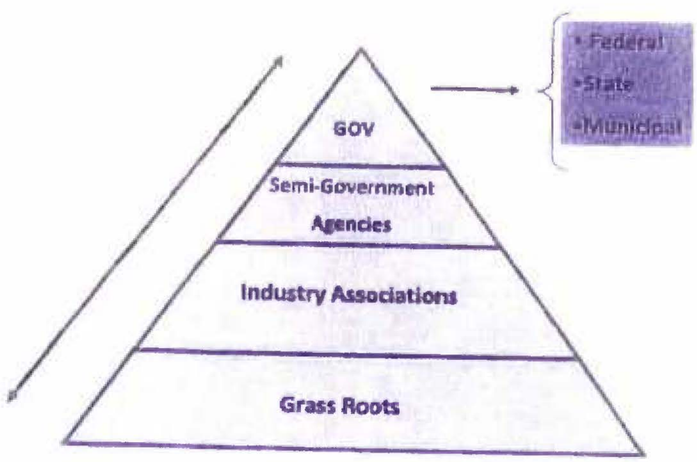
Successful clusters create a high degree of collaboration between the three primary stakeholders: *industry, academia and government.* At the center, stakeholders are focused on talent growth/retention and the development of new intellectual property (IP). With benefits flowing in and out of each stakeholder, there is natural motivation to sustain growth and build value over time.

Many regions struggle to succeed when one (or two) of the stakeholders is either loosely involved (or not at all). Some examples would be:

- A region with many schools and government support, but little industry players (i.e., Toronto)
- A region with many studios and strong schools, but little government support (i.e., North Carolina)
- A region with aggressive government support, but lacking industry and relevant academic programs (i.e., Louisiana).

Of course, some regions have an overwhelming advantage provided by one or two of the stakeholders that the third is not even needed. Classic case is the dominance of California (with massive industry and strong network of schools/talent), that the lack of government support is a non-issue.

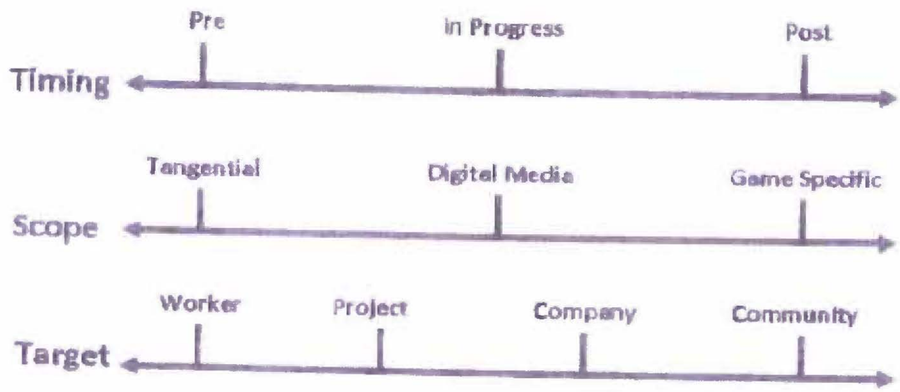
Driver Pyramid



It is not necessary for clusters to be driven solely via a top-down model. Cluster development activities can be started at, and lead from, any level in the pyramid. Ideally, over time, there is a high level of communication and coordination between each level.

In some cases, it may take time for one level to lobby for and engage the next level up or down.

Tactical Spectrums



Specific cluster development activities and tactics can fall across three different spectrums.

- The **Timing** spectrum looks at when an activity is scheduled to take effect: Does it catalyze the start of a new project, or does it come after the fact.
- The **Scoping** spectrum concerns itself with the degree to which activities are geared towards the game industry specifically, or are more tangentially related (but still relevant/useful).
- The **Target** spectrum ranges from activities and support being applied at the individual worker level, to projects and companies, up to the community as a whole.

As an illustration, from the programmatic examples below prototype funding would fall on the spectrums in the following manner: Timing = catalyst, Scoping = direct, Target = project.

Systems Thinking

Cluster development is a complex effort with many moving parts. Like a natural ecosystem, it is hard to predict how any one variable will affect another. This makes simple solutions and single-effort programs often fall short of the desired effect (e.g., the tax break in Louisiana has had extremely limited results). Successful regions often take a more holistic approach that incorporate many tactics that fall across multiple points along the above noted spectrums, involve all three stakeholders and have drivers from all levels.

The range of cluster development initiatives often involve a broad range of activities, including:

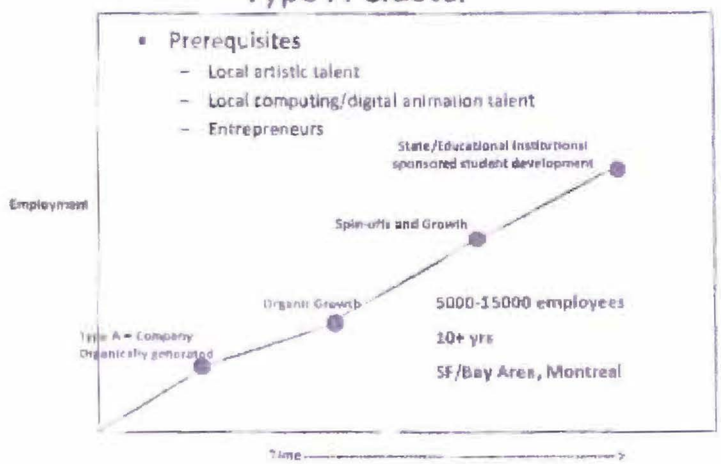
- tax breaks: R&D, production, labor, angel relief
- talent development: training funding, internship sponsorship
- funding schemes: prototypes, project production, academic research
- incubators/mentorship
- business development missions
- regional promotion
- associations: trade + professional
- access to SDKs and related development tools
- business "friction" reduction

Cluster Types

The major video game development states, such as California, Washington, and Texas (see below) are classified for analytical purposes as a Type A cluster with some of the characteristics cited in the graph below.

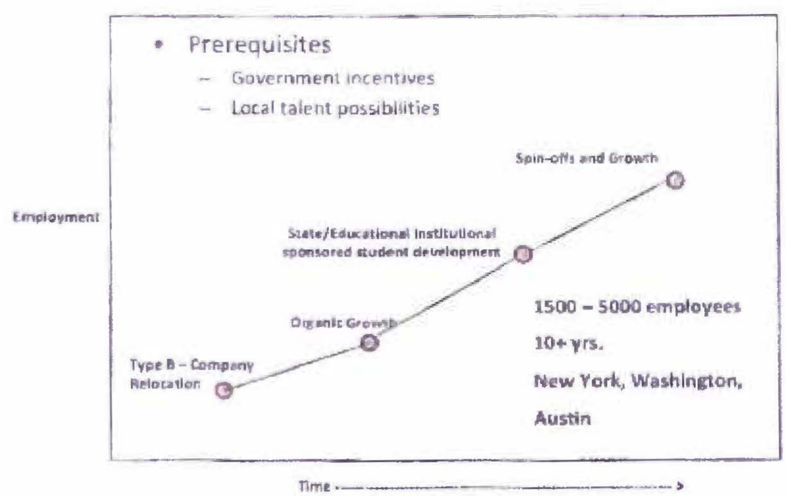
The Type A Cluster consists of a significant base of local artistic talent, computing/digital animation skills, entrepreneurs, and often a heavy dose of available venture capital. In addition, there are often, though not always, state cooperation, incentives and other enticements that are used to attract, retain, grow, and support the gaming clusters in these respective states. We categorize Type A clusters with those that have a total headcount of between 5000-10,000.

Type A Cluster

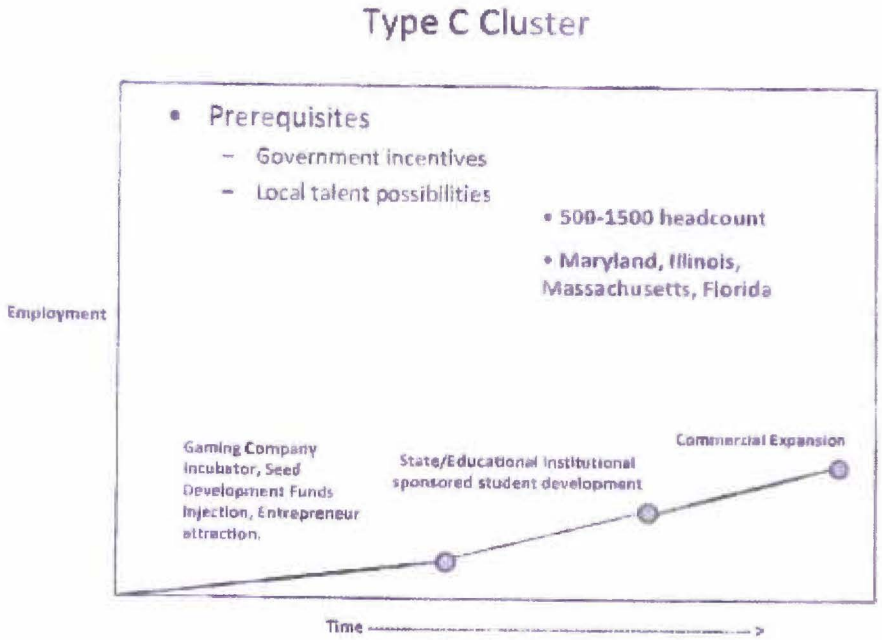


In addition to this cluster, there are two other cluster types, Type B & C. In the Type B cluster, shown below, an existing company relocation or expansion will usually precipitate other growth. Montreal is an example of a Type B cluster. Again, growth typically happens over an extended period (10+ years) and is often supported by Government incentive programs. Type B clusters have between 1500-5000 headcount.

Type B Cluster



The third cluster, Type C, is illustrated below. This cluster type typically experiences slower growth and has a combination of incubation initiatives, entrepreneurs, local talent, and government incentives, but doesn't employ an "anchor" tenant and looks towards more organic growth. Type C Clusters typically have between 500-1500 total headcount.



Global Game Clusters

Video game history is rooted in American and Japanese culture, and both nations remain #1 and #2 (respectively) in terms of economic activity in games. The United Kingdom was ranked #3 for many years, but has been recently surpassed by Canada. Canada's recent success is attributed to its aggressive economic development activities and clustering effect in major cities like Montreal and Vancouver. The UK views Canada's approach as so aggressive that it has attempted to make a case of international anti-competition practices to the World Trade Organization.

Global national clusters of note include:

- **United States:** #1 in both production and sales. See below for details.
- **Japan:** #2 nation for games. Strong gaming culture. Heavy console orientation and play via mobile phones.

- **Canada:** Recently ranked #3 for game production. See below for details.

- **United Kingdom:** Long-time leader with strong technical innovation. Exit of major publishers and relatively high cost base has hurt its sustainability.

- **South Korea:** Driven by online/MMO games, has risen from a piracy riddled market to a multi-billion dollar sector via business model innovations. Heavy government support and investment.

- **China:** Similar to Korea, market is largely online based. High degree of government intervention.

- **France:** Still a leader in artistic/design innovation, but has lost some momentum in recent years due to publisher shrinkage and lack of business acumen. One of the only European Union countries to provide tax incentives (based on a "cultural" exception).

- **Nordic countries:** Collectively, the region punches above its weight in term of outputs/successes, partially aided by a highly organized regional support organization.

- **Australia:** Heavy government support has allowed relatively small development community to compete on a global scale, primarily driven by work-for-hire exports.

There is, of course, game industry activity across the entire globe – just in varying degrees of size and economic viability. For example, in South America, both Brazil and Argentina support an indigenous development sector, mainly focused on mobile and online games. Many eastern European countries are making progress with work-for-hire services and development of casual/browser based games. India has pushed outsourcing, especially for testing and localization services. Also, other regions of South East Asia are driving forward with online games, following the model set by South Korea and China.

North American Game Clusters

The United States and Canada combine to make a powerhouse of game production and consumption. It is estimated that 45,000 workers are employed in the game industry in the USA, with an additional 15,000 workers in Canada.

While there is game development occurring from coast to coast, the notable regional/city based clusters are as follows (listed in rough order of size/importance):

- **Bay Area/Silicon Valley:** Along with LA, houses approximately half of the nation's game development workforce. Highly diverse range of market segments and value chain representation. Especially strong with emerging social game segment due to proximity to key web2.0 companies. No government support.
- **Los Angeles:** High concentration of workers in the Santa Monica region. Prominence of game publishers and art/audio outsourcing due to proximity to Hollywood. No government support.
- **Seattle:** Home to Microsoft and Nintendo, along with many independent studios. Recent growth and success in the casual/web game space (e.g., PopCap, Real). Dedicated game school, DigiPen, with strong reputation. No government support.
- **Montreal:** See below.
- **Vancouver:** Home to EA's 2000 person strong studio, and dozens of other large and small studios. Region has mostly grown organically via "acorn" model, with most studios having been seeded by EA's presence. Cluster has been coordinated by an industry association, but only recently has a provincial tax incentive been approved.
- **Austin:** See below.
- **Boston:** See below.
- **North Caroline Research Triangle:** Emerging from the region's historical roots in R&D and simulation, the region has excelled in game engine/graphics tools and technologies – in addition to housing several successful studios and pioneers in the serious games space. No government support, though industry trade group is

currently lobbying for an NC state tax break.

- **Toronto:** With higher cost of living/business, it has taken longer for the game industry to take hold in Canada's largest city. The indie scene and art games have found a particular niche, with large scale development coming with the introduction of Ubisoft's newest studio (via a CND$264M investment from the provincial government).

- **Orlando:** Leveraging the presence of theme parks and related entertainment companies, a game sector has emerged in Orlando and surrounding regions. Home to dedicated game/entrainment media school Full Sail. The state of Florida recently approved a 20% tax credit.

- **New York City:** Despite high cost of living, NYC is home to many casual and mobile developers, as well as large publishers with a need to be close to financial markets. The city leverages strong school base and the arts/new media community. No government support.

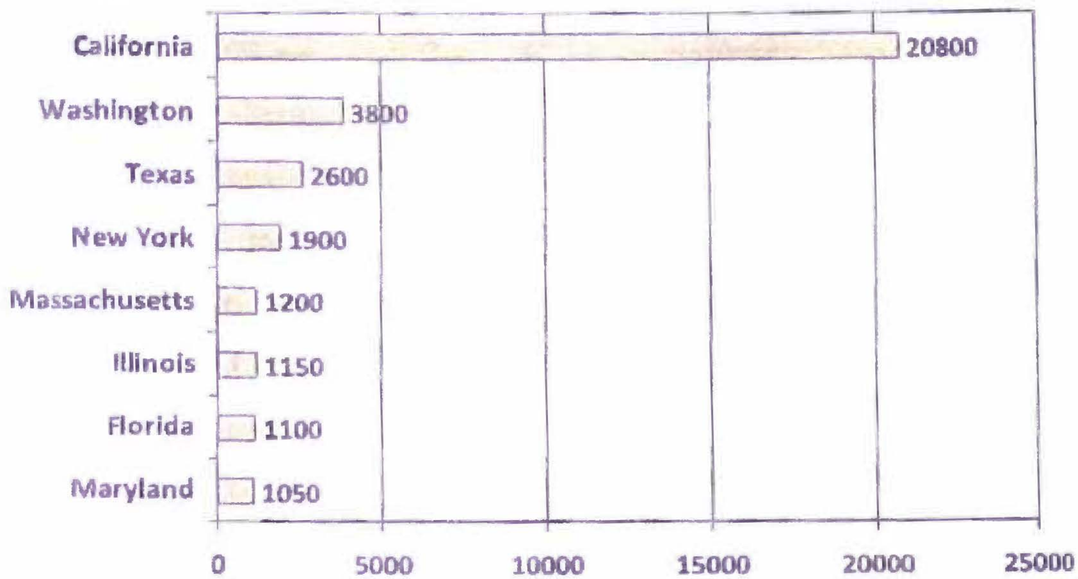
Several other cities are enjoying spurts of growth such as Atlanta (government incentives), Pittsburg (reputation of CMU's Entertainment Technology Center), Dallas (specialization in shooters) and the Hunt Valley region (historical roots in strategy games).

Of note, the states of Michigan and Louisiana of have made extremely limited progress at growing the game industry within their borders, despite having well publicized (and generous) tax breaks.

USA Employment Numbers

Examining employment here is a look at the top eight states that have emerged with a sizable presence in the video game industry. In total, the US has approximately 45,000 jobs in the video game industry, with nearly half (47%) found in California[4]. There is a significant drop-off after California, with Washington commanding about 9%, Texas approximately 6%. Collectively, these three states are responsible for approximately 62% of the total video game employment in the US as noted in the graph below.

[4] Game Developer Census, December 2009. See http://www.gamedevresearch.com



Source: Game Developer Research, SA estimates, industry sources

Closer to Rhode Island, Massachusetts has an estimated 1200 video game jobs found at such companies as Harmonix, Turbine, Microsoft, etc. Much of the video game development activity required fairly long, 10+ year evolutions to reach these figures.

Salary Data

Gaming salaries vary by region with the western US having the highest overall average salaries across all game job functions as depicted in the table below.[5]

STATE	Avg. Salary ($ 000)	Pct Own Home	Avg. Salary of Homeowners ($ 000)
California	80.6	31	107.4
Washington	74.0	41	93.7
New York	64.2	20	77.5
Florida	60.4	38	70.4
Texas	60.3	43	70.2

[5] Source: Game Developer Magazine, Salary Survey, April 2010

USA Employment Trends/Observations

A trend SA is observing with employment in video gaming is the rise in the small entities that are emerging, those with typically five or less employees. These small players are emerging as a function of three key industry changes, including:

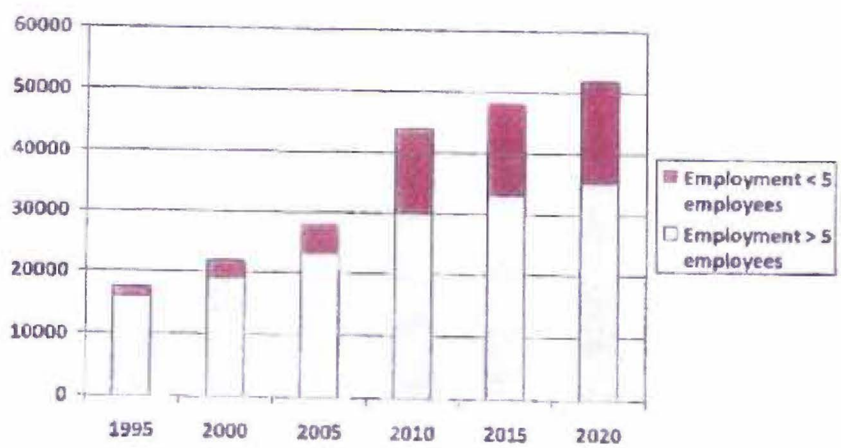
1. Many of the large video game developers have experienced difficult economic times resulting in significant layoffs. Note EA, for example, which shed approximately 1500 jobs in the past six months. These displaced employees now seek other opportunities in their field of expertise.

2. The rapid rise in both mobile and social gaming – in these segments requirements for development are significantly less than larger video game efforts. Consequently, games can be developed in these segments with very limited (<$50K) development expense along with a few developers.

3. Emerging new monetization methods – these allow small games to be sold via channels such as social networking, mobile app stores (e.g.: Apple) and direct – eliminating the need for a multi-tier developer/publisher model relationship which incurs a large percentage of revenue.

The graph below illustrates SA's projection of growth in five year increments of the overall gaming industry. While larger game developers will still dominate, there will be a significant growth in the smaller (<5 employee) entities.

Projection of Entertainment Software Employment by Size of Entity



Clusters in Detail: Montreal, Austin, Boston

It is useful to investigate existing game industry clusters as a means to understand how different strategies and combinations of resources have affected a given city's business. Of the various North American clusters listed above, Montreal, Austin and Boston have been selected as they each represent a rather different approach.

Montreal

Montreal has recently gained a reputation for being a world-class game development cluster. With a history rooted in technical innovation across many sectors (e.g., aerospace, simulation, graphics tech), and French influenced artistic flair, Montreal had many natural resources to help seed a vibrant game ecosystem.

In the early-to-mid 90s, Montreal was home to a handful of small game development studios and a dedicated animation school. Today, Montreal is home to over 4000 game workers, dozens of studios and game technology companies, along with several schools offering dedicated game degrees, and game research labs. Montreal is also home to Ubisoft's largest production facility, with nearly 2000 game workers under one roof.

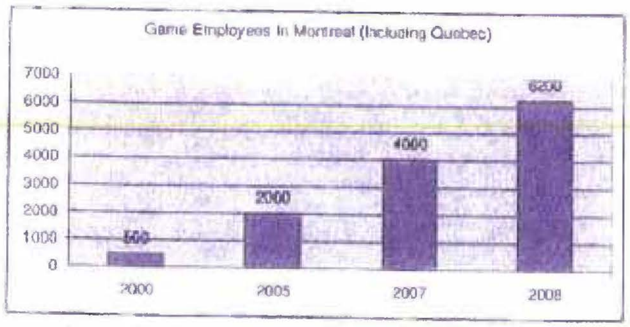
Path to Growth

In the mid 90s Ubisoft was looking to expand from its home base in France and gain a foothold in the North American market. With commonality of language, they started discussions with the Quebec government, and were offered a tax incentive of 37.5% credit on labor costs. Over the years, Ubisoft steadily grew the studio to its present 2000 person head count, and has produced multi-million selling game series such as Prince of Persia, Assassin's Creed and Splinter Cell.

Other local companies took advantage of the same tax breaks, along with other provincial/federal media funding schemes and staff training support programs to grow alongside Ubisoft. After several block-buster hits, Montreal's Ubisoft studio attracted the attention of Electronic Arts, who were motivated to open a nearby studio to gain access to the "magical" talent in the region. As more successes came, other studios followed and kicked the clustering effect into high gear.

Aside from the presence of the incentives themselves, various governmental agencies and an industry trade body are aggressive in promoting and supporting the Montreal cluster.

Montreal Headcount (Including Quebec)



Source: Quebec Game Industry Positioning Study, Nov 2008, Alliance Numerique

Summary of Montreal

- Strong roots in technology and the arts
- Fledgling game industry
- Introduction of tax breaks and related incentives
- Arrival of major anchor tenant
- Consistent production of hits attracted publisher attention for expansion
- Ongoing aggressive cluster building efforts

Austin

As luck would have it, one of the game industry's forefathers toiled from his parents' basement in Austin during the early 80s. Legendary game developer (and cosmonaut) Richard Garriott, grew up in Austin and started programming games in the late 70s, later founding Origin Systems. Electronic Arts (EA) bought Origin in 1992, which accelerated the growth of the game development community in Austin.

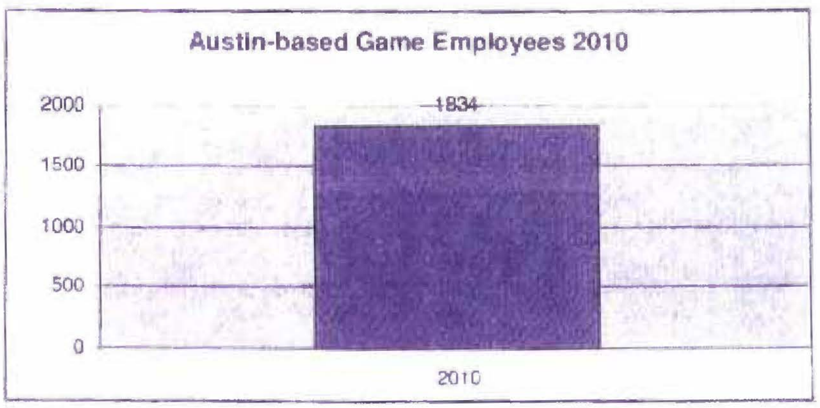
With a handful of strong technical universities and research programs in the area, and spin-off studios from Origin over the years, Austin has emerged as a leading game cluster in the United States. With Origin pioneering much of the early work in MMOs, Austin has developed a recognized regional specialization in creating online games. The largest network of game developer conferences hosts their annual event focused on online games, GDC Online, in Austin.

Path to Growth

Origin had great success in the PC game market in the late 80s and early 90s, and eventually made groundbreaking products for the new "CD-Rom" format. Smash hits included the Ultima series of role-playing games, and the Wing Commander franchise. After the take-over by EA, several splinter groups started new studios as a means to break away from EA's "corporate" approach to making games. Nearly all studios in Austin have their roots based in Origin. In short, Origin/EA served as the "acorn tree" that seeded the local community.

Garriott led the development effort of the first modern MMO, Ultimate Online, in the late 90s and hence started the region's specialization in the nascent online game space. More recently, the city's chamber of commerce, the Texas state government and the state's film/media trade association have been backing the game industry. There is a ~5% tax break on game productions in the state, along with other efforts to promote the sector and conduct inward investment. Austin is also home to the Digital Media Council, which is focused on fostering the educational and talent needs of the region via industry-academia collaboration.

Austin Headcount



Summary of Austin

- Home of game industry legend
- Establishment of central company, later purchased
- Ongoing formation of splinter start-ups from the central company
- Natural evolution towards regional specialization in MMO games
- Late arrival of cluster support efforts to further grow region, including tax breaks

Boston

The Boston region has a rich history of technology innovation and has been at the forefront of each major technology platform in the information technology industry. Much of this has been centered on MIT and the big tech companies along Route 128. The local expertise in technology, robotics, simulation and artificial intelligence, along with the relative ease of access to capital has provided rich soil for the game industry to prosper. The largest Boston studio, Harmonix (with over 400 staff) was born out of the MIT Media Lab and went on to produce the Guitar Hero and Rock Band series, both of which have become $1Billion+ franchises.

Of note, Governor Patrick declared September 9th, 2009, as Video Game Day in Massachusetts to commemorate the release of Harmonix' The Beatles: Rock Band.

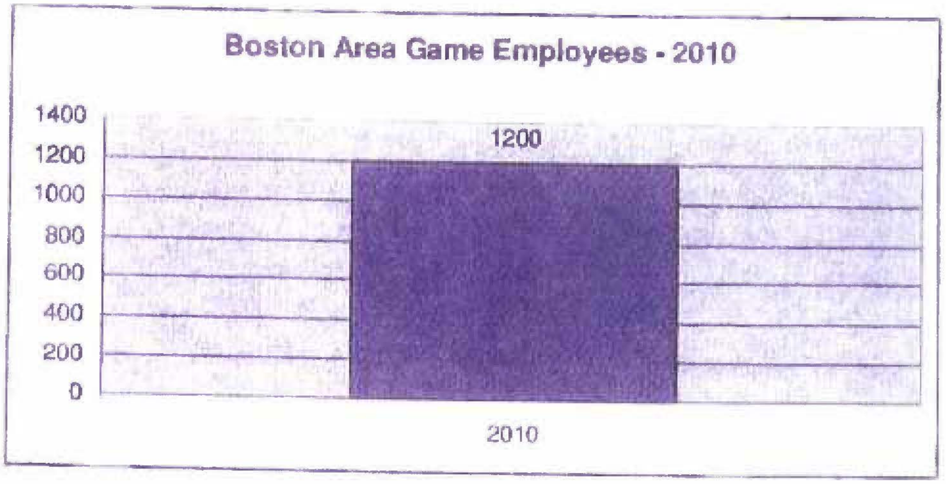
Path to Growth

As hinted above, the development of the game cluster in Boston has largely been the result of the incubation effect between academia and the flow of capital. Many of the early game studios in the region, like the legendary Looking Glass Studios spawned from MIT graduates, setting standards for game innovation and pushing the boundary of a nascent art form.

Over the years, the region has prospered and grown organically, boasting over $2 Billion worth of revenues. Over a dozen schools in the region now offer game specific programs and degrees, with MIT housing two game related programs/labs (i.e., Comparative Media Studios group and the Gambit GameLab in collaboration with Singapore).

Cluster development efforts mainly started via grass roots by Boston Postmortem, a monthly gathering of local game workers. Postmortem later became sanctioned as the official Boston chapter of the International Game Developers Association (IGDA). Postmortem enabled the community to share knowledge and opportunities, and was the group that fought to get the attention of the government and local economic development agencies. Only recently has there been such an interest by government, but now they fully support the game sector (as evidenced by the Governor's declaration above). Though, there is no evidence of tax incentives forthcoming, despite a concerted push to get one.

Boston Headcount



Boston Summary

- Strong academic roots in technology innovation
- Early incubation effect spawning new companies
- Pioneering advances in game technology and design
- Grassroots driven cluster dynamics at play
- Rapid growth of academic offerings
- Late arrival of government interest, though with limited assistance

A Game Cluster in Rhode Island

SA believes that Rhode Island has the potential to be a hybrid Type B/Type C cluster – meaning that both an anchor tenant, government incentives, along with the prerequisite for talent is available. Without further investment, incubation, and other support programs beyond an initial anchor tenant the likelihood of success is significantly diminished.

Measuring the Economic Impact

While there are clear risks associated with an investment in a gaming entity there are also tangible benefits that can be accrued. In an effort to assess a macro economic impact associated with the development of a gaming cluster in Rhode Island (RI) Strategy Analytics incorporated the Regional Input-Output Modeling System (RIMS II) developed by the U.S. Department of Commerce's Bureau of Economic Analysis (BEA).

The RIMS approach dates back to the 1970s and has been updated with regional economic data and is used by both the public and private sectors. State and local governments use multipliers to help estimate a regional economic impact of various policies and projects, such as firms or industry locating or relocating to a given state.[6] Multipliers are built by industry sector *and* geography by the BEA. Using this method helps to provide guidance on what the likely range of impact would be under different scenarios, such as developing an incentive plan to attract video game companies to locate in a given market or investment in an existing entity provided that a direct jobs estimate can be made.

Strategy Analytics further used research that was produced by Stephen Siwek, an economist, who authored a report entitled Video Games in the 21st Century and was published by the Entertainment Software Association (ESA).[7] In this research multipliers were obtained for the software publishing industry for all states that had software publishing activities which were then "applied to the direct game industry employee counts on a state by state basis". This included some 31 states. Since Massachusetts was one of the regions covered, and the broader economic region covered by the BEA includes Rhode Island, a multiplier effect would be applicable for this market. The research provided by Siwek indicated a composite multiplier for all regions where the games industry had employees. That multiplier was calculated to be 3.4312. To interpret the multiplier calculation, for every 100 jobs that come into a market for the gaming software development market, there would be a total of 343 created, broken down into 100 direct jobs and 243 indirect jobs.

Strategy Analytics used this multiplier and applied it to the employment projections contained in 38 Studio's pro forma estimates. This process yields the impact of 38 Studios employment on the regional economy in terms of the number of indirect jobs created if 38 Studios' peak projections are realized.

[6] For more information on RIMS II please refer to http://www.bea.gov/bea/regional/rims/
[7] To obtain a copy of this report please refer to http://www.theesa.com/facts/econdata.asp

Estimated Gross Employment Impact of Gaming Cluster in RI
With 38 Studios as an Anchor Tenant

Employment Source	Direct Employment At Steady State In Rhode Island	Indirect Employment	Total Direct + Indirect
Anchor Gaming Tenant (38 Studios) Total Employees (Actual)	458	1113	1571
Average Salary (000) $	72.5	54.5	59.7
Total Value (millions $)	33.2	60.7	93.9

The above calculations are based on the following assumptions:

- The above table does not include an estimate for additional gaming tenants in Rhode Island and is based exclusively on 38 Studios relocating and expanding their employment base there.
- Of the 458 jobs, 396 are from the steady-state projections of 38 Studios Copernicus effort, and the additional 62 represent 80% of the 78 jobs that are in Baltimore working on Project Mercury and that are expected to relocate to Rhode Island, leaving a small team remaining in Baltimore[8]
- The average salaries of $72,500 and $54,500 are estimates, the latter is based on a 25% +/- reduction from the average game salary. It also reflects the median household income level for RI as of 2008.[9]
- Based on an average 7% state income tax for the salary ranges noted in the above table, RI would expect to see gross incremental income tax revenues of $6.8 million on an annual basis[10].
- The Indirect Employment estimates as a function of the multiplier effect are assumed to be located in Rhode Island.
- While these are annual values, no cost of living or wage increase factors have been applied to the above data.
- Corporate income tax revenues have not been factored into the analysis.

[8] Based on May 13th 2010 meeting notes from on-site meeting at 38 Studios.
[9] Please see http://quickfacts.census.gov/qfd/states/44000.html
[10] Based on RI Income tax based on income between $32,551-78,850 at 7%.

In addition to the job creation impact of relocating 38 Studios to Rhode Island SA estimates that an incremental number of additional businesses/jobs will be either spawned or located in Rhode Island once 38 Studios is fully established in the State and products are being launched. Based on other cluster expansions SA estimates that an additional 200 jobs with a multiplier impact that represents total employment of approximately 686[11] could be developed over time once 38 Studios is firmly entrenched. These incremental jobs would provide an additional $14.5 million in direct wages plus an additional $26.5 million for indirect wages, or approximately $41 million additional over the data presented exclusively from 38 Studios in the previous table.

Educational Resources

Among the various critical success factors for developing a video game cluster in Rhode Island is the need for a supply of talent. Rhode Island is fortunate to have a significantly rich academic environment that supports curriculum that is essential for the gaming industry.

Specifically, Rhode Island has the following educational institutions with several that offer curriculums that support of the video gaming industry. While two institutions stand out in terms of having a significant benefit for a gaming cluster, others, as designated with a ✓ offer courses in computer science, animation, and related topics that are important for a game developer.

School	City	Enroll	Game Relevance
Brown University	Providence	8332	✓✓✓
Bryant University	Smithfield	3807	✓
Community College of Rhode Island	Warwick	17612	✓
New England Institute of Technology	Warwick	2655	✓
Providence College	Providence	5180	✓
Rhode Island College	Providence	9085	✓
Rhode Island School of Design	Providence	2350	✓✓✓
Roger Williams University	Bristol	4609	✓
Salve Regina University	Newport	2691	NA
University of Rhode Island	Kingston	15609	✓✓✓
U.S. Naval War College	Newport	?	✓

Rhode Island is drawing from at least three key institutions in support of a video game cluster in the state. A blending of creative talent and computer animation and software

[11] Based on 200 jobs plus indirect jobs of approximately 486 using the same multiplier of 3.4312.

design talent are essential for the support of a gaming cluster in any region. Rhode Island is fortunate to have at least three important institutions within its border that offers these skill sets, including RISD, Brown, and URI. In addition, other institutions offer a variety of supporting game curriculum, including at the community college level with the Community College of Rhode Island (CCRI) which offers some game development courses. CCRI indicated there could be interest in further course offerings in this space if additional job demand was evident in RI according to one of that institution's professors in computer science.

Rhode Island School of Design

Of critical importance is the creative talent from Rhode Island School of Design (RISD). RISD graduates some 660 students each year and retains about 17% in the state after graduation. Alum from RISD are almost equally split between Massachusetts and Rhode Island, each numbering in the vicinity of 3000. The top three majors, out of 21 different options, include Illustration, Industrial Design, and Graphic Design. RISD students have the requisite skill sets for the creative aspects of game development and currently have interns with 38 Studios.

Brown University

Brown University ranks among the Ivy League institutions in the U.S. – giving it a broad draw of students and talents. Among the diverse academic areas at Brown the Computer Science course of study consists of an extensive array of course work that includes Machine Decision and Game Theory, User Interfaces and Virtual Realty, Computer Graphics, Robotics, and Innovating Game Development. One of Brown's Computer Science professors, Chad Jenkins, not only teaches a course on game development, he also co-authored a book "Creating Games: Mechanics, Content, and Technology" published in October 2008 which is targeted as a college level text for teaching courses in game development.

In addition to a rich set of course-ware in gaming and related curriculum, Brown is one of five institutions that received funding from the National Science Foundation (NSF) to support the Graphics and Visualization Center. Other NSF sponsored institutions that are part of the Graphics and Visualization Center include Caltech, Cornell, UNC, and Utah. Each of these institutions is involved in a multisite collaboration effort. One of the projects involves the use of 3D graphics which is used in video gaming and other developments for space exploration and scientific research.

University of Rhode Island

Next to CCRI the University of Rhode Island (URI) has the largest student population in the state with over 15,600 enrolled students. URI offers an extensive base of computer science course work with a track on Interactive and Collaborative Gaming which includes course work on artificial intelligence, interactive game level development, and user interface design. In addition URI offers course work on digital art and design. This gaming track is under the direction of Dr. Jean Yves-Herve.

RI Cluster Risk Factors

While a cluster in RI clearly has advantages as outlined above and referenced via other clusters there ancillary risk factors that must be considered. Each risk has varying degrees of probability but none-the-less exist. They include:

- The game industry as whole flat lines and little or no growth is exhibited (but unlikely)
- 38 Studios takes longer for "halo" effect to kick-in – the basis for growth is a function of 38 Studios meeting their stated business objectives
- RI relies on 38 deal as its "solution" to the game cluster challenge (i.e., does not adopt an aggressive holistic strategy as outlined in this report)
- Neighboring clusters grow/succeed more rapidly than expected, and extract local talent faster than RI cluster can evolve and absorb them.

Additionally, it should be noted that most "anchor" tenants are established, revenue generating companies with some history of product etc. In the case of 38 Studios it is a pre-revenue concern, meaning that it won't necessarily have the pull-through impact of others with a more established base at the inception.

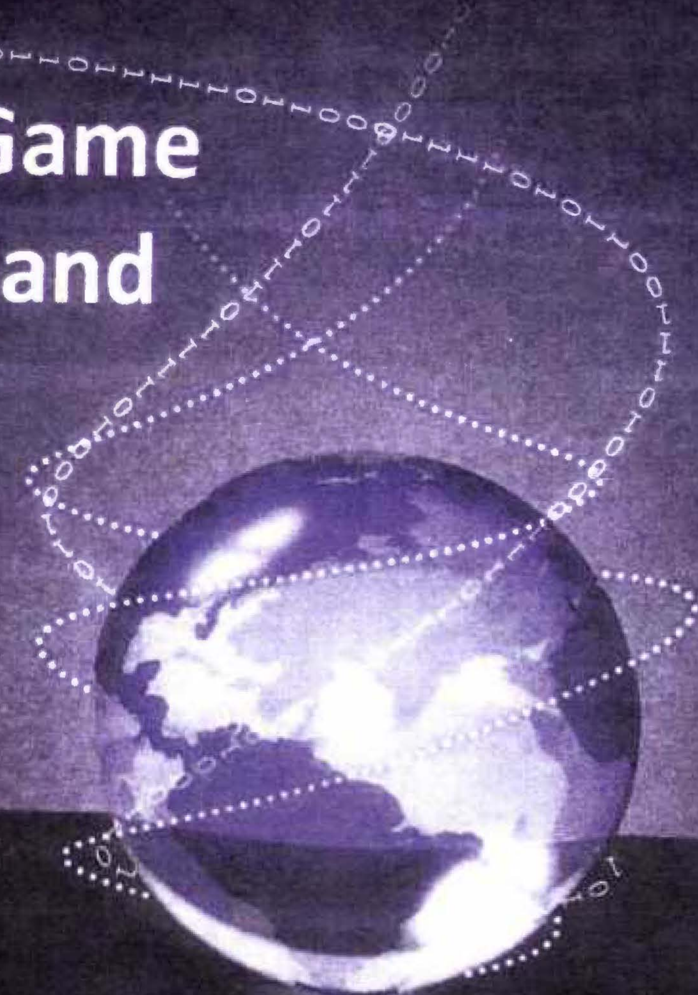
Evaluating a Video Game Cluster in Rhode Island

Prepared by:

STRATEGYANALYTICS

In association with:

Perimeter Partners



June 2010

Issues Addressed ..

- What is a video game cluster?
- How large are other North American video game clusters?
- Why should RI develop a video game cluster?
- What resources does RI have to support a video game cluster?
- What is the anticipated economic impact on RI?
- How have other states developed similar clusters?
- What are some of the critical success factors?
- What risks are associated with this cluster initiative?

Who We Are

STRATEGY ANALYTICS

- Boston headquartered global provider of technology-based research and consulting services.
- Practice area in digital media and entertainment with specific focus in the video gaming industry.

Perimeter Partners

- Founded by Jason Della Rocca, past executive director of the International Game Developers Association (IGDA).
- Perimeter Partners works with state governments and countries to assess video game cluster opportunities.

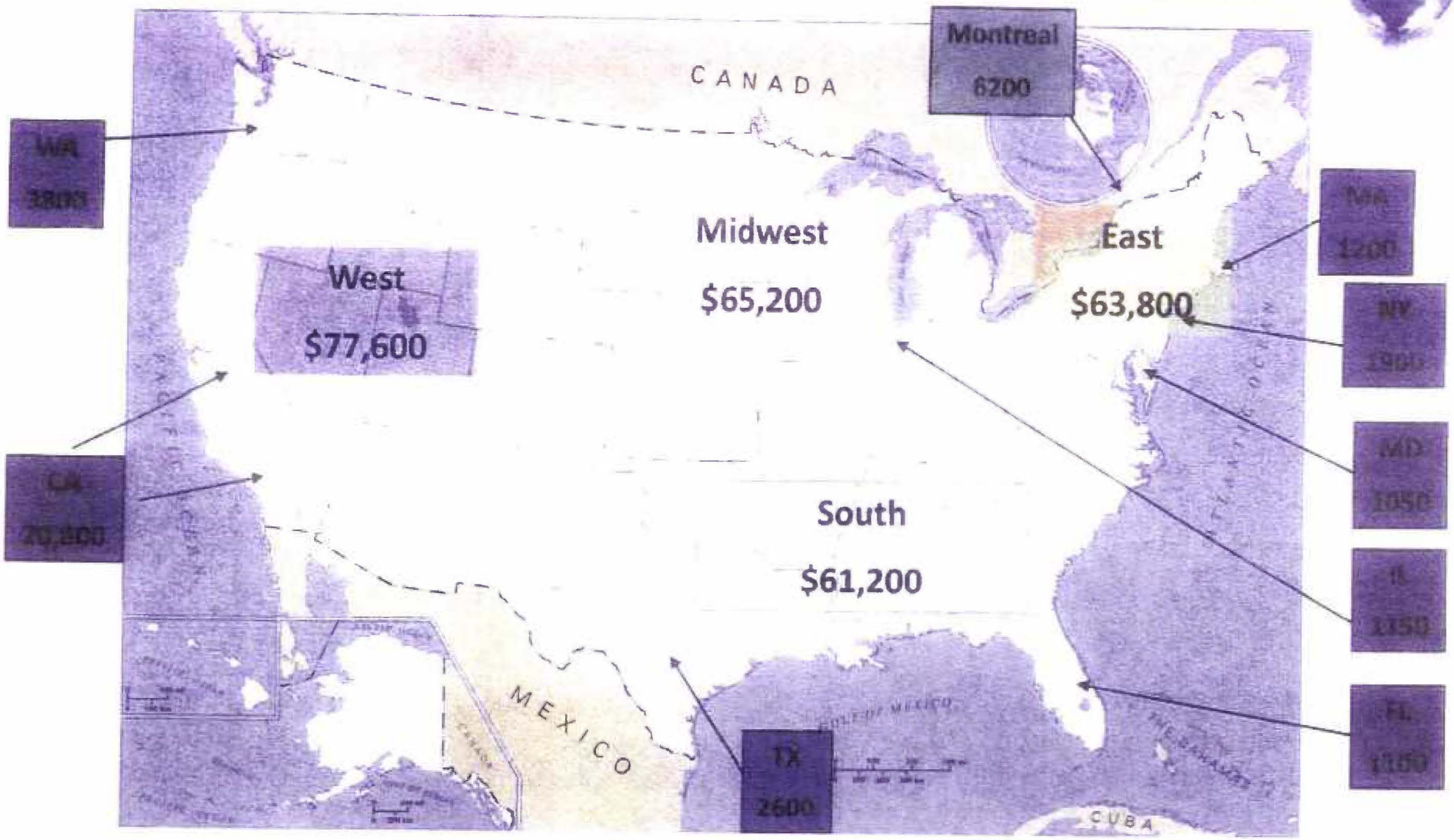
STRATEGY ANALYTICS

What is a video game cluster?

- A cluster is a geographic concentration of related businesses, suppliers and associated institutions in a particular sector which has 3 major benefits according to Michael Porter, including:
  - An increase in productivity
  - Greater innovation
  - Stimulation of new business
- A cluster is generally though to exist where:
  - There is a critical mass of sector-specific resources & competencies
  - The critical mass provides a key position in economic activity
  - There is a sustainable competitive advantage versus other locations.
- Targeted economic development activity for game clusters began in the mid-90's in countries, such as Canada and Australia
  - In the past few years aggressive cluster development efforts have been initiated by national, state, and city based economic development agencies.

STRATEGYANALYTICS

Major North American Video Game Clusters Employment & Average Regional Salaries



Sources: Employment Data – Entertainment Software Association, Salary Data via Game Developer Magazine, April 2010.

Why Should RI Develop a Video Game Clust…

Several reasons, including:

- Job creation/stimulation
- High growth industry
- Leverage RI's core academic assets
- Retain knowledge workers and creative talent in RI
- Higher overall average incomes
- RI has inherent critical resources – academic, industry, proximity to other markets to leverage for a video game cluster

What Resources Does RI Have to Support a Video Game Cluster?

STRATEGYANALYTICS

- Academic
  - RISD – critical, highly renowned talent pool used by game developers
  - Brown – Ivy League institution with top Computer Science and
    - Center for Visualization & Graphics
  - URI – Excellent State School with high caliber computer science students.
  - Others...
- Existing Game Industry Presence
  - Hasbro
  - G-tech
- Proximity to other markets
  - Boston
  - New York

STRATEGYANALYTICS

What Is The Economic Impact on RI?

Employment Source	Direct Employment At Steady State In Rhode Island	Indirect Employment	Total Direct + Indirect
Anchor Gaming Tenant (38 Studios) Total Employees (Actual)	458	1113	1571
Average Salary (000) $	72.5	54.5	59.7
Total Value (millions $)	33.2	60.7	93.9

- Modeled using US Bureau of Economic Analysis (BEA) RIMS II Model using multiplier
- Potential to expand with an incremental 200 jobs (above the 458) with value of $41 million

STRATEGY ANALYTICS

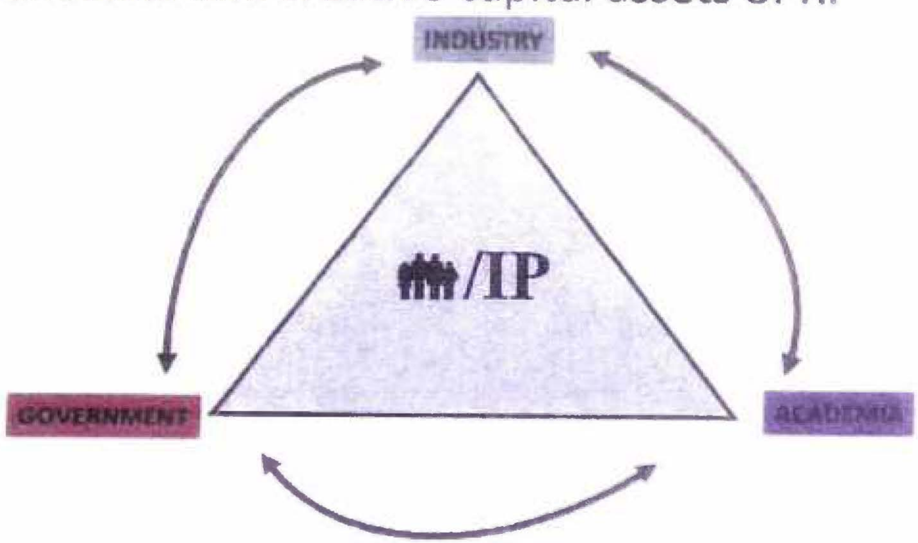
A Look at 3 Clusters …

- Boston
  - Grew out of incubation with MIT Media Labs, availability of capital
  - Spawned new game developers as a result of academic base/talent
  - Little government stimulus or involvement until more recently
  - Now, Harmonix (Guitar Hero), Turbine (Lord of the Rings), others reside in Boston
- Montreal
  - Ubisoft was anchor tenant in mid-90s
  - Recruited to area as result of language and tax credit of 37.5% on labor costs
  - Blockbuster hits from Ubisoft attracted EA's attention
  - As Ubisoft created blockbuster hits, EA attracted to region
  - Currently Ubisoft has 2000 headcount under one roof in Montreal
- Austin
  - Early legendary game developer, Richard Garriott, grew up in Austin and found Origin Systems, later acquired by EA
  - Nearly all game developers in Austin have roots in Origin/EA
  - 5% game development tax break
  - Strong academic tie-ins for technical and creative support
  - Home to Digital Media Council – fosters academic/government/industry collaboration

STRATEGY ANALYTICS

Critical Success Factors

- Strong collaboration between industry, academia, and government to foster sustainable momentum
- Proactive, aggressive, and holistic strategy to recruit game developers to region, i.e. they need to be invited
- Developing an incubation model in addition to securing an anchor tenant
- Leverage tax credits, other incentives to entice newcomers
- Leverage intellectual and creative capital assets of RI



STRATEGY ANALYTICS

Risks & Mitigating Factors ..

- Three categories of risks associated with:
  - Game industry generally
  - Cluster Development/Success
  - 38 Studios
- Game industry risk factors
  - Changing business/monetization models, e.g. "freemium" model
  - Several newcomers into MMO space, e.g. Trion
  - Sequels to *existing* brands gain traction, e.g. World of Warcraft, Lineage, etc.
- Cluster Development
  - Requires more than an "anchor" tenant
  - Strong clusters in MA and NY could work both for *and* against RI
  - Requires long term commitment and extensive collaboration between industry, academia, and government
- 38 Studios
  - Pre-revenue company
  - No established brand recognition
  - Timing still 1-2 years before product release (Project Mercury and Copernicus respectively)

WELLS FARGO SECURITIES

DRAFT
6/9/10

38 Studios: Rhode Island Economic Development Council ("RIEDC") Discussion Materials

June 14, 2010

EXHIBIT A

Together we'll go far

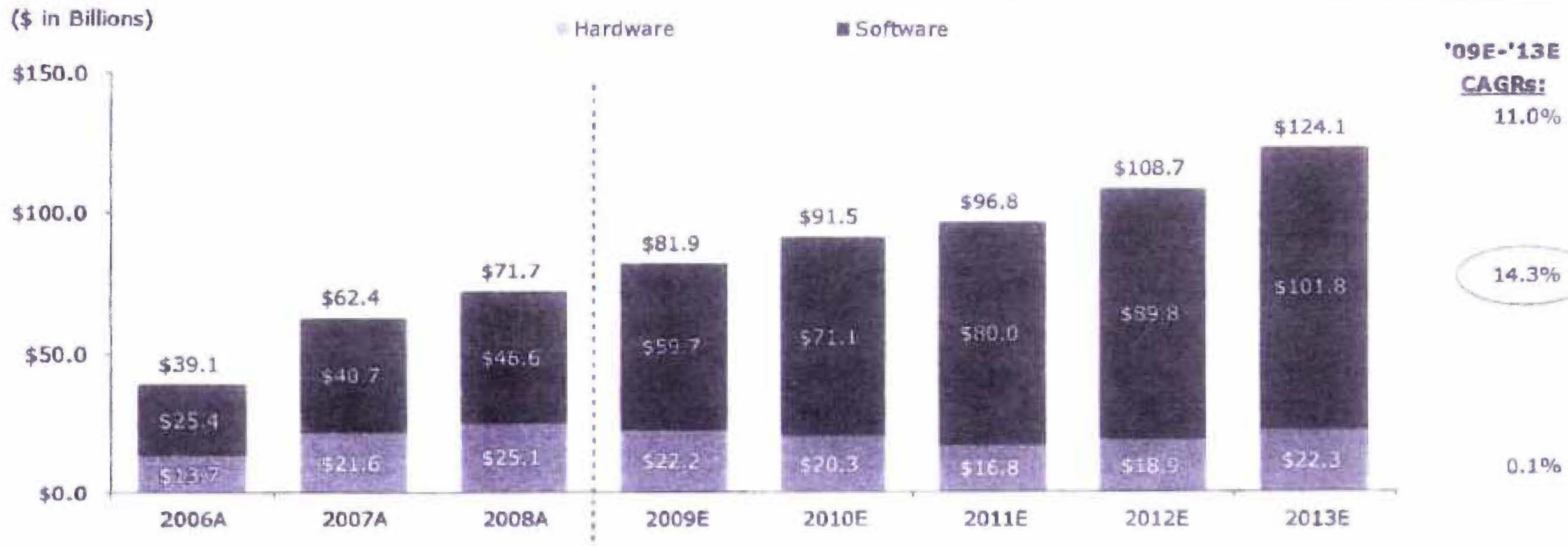
Table of Contents

Interactive Entertainment Industry Overview

Growth in the Interactive Entertainment Market will be Primarily Driven by Software Sales

- Worldwide revenue representing retail value of shipments of videogame consoles, dedicated handheld gaming devices, and packaged software for consoles and handhelds reached a record high of $71.7 billion in 2008, up 15% from 2007's record high of $62.4 billion.
  - The worldwide market is expected to reach $124.1 billion in 2013, a projected compounded annual growth rate of 11.0%.
- While hardware revenue is projected to decline and then rise again in 2012 and 2013 due to the console cycle, the retail value of software shipments is expected to increase at a compounded annual growth rate of 14.3% in the projected years, reaching $101.8 billion in 2013.

Worldwide Interactive Entertainment Revenue by Component



Source: IDC, May 2009

Market Opportunity by Geography

North America and Western Europe Currently Each Represent 40% of Total Market Share

- Revenue in North America is expected to grow at a compounded annual growth rate of 7.1%, growing from $29.2 billion in 2008 to $43.2 billion in 2013.

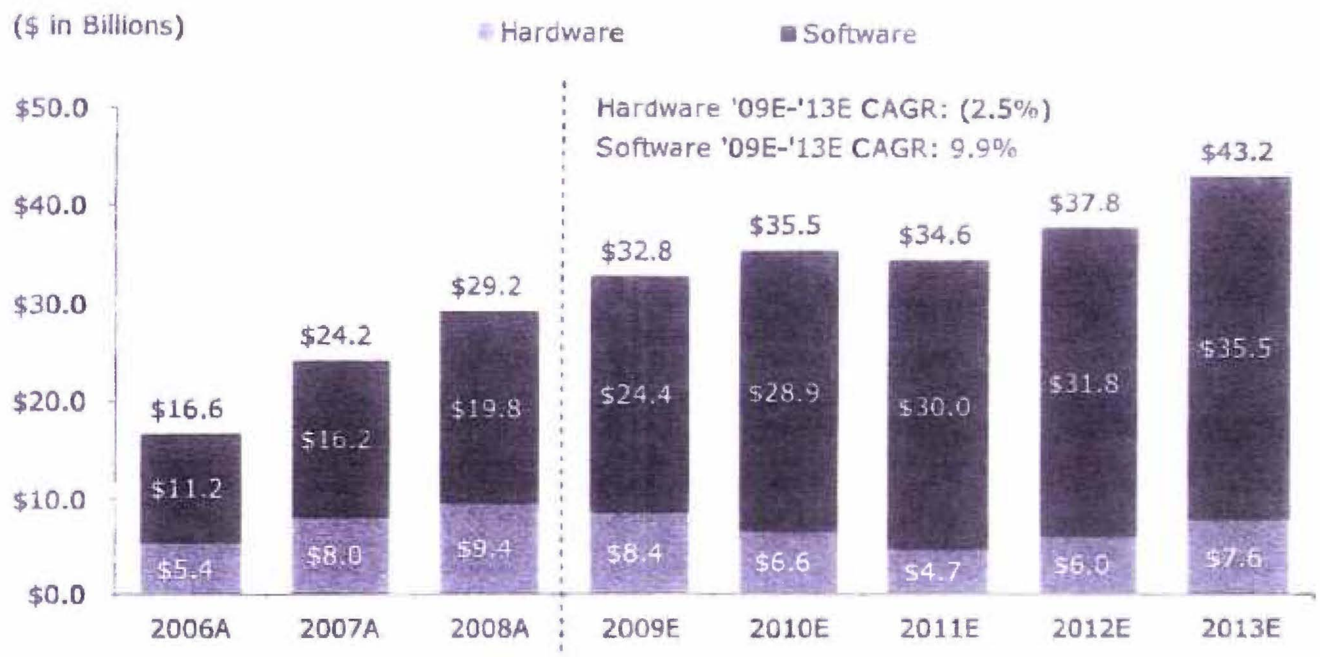
Worldwide Interactive Entertainment Revenue by Geography

Source: IDC, May 2009

North America Market Opportunity

Within North America, Hardware Revenue is Projected to Decline Slightly While the Retail Value of Software Shipments is Expected to Increase at a Compounded Annual Growth Rate of 9.9% in the Projected Years, Reaching $35.5 Billion in 2013

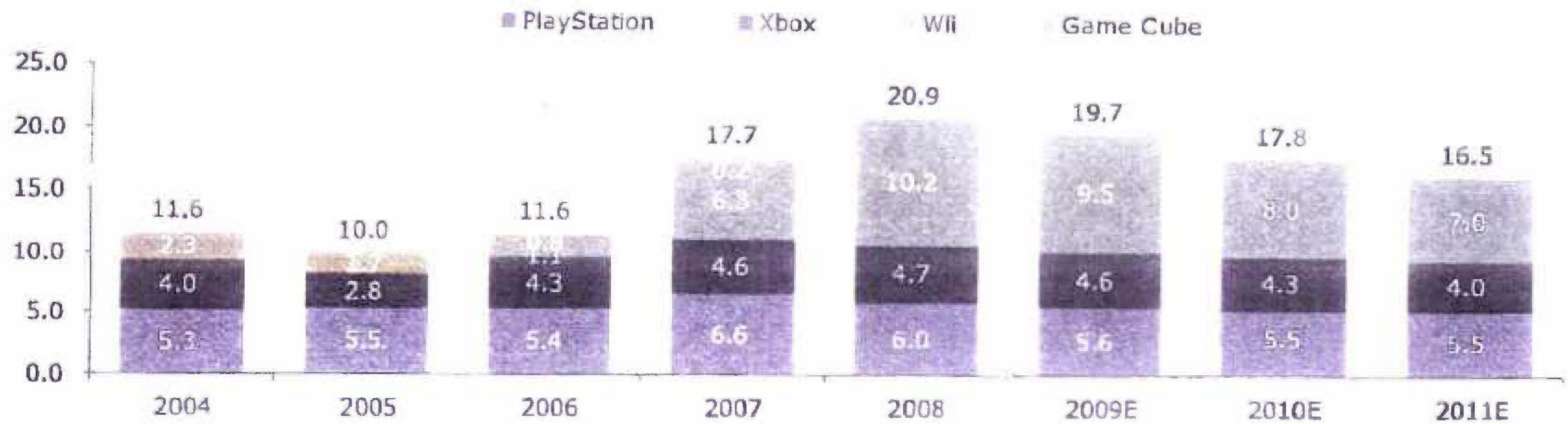
North America Interactive Entertainment Revenue by Component



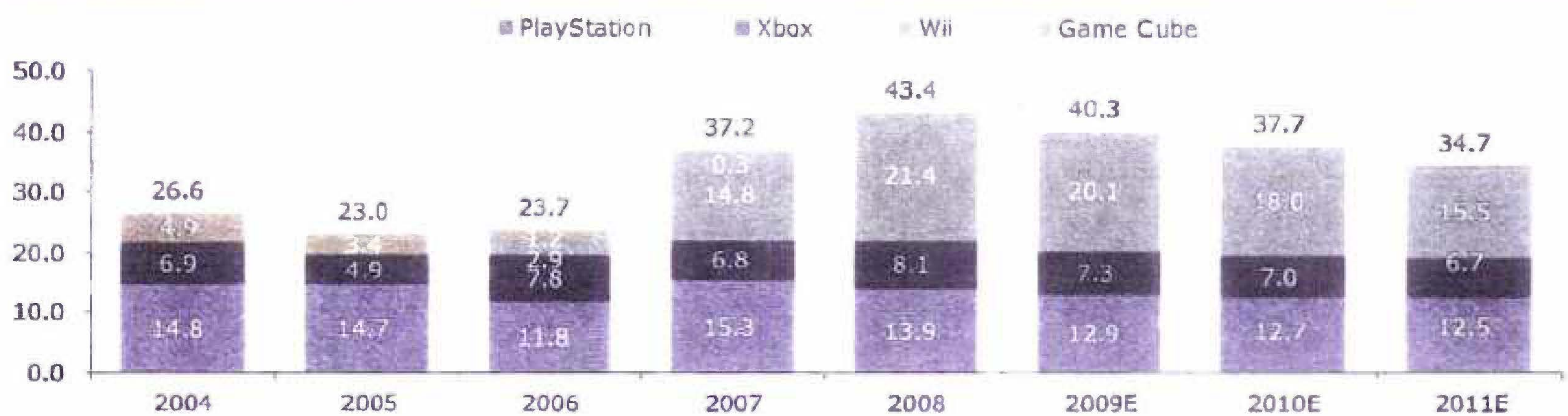
Source: IDC, May 2009

Composition of Console Installed Base in the U.S. and Worldwide

U.S. Console Unit Sales (in millions)



Worldwide Console Unit Sales (in millions)

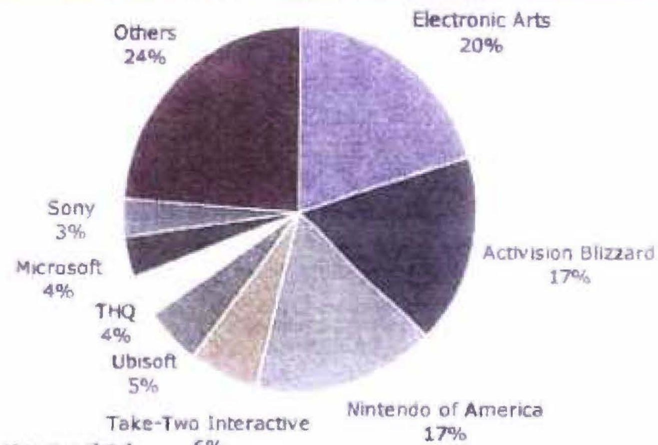


Note: "PlayStation" includes PlayStation, PlayStation2 and PS3; "Xbox" includes Xbox and Xbox 360
Source: Wall Street research

Top U.S. Interactive Software Publishers and Key Titles

While the Industry Leaders Command a Large Portion of the Entertainment Software Industry, the Industry is Fragmented and Numerous Small, Privately-Held Players Exist

2008 Top U.S. Interactive Entertainment Software Publishers [1]



[1] Based on U.S. Retail Sales

Publisher Top Brands (U.S. Sales 2008)

Electronic Arts			Activision			Nintendo			Take-Two		
Rank	Brand	Amount ($ mil)	Rank	Brand	Amount ($ mil)	Rank	Brand	Amount ($ mil)	Rank	Brand	Amount ($ mil)
1	Rock Band	$662	1	Guitar Hero	$992	1	Mario Brothers	$761	1	Grand Theft Auto	$361
2	Madden Football	312	2	Call of Duty	446	2	Wii Fit	407	2	NBA 2K	60
3	The Sims	143	3	Warcraft	104	3	Wii Play	261	3	Carnival Games	54
4	Need for Speed	106	4	Spider-Man	42	4	Pokemon	119	4	MLB 2K	49
5	NCAA Football	94	5	Cabela's	32	5	Zelda	67	5	Midnight Club	49
6	Tiger Woods	89	6	Kung Fu Panda	32	6	Animal Crossing	54	6	Civilization	37
7	FIFA	79	7	James Bond	25	7	Nintendogs	44	7	Bully	17
8	NBA Live	71	8	Transformers	23	8	Wii Music	42	8	Elder Scrolls	14
9	Left 4 Dead	67	9	Crash Bandicoot	20	9	Brain Age	39	9	NHL 2K	12
10	Battlefield	57	10	Tony Hawk	17	10	Kirby	26	10	Top Spin	9
Total	Top 10 Brands	$1,680	Total	Top 10 Brands	$1,733	Total	Top 10 Brands	$1,820	Total	Top 10 Brands	$662
%*		71%	%*		89%	%*		94%	%*		90%

* % of total company U.S. sell-through attributable to top ten brands

Source: Wall Street Research

Industry Trends and Drivers

Trends and Drivers

Current Drivers

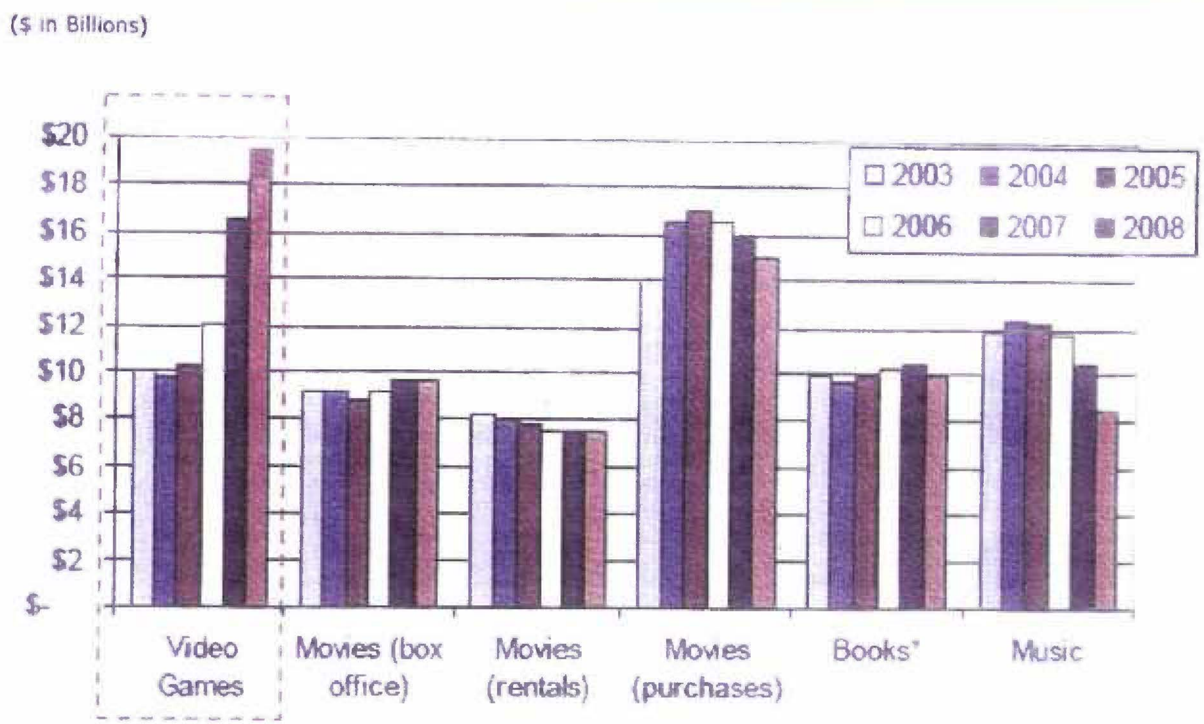
- Broadband penetration to the home, enabling digital distribution and online gaming.
- More powerful PCs and laptops at lower prices.
  - Better graphic processors, more disc space, etc.
- Improvement in quality of games, often with social elements (VoIP, text chat, etc.).
- Longer console lifecycles.
- Growth in adoption of smart phones and other handheld devices that support gaming applications.
- Changing demographics: The web-literacy rate among the target audience has been growing constantly.

Inhibitors

- Macroeconomic weakness and uncertainty, which impacts customer spending, advertisements and investment.
- Piracy: Illegal file downloading / disks.
- Free content available on the Internet, which lowers demand for premium titles.
- Platform incompatibility: Some hardware cannot play select software.
- High bar to produce sophisticated titles; costly and time-consuming to develop.

The U.S. Interactive Entertainment Sector Grew Substantially Since 2003, While Other Entertainment Sectors are Approximately Flat to Slightly Down

U.S. Entertainment Sectors



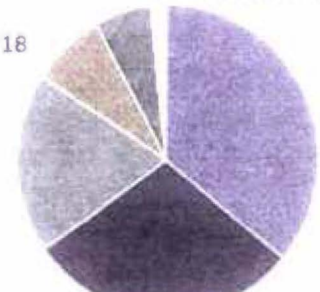
* *Includes trade, book club, paperback, and other sales*

Source: Wall Street Research

Although Interactive Entertainment Consumption is Well Distributed, Time Spent by 8- to 18-year-olds is Growing Dramatically

- 55% of the interactive entertainment market is comprised of males aged under 45.
- Women now represent 40% of game players and 48% of game buyers.
- Within the younger demographics (ages 8 to 18), time spent consuming video and computer games has increased dramatically over the past 10 years.
  - Video games use has increased from 26 minutes a day to 1 hour 13 minutes in a typical day.
  - Video games present 11% of media time allocation.

Interactive Entertainment Market Segmentation by Demographics (2009)



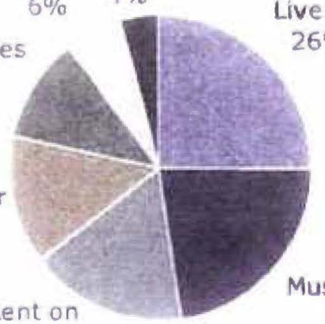
Media Use Over Time (8- to 18-year-olds)

(hh:mm)	1999	2004	2009
TV Content	3:47	3:51	4:29
Music/Audio	1:48	1:44	2:31
Computer[1]	:27	1:02	1:29
Video Games	**:26**	**:49**	**1:13**
Print	:43	:43	:38
Movies	:18	:25	:25
Total Media Exposure	7:29	8:33	10:45
Multitasking Proportion	16%	26%	29%
Total Media Use	6:19	6:21	7:38

[1] 19% of time is spent playing computer games

Notes: **Total media exposure** is the sum of time spent with all media. **Multitasking proportion** is the proportion of media time that is spent using more than one medium concurrently. **Total media use** is the actual numbers out of the day that are spent using media, taking multitasking into account.

Media Time Allocation Among 8- to 18-year-olds



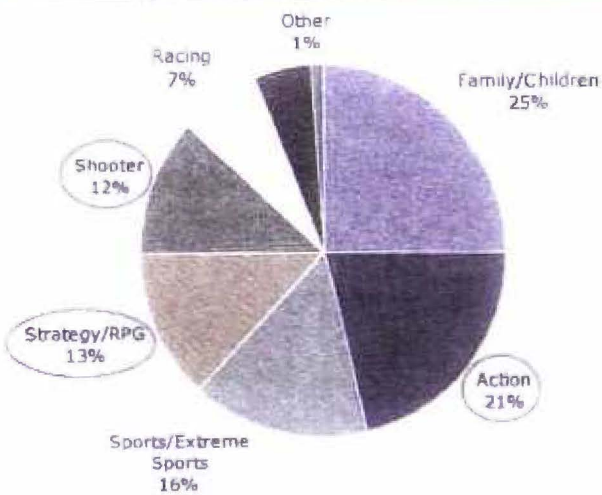
Source: IBISWorld, January 2010; Kaiser Family Foundation, January 2010

Growth in the Family / Children's Segment has Been Driven by Music Themed Games Such as Rock Band and Guitar Hero

U.S. Interactive Entertainment Software Market by Genre

	2001	2002	2003	2004	2005	2006	2007	2008
Family/Children	9%	8%	9%	9%	8%	9%	22%	25%
Action	19%	26%	27%	30%	31%	25%	20%	21%
Sports/Extreme Sports	21%	17%	17%	17%	17%	17%	16%	16%
Strategy/RPG	24%	18%	17%	17%	16%	20%	16%	13%
Shooter	10%	9%	11%	13%	11%	12%	14%	12%
Racing	10%	13%	9%	7%	10%	9%	6%	7%
Fighting	5%	5%	6%	5%	4%	4%	4%	5%
Other	1%	2%	3%	2%	2%	2%	1%	1%
Simulations	2%	2%	2%	1%	1%	1%	1%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%

2008 U.S. Interactive Entertainment Software Market by Genre



Source: Wall Street Research

Online PC Gaming in the United States

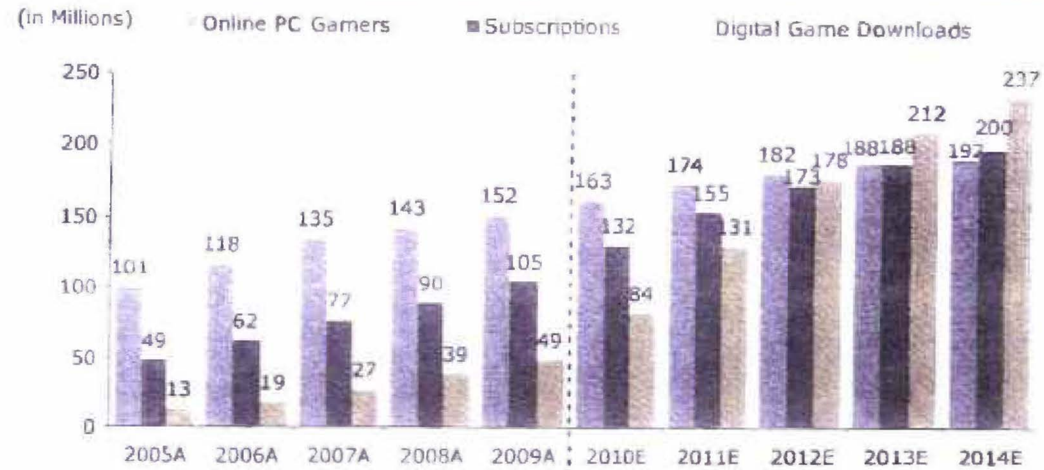
The market for online PC gaming continues to advance with more than 190 million Americans, or approximately 60% of the population, forecasted to play some kind of online PC game by 2014.

Core business models include premium monthly subscriptions mainly associated with virtual worlds and Massively Multiplayer Online Games ("MMOs"), paid digital downloads, and advertising and micro-transactions (i.e., sub-$5 virtual item purchases).

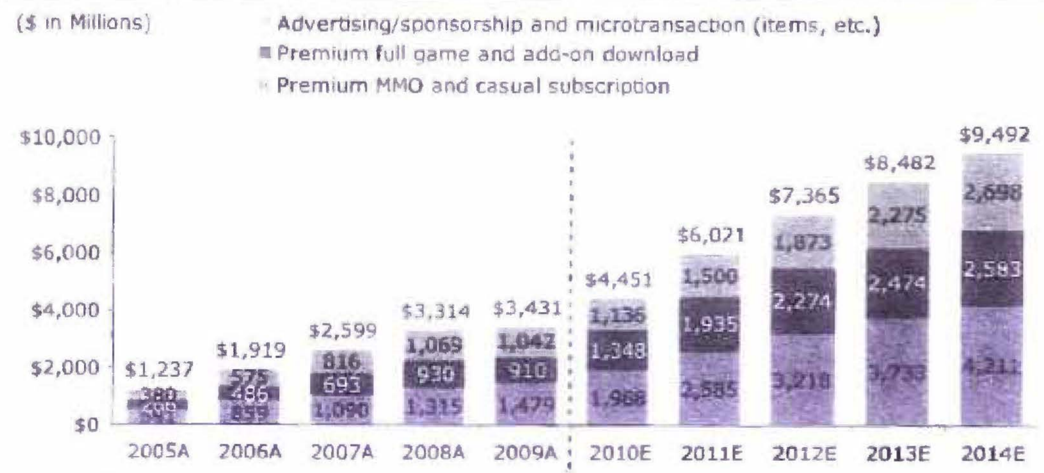
Digital game downloads (i.e., purchased full game and add-on downloads) are expected grow the fastest, reaching 237 million downloads in 2014, a 36.9% compounded annual growth rate from the 49 million in 2009.

U.S. online PC gaming revenue is expected to reach $9.5 billion in 2014, a CAGR of 22.6% from 2009.

U.S. Online PC Gaming Subscribers and Purchased Digital Game Downloads



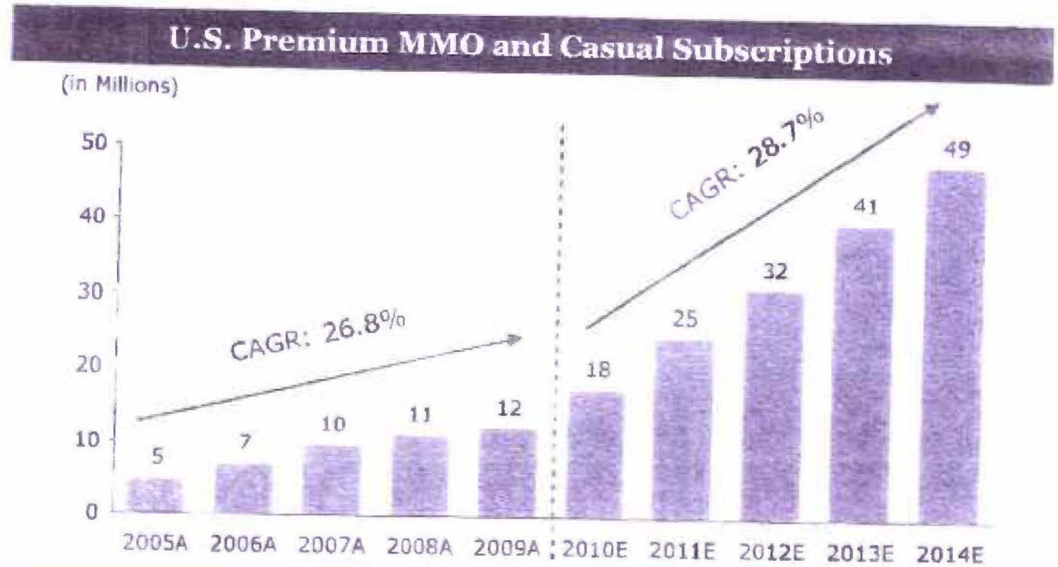
U.S. Online PC Gaming Revenue



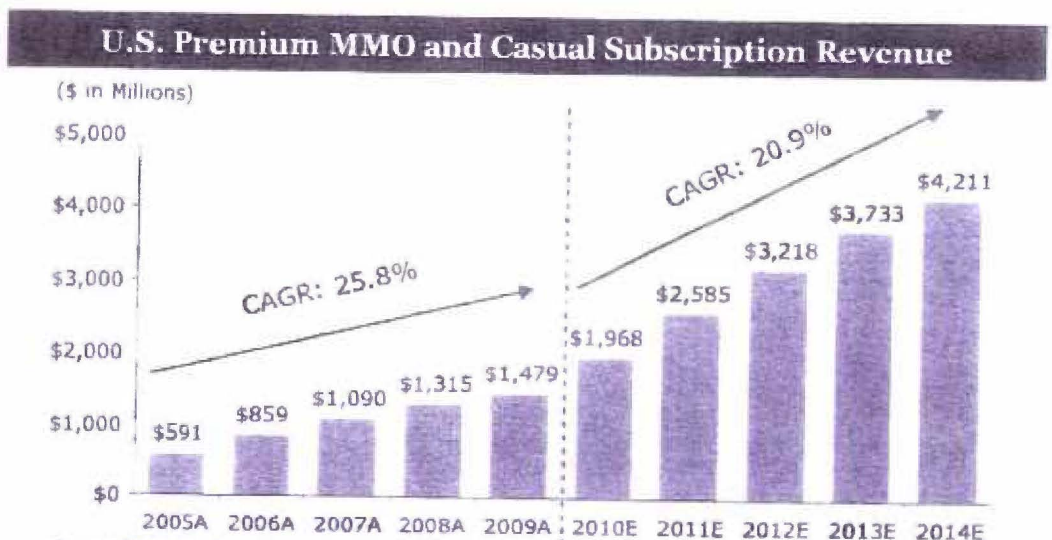
Source: IDC, March 2010

Strong Growth in Massively Multiplayer Online Games is Expected to Continue

The number of paid monthly subscriptions (including MMOs and casual gaming subscriptions) has historically grown at a CAGR of 27% and is projected to grow rapidly at a CAGR of 29%, from about 18 million in 2010 to nearly 49 million by 2014.



Revenue from MMO and casual subscriptions is projected to double, increasing from $2.0 billion in 2010 to $4.2 billion in 2014.



Source: IDC, March 2010

38 Studios Relative Revenue Size

- Run-Rate Revenue Projections for 38 Studios in 2014 – 2015 are in Line with Peers
- 38 Studios Only Needs to Capture a Small Share of the Overall Software Market to Reach its Projected Revenue

($ in Millions)	2010E	2011E	2012E	2013E	2014E	2015E
38 Studios		$21	$59	$151	$164	$184
% Growth			183%	157%	9%	12%
% North America Software Market Share		0.1%	0.2%	0.4%		
% Worldwide Software Market Share		0.0%	0.1%	0.1%		
Comparable Companies:						
Activision Blizzard	$4,571	$4,881	$5,547	$5,890	$6,891	n/a
Electronic Arts	4,125	3,813	3,998	4,270	4,518	n/a
Take-Two	895	1,231	1,079	n/a	n/a	n/a
THQ	871	895	973	1,082	n/a	n/a
% Growth						
Activision Blizzard		7%	14%	6%	17%	n/a
Electronic Arts		(8%)	5%	7%	6%	n/a
Take-Two		37%	(12%)	n/a	n/a	n/a
THQ		3%	9%	11%	n/a	n/a
Mean:		10%	4%	8%	11%	n/a
% Worldwide Software Market Share						
Activision Blizzard	6.4%	6.1%	6.2%	5.8%		
Electronic Arts	5.8%	4.8%	4.5%	4.2%		
Take-Two	1.3%	1.5%	1.2%	n/a		
THQ	1.2%	1.1%	1.1%	1.1%		
North America Market:						
Hardware	$6,606	$4,653	$5,966	$7,616		
% Growth		(30%)	28%	28%		
Software	28,881	29,993	31,838	35,547		
% Growth		4%	6%	12%		
Worldwide Market:						
Hardware	$20,326	$16,779	$18,942	$22,271		
% Growth		(17%)	13%	18%		
Software	71,143	79,984	89,782	101,801		
% Growth		12%	12%	13%		

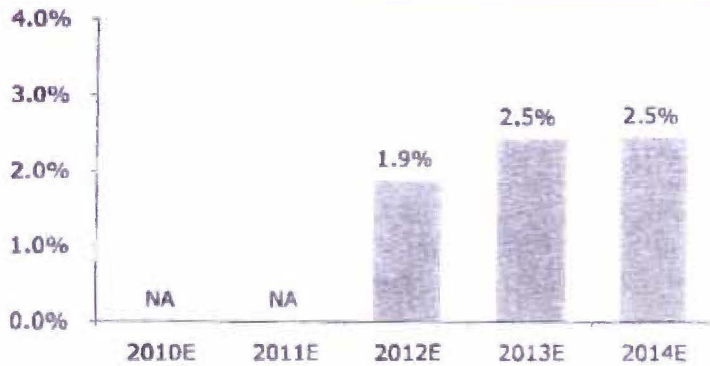
Source: Company management and Wall Street research

38 Studios MMO Relative Size Comparison

Run-Rate Revenue and Subscriber Growth Projections for 38 Studios are in Line with U.S. MMO Industry

38 Studios MMO and U.S. MMO Subscribers Comparison

38 Studios MMO % of U.S. MMO

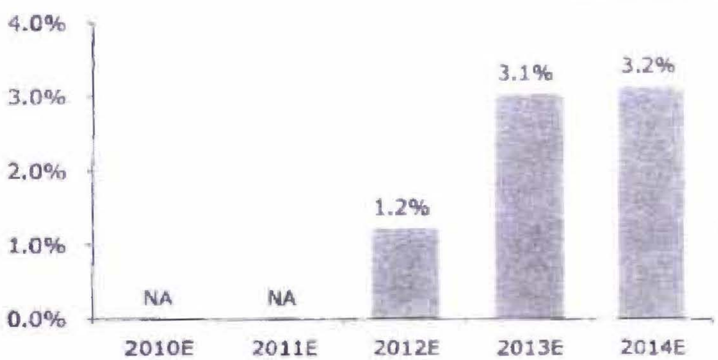


	2010E	2011E	2012E	2013E	2014E
38 Studios Monthly MMO Subs	-	-	600,000	1,000,000	1,200,000
% Growth		*NA*	*NA*	*67%*	*20%*
U.S. MMO Subs	17,700,000	24,800,000	31,500,000	40,700,000	48,600,000
% Growth		*40%*	*27%*	*29%*	*19%*

Source: Management estimates and IDC, March 2010

38 Studios MMO and U.S. MMO Revenue Comparison

38 Studios MMO % of U.S. MMO



($ in Millions)	2010E	2011E	2012E	2013E	2014E
38 Studios MMO Net Revenue	-	-	$40	$114	$133
% Growth		*NA*	*NA*	*187%*	*17%*
U.S. MMO Net Revenue	$1,968	$2,585	$3,218	$3,733	$4,211
% Growth		*31%*	*24%*	*16%*	*13%*

Source: Management estimates and IDC, March 2010

Source: Company management and Wall Street research

Pipeline / Forward MMO Calendar

Placeholder – to be created with data sent by Company / SA

38 Studios Planning Process

2010 Hiring Strategy — Please confirm 12/31/10 corporate headcount number and approx new hires

Hiring Budget

- Recruiting plans are evaluated yearly, quarterly, and monthly.
- Hiring budget includes plans to hire approximately [65] employees at Maynard by the end of 2010.
- Expected to hire 30% at the senior level (with technical skills), 20-30% at mid-level, and 30-40% at entry level (recent graduates or 0-2 years of experience).
- Senior level employees mostly recruited through employee referrals (more than 60%).
  - 2010 strategy includes attending more events and conferences to establish bigger presence in the industry.
- Entry level employees recruited through internship programs at colleges.

Select Statistics

- 90% offer acceptance rate due to good screening process.
- 14% employee turnover with approximately 1 resignation every other month since Maynard opened.

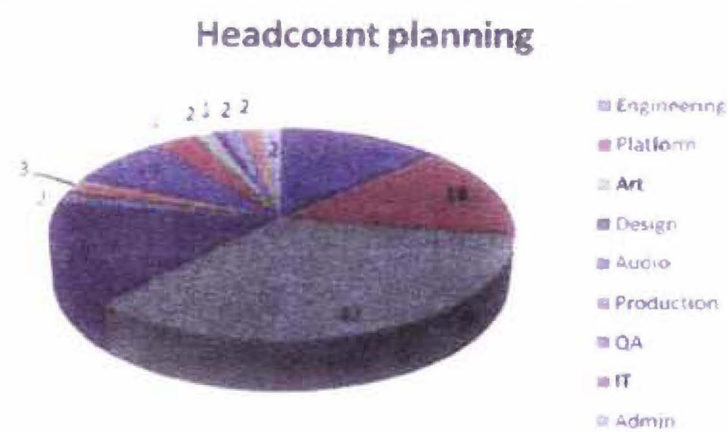
Compensation

- 95% of employees are currently salary-based.

Headcount (FTE)	Current	12/31/2010 Projected
Maynard, MA	86	150
Baltimore, MD	79	81
Corporate	12	12
Total	177	243

Source: Company management

2010 New Hires by Discipline – Maynard



38 Studios Employs a Structured Recruiting Process to Meet Hiring Needs

Headcount Approval Process

1. Headcount prep – permanent vs. temporary hires
2. Headcount planning review
3. If approved, budget is updated
4. Notification sent to initiate the search
5. Job posting creation

Recruitment Search Process

1. Recruiter initiates sourcing
2. Recruiter screens incoming resumes and updates Applicant Tracking system
3. Application reviews
4. Initial test/phone screens scheduled
5. Initial test/phone screens results submitted to hiring manager
6. Remote tests
7. Phone interviews

Onsite Interview Set-Up

1. Onsite Interview Request
2. Approve travel for remote candidates
3. Recruiter confirms onsite date
4. Travel arrangements are made
5. Interviewer list created
6. Confirmed details sent to Candidate
7. Onsite interview conducted
8. Offer process initiated

Offer Presentation Process

1. HR Manager and Hiring manager prepare offer terms
2. Terms are submitted to President/GM
3. If approved, HR Manager sends terms to Recruiter
4. Recruiter issues and presents offer
5. If offer is accepted, Recruiter initiates on boarding process

Source: Company management

Planning Process and Timeline – Mercury, Role Playing Game ("RPG")

Please confirm 3rd bullet point

Planning Process

- The Mercury project is currently in Release 4: Diagonal Slice, where RPG elements of gameplay are more fully developed.
- Utilizes Scrum for all content generators:
  - Uses waterfall schedules to scope the entire game.
  - Content is built in 3 stages: basic implementation => working great / almost shippable => polishing details / finalizing.
- Currently slightly understaffed in concept art and animation as the team selectively seeks to hire top talent.
  - Time is compensated by contractors.
  - Looking to bring in 1-2 concept artists to further assist with animation.
- Incented by a $1 million financial incentive from a key partner for shipping on time and achieving a 85% rating (by Metacritic).
  - 2-3 key partner producers spend one week at the studio every four weeks.
  - Games Audit, an independent party hired by the bonding bank, also tracks development progress.

Timeline

MERCURY (RPG) MILESTONES	SCHEDULED COMPLETION DATE	STATUS
Concept Kickoff		COMPLETE
Concept Completion Review		COMPLETE
Prototype Kickoff		COMPLETE
Prototype Completion Review		COMPLETE
Pre-Production Kickoff		COMPLETE
Pre-Production	9-Jul	COMPLETE
Production Kickoff - PS3 Feature Parity	9-Oct	COMPLETE
PS3 Performance	10-Jan	COMPLETE
Vertical Slice	10-Apr	COMPLETE
Diagonal Slice	10-May	COMPLETE
Pre-Alpha	10-Aug	PENDING
Platform Performance	10-Oct	PENDING
ALPHA: Code Complete	10-Dec	PENDING
BETA: Content Complete	11-Feb	PENDING
First Party Submission	11-Jun	PENDING
RTM	11-Jul	PENDING
Ship	11-Aug	PENDING
Street	11-Sep	PENDING

Planning Process and Timeline – Copernicus, MMO

Development Brief

- The Copernicus project is in late pre-production and starting the ramp towards feature and content production.
- The scope of the game is now well understood and the content development pipelines are being refined in preparation for additional team growth and full game production.
- Utilizes Scrum as the primary development and operational framework:
  - Manage a Product Backlog with evolving, prioritized goals.
  - Each month, these goals are broken down into sprint deliverables.
  - Progress is measured daily.
  - Monthly company-wide review of sprint deliverables.
- Each Sprint is one calendar month long.
- One release is typically composed of three Sprints.

Timeline

COPERNICUS (MMO) MILESTONES	SCHEDULED COMPLETION DATE	STATUS
Concept Kickoff	6-Nov	COMPLETE
Concept Completion Review	8-Feb	COMPLETE
Prototype Kickoff	8-Feb	COMPLETE
Prototype Completion Review	8-Oct	COMPLETE
Vertical Slice Kickoff	8-Oct	COMPLETE
Vertical Slice Completion Review	8-Dec	COMPLETE
Pre-Production Kickoff	8-Dec	COMPLETE
Production Requirements Review	9-Sep	COMPLETE
Production Kickoff	10-Mar	COMPLETE
Core Gameplay Demonstrable	10-Jun	PENDING
Cinematics Pipeline Demonstrable	10-Sep	PENDING
World is Whiteboxed	10-Dec	PENDING
Gameplay System Complete	11-Mar	PENDING
Social Systems Demonstrable	11-Jun	PENDING
Feature Complete	11-Sep	PENDING
ALPHA: Code and Content Complete	11-Dec	PENDING
Friends and Family	12-Jan	PENDING
BETA: Closed Review	12-Apr	PENDING
Final / Live	12-Sep	PENDING

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WELLS FARGO SECURITIES

38 Studios

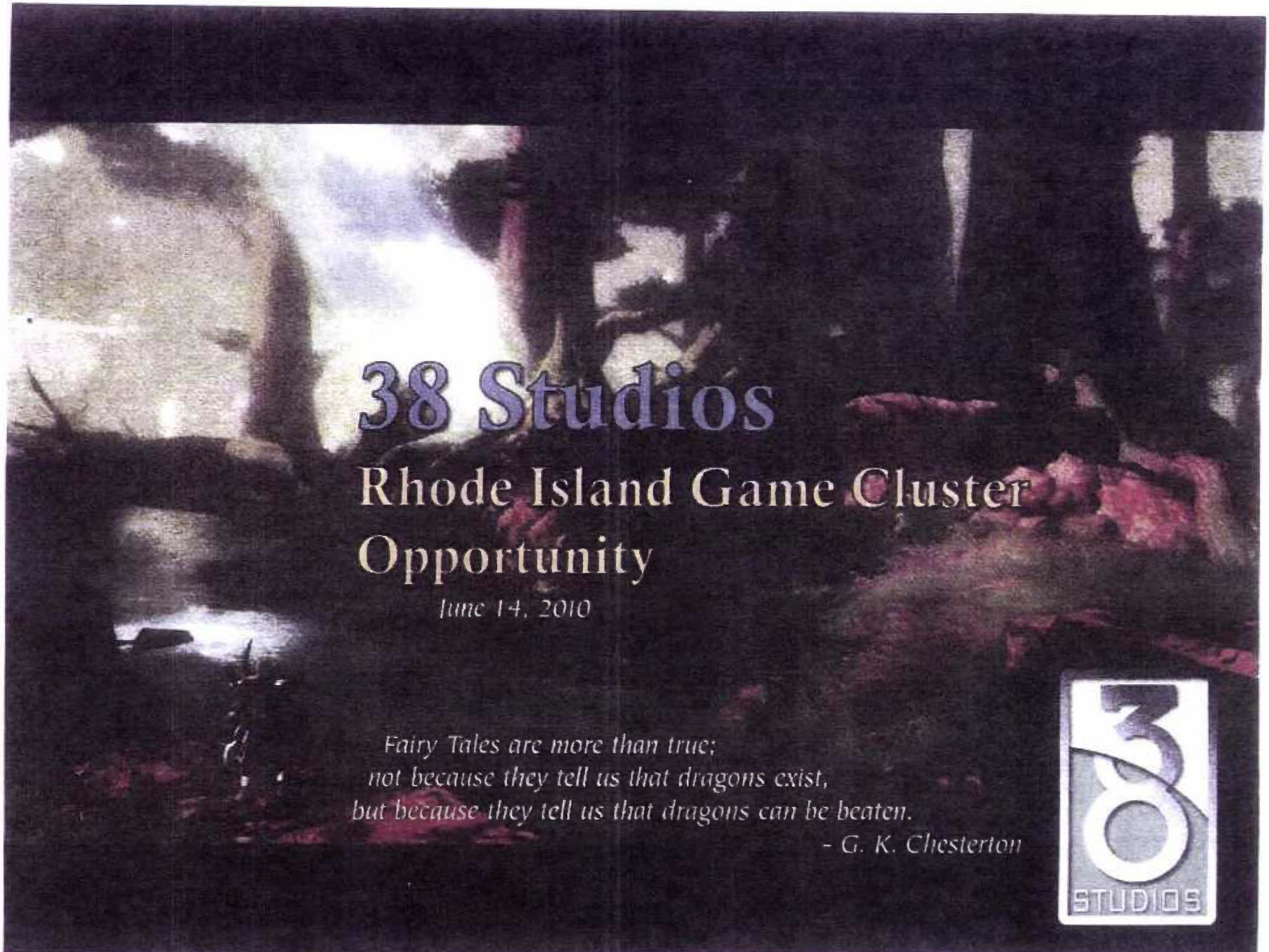
Rhode Island Game Cluster Opportunity

June 14, 2010

Fairy Tales are more than true;
not because they tell us that dragons exist,
but because they tell us that dragons can be beaten.
- G. K. Chesterton

38 STUDIOS

EXHIBIT



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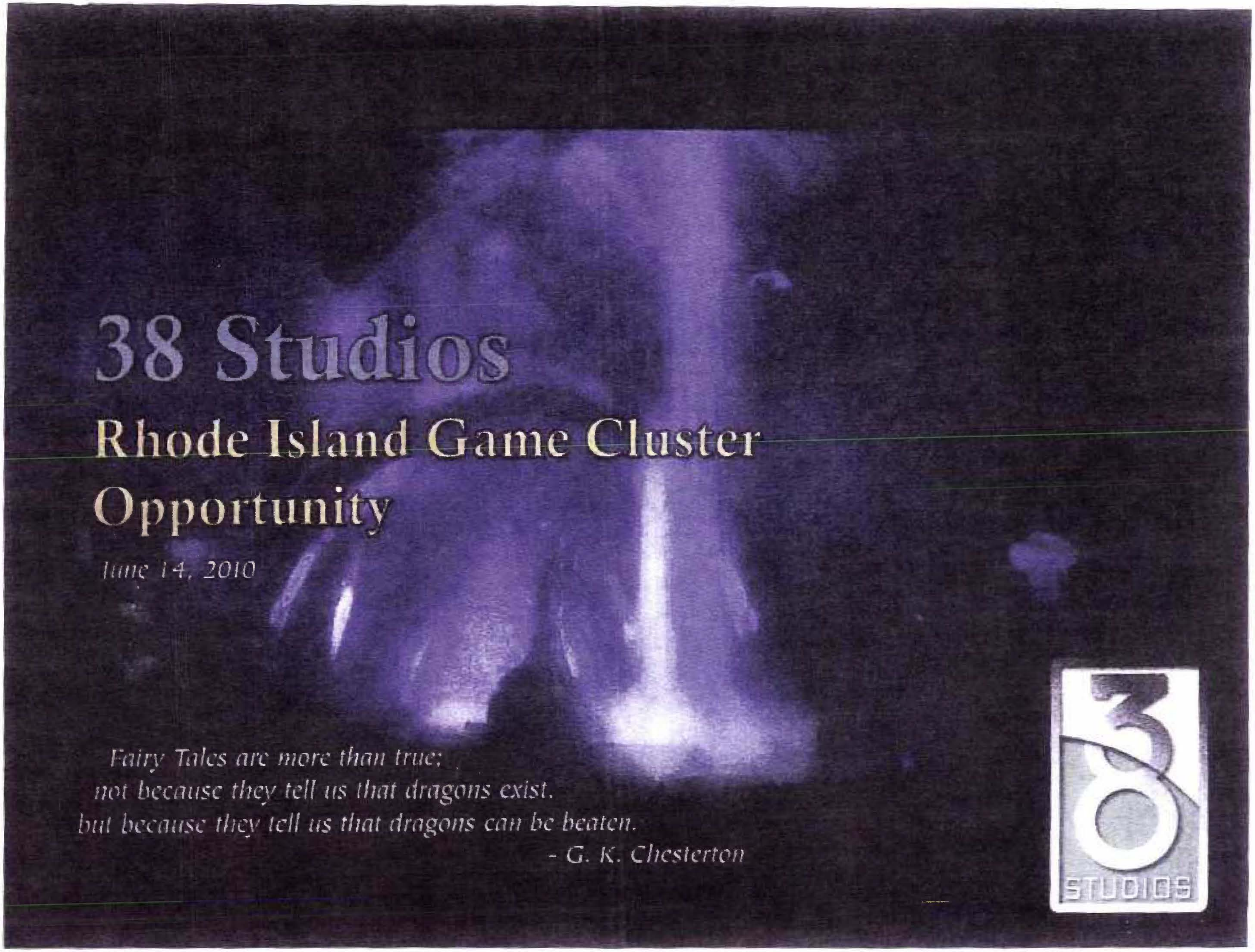
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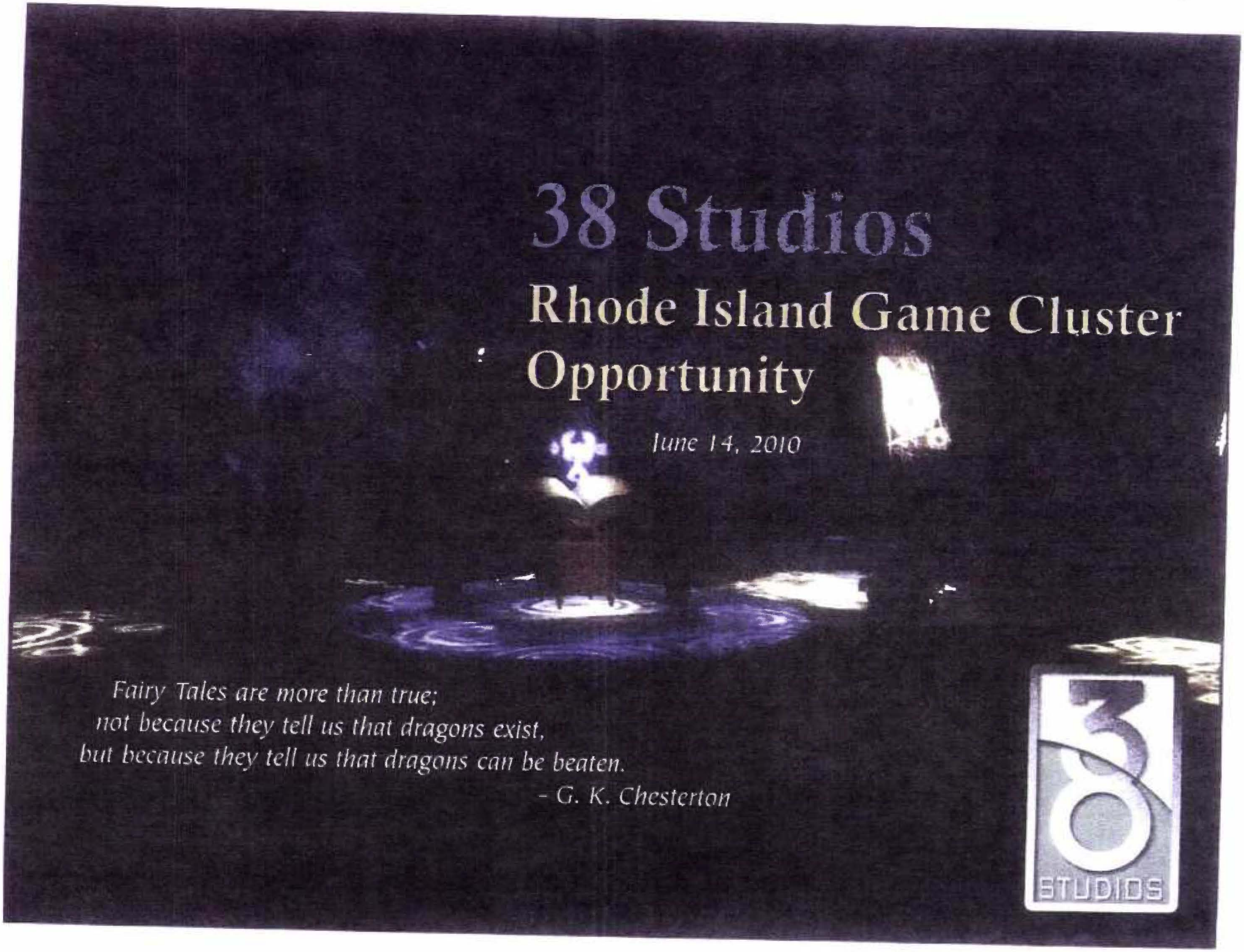
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STUDIOS

38 Studios Product Vision

Create Multi-Billion $$ Entertainment Company

Combine World-Class Creativity with Cutting Edge Technology to Create Outstanding Entertainment Experiences

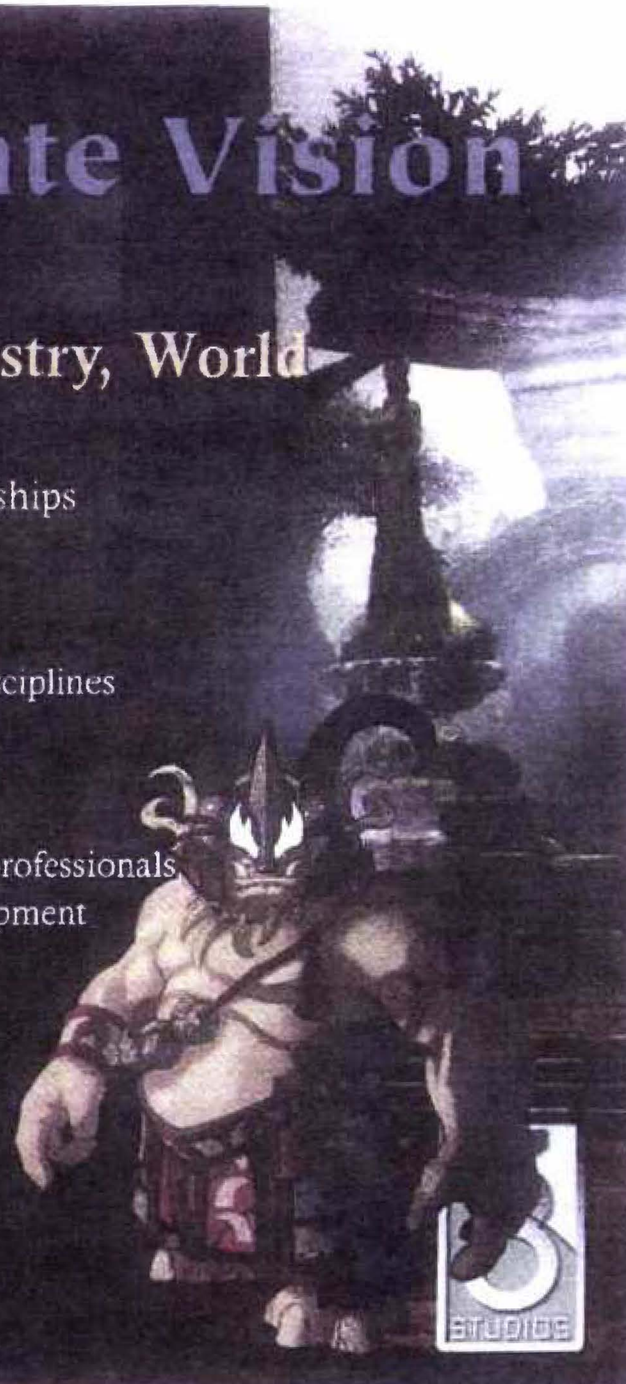
- Industry-Leading Creative and Technical Team for Cornerstone Products
  - Role-Playing Game for PlayStation 3, Xbox 360, PC
  - Massively Multiplayer Online Game for PC
- Plan for Growth
  - Expansion into Additional Forms of Mass-Market Entertainment
  - Creation of New Entertainment Properties
  - Exploit Proprietary Technology and Processes

38 Studios Corporate Vision

Positively Impact the Community, Industry, World

Leadership Beyond Product Strategy: Creating Lasting Partnerships

- Continued History of Philanthropy: Local and Global
- Develop and Hire Young Local Talent
  - RI educational institutions provide talent for all major disciplines
    - 10 RISD Graduates Currently On Staff
  - Expand Internship Programs to URI, Brown
    - Provides students with access to talented industry professionals, hands-on exposure to technical and creative development
    - Best source of incoming talent
- Industry-Leading Workplace Initiatives
  - Focus on Quality of Life, Employee Retention
  - Best-in-class benefits



The Visionaries

Curt Schilling - *Founder and Chairman*

- Proven leader with unique perspective on building winning teams

R. A. Salvatore - *Executive Creator of Worlds*

- *New York Times* bestselling author; 15MM+ books sold in the U.S.

Todd McFarlane - *Executive Art Director*

- Over 120 MM comics sold worldwide

Ken Rolston – *Internationally Celebrated Game Designer*

- Lead Designer of bestselling **Game of the Year** role-playing games *Morrowwind* and *Oblivion* (over 9 million combined units sold)

38 STUDIOS

Proven Development Expertise

Extensive Experience in 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*

"Mercury" Role-Playing Game

Explore *Copernicus* on Xbox 360, PlayStation 3, and PC

Personal Narrative Introduces World of *Copernicus*

- A rich story leads players through the world of *Copernicus* in high-definition detail
- Published by Electronic Arts

Strong Business Model and Proven Development Team

- Multiple team members from *Oblivion* **(\$240MM+ in sales)** and *Morrowind*, including award-winning Lead Designer Ken Rolston
- Downloadable content business model creates meaningful revenue after the initial retail purchase

"Copernicus" Multiplayer Game

The Story Continues in the Most Interactive Form of Entertainment Yet

Massive Connected Experience Reveals Epic Fiction

- Technology enables thousands of people to play together
- Story creates the next generation of "Water-Cooler Events"

Subscription Business Model Creates Annuity Revenue Stream

- Low subscriber threshold for financial success
- Additional revenue through retail sales, advertising, microtransactions


Product Ecosystem
Web Character Management
& Community Tools
Trading Card Game
Core MMOG
Comic Books
Movies
Console RPG
Real-Time Strategy Game
Mobile Phone Apps
Toys
Books
38 STUDIOS
11

High-Growth Company

Diverse and Expanding Workforce

Growing From 180 Current FTEs to 400+ FTEs in 2012

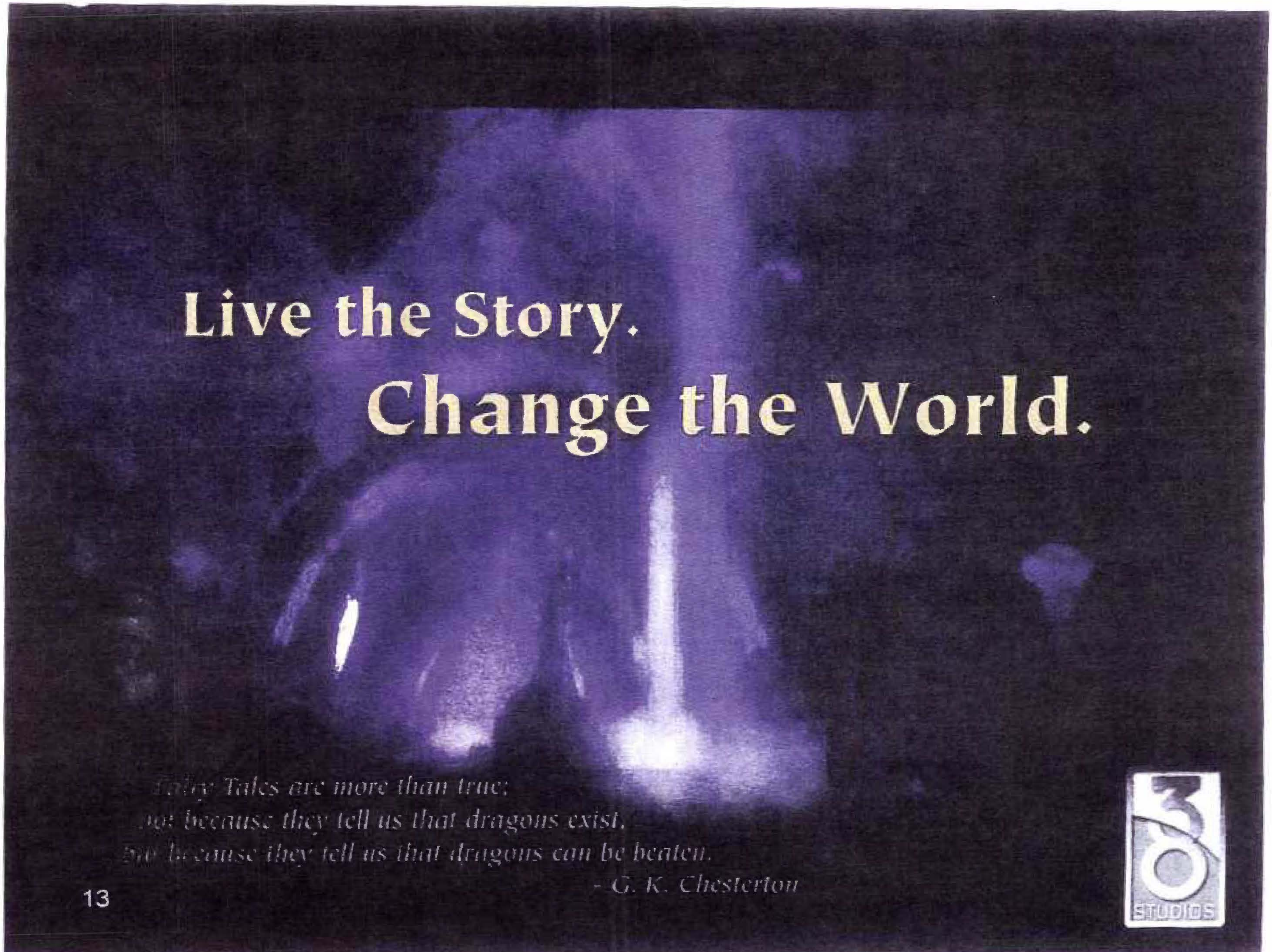
Average Annual Salary: $75,000

Management, SG&A: ~10% of Total Staff

Art
~30% of
Total Staff

Design
~30% of
Total Staff

Engineering
~30% of
Total Staff


Live the Story.
Change the World.
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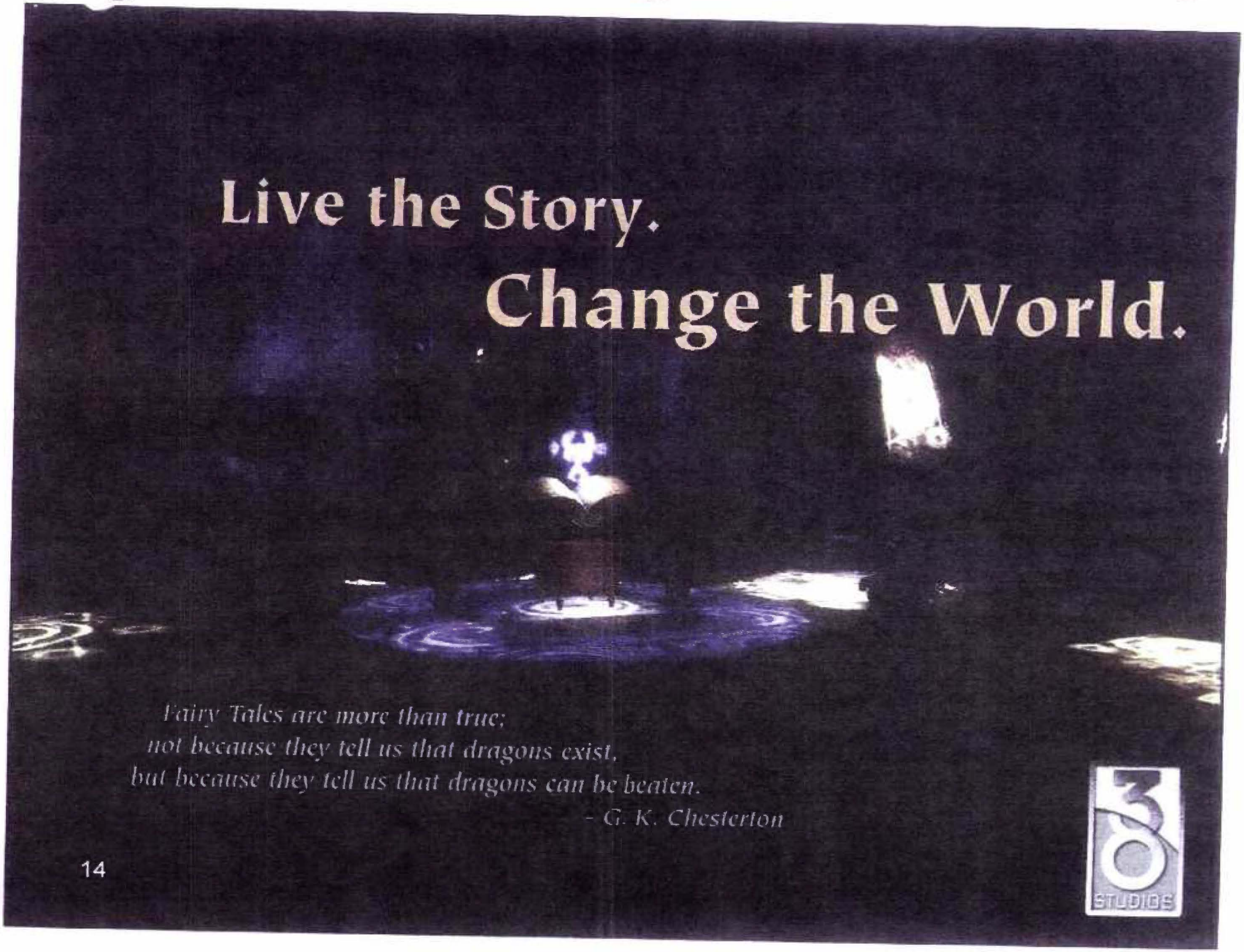
13
STUDIOS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38 STUDIOS

RESOLUTION OF THE
RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION
(INDUCEMENT RESOLUTION)

June 14, 2010

38 STUDIOS, LLC

WHEREAS, the EDC (as defined below) is a public corporation, governmental agency and public instrumentality of the State (as defined below) organized and existing under Chapter 64 of Title 42 of the Rhode Island General Laws, as amended (the "Act"), and is authorized pursuant to the Act to undertake any project and to purchase, take, receive, lease or otherwise acquire, own, hold, improve, use and otherwise deal in and with, real or personal property, or any interest therein, wherever situated; and

WHEREAS, the Act declares; in part, that there exists in the State a condition of substantial and persistent unemployment and underemployment which causes hardship to many individuals and families, wastes vital human resources, increases the public assistance burdens of the State, impairs the security of family life, contributes to crime and delinquency, prevents many youths from continuing their educations, impedes the economic and physical development of municipalities and adversely affects the welfare and prosperity of the state; that many existing industrial, manufacturing, recreational and commercial facilities in the state are obsolete and inefficient, and dilapidated; that many of these facilities are under utilized or in the process of being vacated, creating additional unemployment; that technological advances and the provision of modern and efficient industrial, manufacturing, recreational and commercial facilities in other states will speed the obsolescence and abandonment of existing facilities causing serious injuries to the economy of the State; and

WHEREAS, the EDC is authorized by H8158 and S2923, passed by the General Assembly June 11, 2010 to create a Jobs Creation Guaranty Program; and

WHEREAS, the EDC desires to establish the Jobs Creation Guaranty Program to promote the expansion and retention of businesses and the creation of jobs in Rhode Island, including, among other things, by providing adequate access to capital so that Rhode Island's knowledge economy assets (such as the sciences, technology, digital media, innovative manufacturing, and other technology) may develop and prosper; and

WHEREAS, the EDC is authorized pursuant to the Act to issue or guaranty one or more series of revenue bonds or other obligations to finance its projects under the Jobs Creation Guaranty Program; and

WHEREAS, 38 Studios (as defined below) has advised the EDC that it plans to use bond proceeds and a loan guaranty under the Jobs Creation Guaranty Program to finance the establishment of a video gaming studio in the State, including the development of assets associated with role playing video gaming and massive multiplayer game, including the development of specific products to be used for such purposes. The 38 Studios Project (as defined below) is estimated to cost 38 Studios in excess of $125,000,000, and

WHEREAS, 38 Studios has further requested the EDC for a determination by the EDC to issue and provide certain guaranties (to the extent permitted by law and the Jobs Creation Guaranty Program) of up to $75,000,000 of its revenue bonds under the Jobs Creation Guaranty Program and the Act to assist 38 Studios in financing the 38 Studios Project under a lease agreement or some other form of finance agreement which will provide, in any case, for payment sufficient to pay the principal of, interest and redemption premium, if any, on such revenue bonds that will constitute a substantial inducement to 38 Studios to proceed with the 38 Studios Project; and

WHEREAS, 38 Studios has further advised the EDC that it is anticipated that Wells Fargo will privately place such revenue bonds.

NOW THEREFORE, BE IT RESOLVED THAT:

1. The Rhode Island Economic Development Corporation (the "EDC") hereby establishes the Jobs Creation Guaranty Program (the "Program") for the State of Rhode Island and Providence Plantations (the "State").

    a. The Program is available to businesses developing projects that will create jobs.

    b. The Program will give priority to projects that—

        (i) will promptly create permanent, full-time jobs with annual wages in excess of 250% of the then-current minimum wage and which provide industry-comparable benefits. For this purpose, a job may be considered full-time only if an employee holding the job works a minimum of 30 hours per week in the State, and

        (ii) align with the State's economic development strategy to expand high-wage jobs in knowledge industry growth clusters or with respect to assets related thereto.

    c. The Program may provide a loan and/or loan guaranty (a "facility") to an eligible business provided that the business collateralizes the repayment of any draws on the facility with appropriate assets. The security interests taken under the Program may include subordinate collateral positions, cross collateralization agreements with other lenders to the business, and collateralized guaranties. The extension of a facility may be conditioned upon the business providing evidence of and covenants to maintain appropriate insurance, which may include hazard and key person life Insurance.

    d. The EDC may impose reasonable fees in connection with the provision or maintenance of any facility.

    e. The EDC may establish, in connection any guaranty provided under the Program, a reserve fund against which may be charged any and all expenses of the EDC with respect to guaranties or bond obligations issued under the Program in the event of a Program borrower's default. The EDC shall credit to the reserve fund not less than 50% of all receipts it lawfully may take to the end that the financing of the 38 Studios Project may be undertaken.

4. In order to induce 38 Studios to proceed with the 38 Studios Project, the EDC hereby determines that: (i) it will authorize the issuance and sale of one or more series of revenue bonds (the "Bonds") pursuant to the Act, in an aggregate principal amount not to exceed $75,000,000 and the loan of the proceeds to 38 Studios to finance, among other things, the 38 Studios Project, funding a debt service and/or guaranty reserve fund, capitalizing interest, providing working capital, and paying the costs of issuance of the Bonds and enter into a lease agreement or some other form of finance agreement which will provide, in any case, that the payments to be paid by the 38 Studios shall be sufficient to pay the principal of, interest and redemption premium, if any, on the Bonds, as and when the same shall become due and payable; (ii) it will provide a guaranty of the payment of the debt service on the Bonds pursuant to the Program, (iii) it will adopt such further orders and resolutions and authorize the execution and delivery of such other instruments and taking of such further action as may be necessary or advisable for the authorization, issuance and sale of the Bonds and the guaranty of the repayment thereof, and the financing of the 38 Studios Project; and (iv) it will take or cause to be taken such other actions as may be appropriate in pursuance thereof; provided that all of the foregoing as well as all of the terms and conditions and provisions of security relating to the financing of the 38 Studios Project and the issuance of the Bonds shall be as authorized by law (including, without limitation, Chapter 64 of Title 42 of the General Laws of Rhode Island, as amended) and shall be acceptable to the EDC and 38 Studios.

5. In order to finance the 38 Studios Project, the EDC or 38 Studios, or any entity acting on their behalf, is hereby authorized to expend up to $75,000,000 from available monies, such expenditure to be reimbursed from the proceeds of the Bonds.

6. Each of the Chairman, Vice Chairman, Executive Director, any Deputy Director, Treasurer, and the Associate Director Financial Services of the EDC, acting singly, is authorized to take all actions which are necessary and proper, and sign any and all documents, required to affect the intent of this Resolution.

7. This Resolution shall take effect immediately but is subject to the following: receipt and satisfactory review of Project budget, specifications, plans and essential contracts.

8. This resolution reflects only preliminary approval, and the Bonds contemplated by this resolution may not be issued until the EDC adopts a resolution of final approval including such risk mitigation provisions as the EDC may approve.

9. This Resolution shall take effect immediately upon passage.

10. This Resolution and the authorities hereby granted shall terminate and expire one (1) year from the date of its adoption unless the Bonds are issued on or before such date.

Dated: June 14, 2010

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