

High Stakes Games



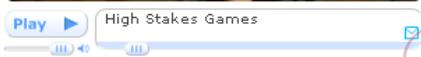
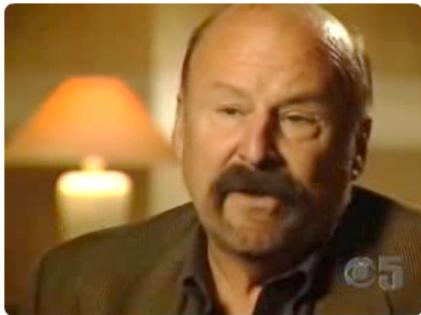
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Reporting

(CBS 5) What's bigger, the video game industry, or Hollywood? With competition driving production costs into the millions, and adults making up two-thirds of all game players, nearly half of them women, it seems the only difference between the two industries soon may be the size of their screens.

Video game makers will tell you there's a lot at stake - money, jobs and believe it or not, maybe the future of the Bay Area.

"It's a 12 billion dollar industry in the United States," says U.C. Berkeley Marketing Professor Peter Sealey, who sees a bright future for video games in the Bay Area. "I think in a few years, that is going to be our signature industry, and we're going to be known for that, as Hollywood is for movies."

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Why? Because there are businesses making video games all over the Bay Area - Sega and LucasArts in San Francisco, Foundation 9 in Emeryville, Sony in San Jose, and in San Rafael, Stormfront Studios.

"The Bay Area is one of the world's centers for games," Don Daglow of Stormfront Studios.

He's the President of Stormfront, which made the popular Lord of the Rings Two Towers game.

"Budgets are \$15-20 million and up for the very high end triple a games."

"We have technology in the Bay Area, which drives the video game industry," says Bill Gardner of Eidos Interactive, the company that puts out the Lara Croft Tomb Raider game, which inspired the movie starring Angelina Jolie.

"There has to be 20,000 jobs, directly or indirectly associated," Gardner says. "I would bet people don't realize there's that many people involved in video games. But it's a huge industry."

In fact, the largest video game publisher in the world is right here in Redwood City, Electronic Arts. But big or small, experts say there's a real threat to the health of these Bay Area businesses: massive theft of their products, or piracy. And when they talk about piracy, they're not talking about people making copies at home, they're talking about large scale operators - pirates - copying and selling hundreds and thousands games for their own profit.

So how widespread are these piracy operations? Take for example, one little garage operation in San Jose, that we found it easily on the Internet, a business called 1-Hour Modchip, whose operator told us we could have a Microsoft Xbox game console not only modified, but fully stocked with dozens of pirated games.

So we got a new Xbox and took it to 1-Hour Modchip. Sure enough, one-hour later we had it back, even with a new 'warranty' sticker.

We then took our X-Box to Jason Cross, a gaming expert and columnist for PC Magazine:

Jason Cross: That's the mod chip, a new chip enabling the machine to run pirated games, plus a new much larger hard drive to store those games on.

And what else did we get?

Cross: There's a whole lot of games on here that are you know, new top hot games.

They were new games, WHICH WOULD NORMALLY COST ABOUT \$50 dollars each, games like a new James Bond game, Grand Theft Auto San Andreas, Halo 2, Finding Nemo, King Kong.

Cross: That's clearly illegal.

So how much would it have cost to buy those games legally?

Cross: "Figure \$2,000 at least of games.

And what did we pay? JUST \$170 DOLLARS.

We asked the operator of 1-hour Modchip if he added pirated games to the boxes.

Operator: Umm....I do put some games on those boxes.

And he does it for a lot of people. For three weeks we watched as customers streamed in and out of that San Jose garage. In fact, the operator told us over the past three years, he's modified an estimated 2,000 consoles. That's millions of dollars potentially lost by the companies that developed those games, while he himself admits to making close to a quarter-million dollars selling their products.

Werner: How is that not stealing the intellectual property of the company that makes that?

Operator: It's different from real stealing.

"It is theft, it is good old-fashioned theft just at a different level," says US Attorney Kevin Ryan.

Ryan is THE US Attorney for the Northern District of California. He runs the premier intellectual property theft prosecution group in the nation, so we asked him about all of the sites we found on the Internet, advertising hundreds of illegally pirated games.

Ryan: We are seeing all ages involved in this.

It's so widespread, that Ryan says they're forced to target who they prosecute.

Ryan: our contribution to the problem is taking down big operations.

But remember, just that little garage operation we found by itself may have sold millions of dollars in games.

Ryan: It's a huge issue.

Werner: Are they really hurting some of those companies that are making...

Ryan: Absolutely.

So why are so many people going in and out of One-Hour Modchip?

Peter Sealey: They think somehow it's ok to take that.

Because the technology makes it easy to copy all kinds of digital programs, even do it and sell those products

out of a garage.

Sealey: I call it the digital dual standard. For some reason, honest people who would never think of walking into a Wal-Mart and stealing a sweater, or walking into Safeway and putting a steak under their jacket and walking out, think nothing of taking a video game.

Gardner: The pirates need to understand how bad they hurt us.

And when we showed him a survey indicating over twenty percent of all console owners in this country played pirated games...

Gardner: those numbers are pretty astounding. For me as a manager, that's something that really hurts. I don't want to tell somebody jeez guys, we didn't make money, I can't keep you on as an employee, all of a sudden, we can't pay you anymore because our games were stolen.

And for employees like Chris Millar of Stormfront Studios...

Millar: We're people who just love what we do.

It's not just large corporations that are at risk; it's him, and his friends and the people he works with.

Millar: Instead of someone really respecting that work and appreciating it they are just taking it, and that is kind of sad because in the long run it affects everybody.

Sealey: The pernicious effect for the Bay Area will be, it takes this entire magnificent vista we have, and puts a big cloud over it. If we don't control digital piracy, it will destroy this industry.

And a note about that garage operation we found in San Jose: as we were preparing to go to air with this story, the operator took down his web site. He left a note, saying he had "decided to close business after interviewing with a local news reporter," and has "no intention to reopen again."