

2013

ANNUAL REPORT



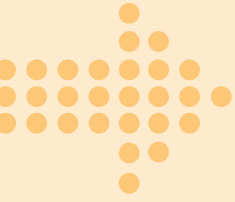
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A MESSAGE FROM MICHAEL D. GALLAGHER

Dear Friends:

I am proud to present the Entertainment Software Association's (ESA) 2013 Annual Report. It was a landmark year for the video game industry, one marked by exciting new innovations in game technology and opportunities to further heighten awareness of video games' significant influence on our society.

Our industry celebrated the much-anticipated release of two new eighth generation video game consoles and continued to see robust demand for our products. Releases of Microsoft's Xbox One and Sony's PlayStation 4 built on the momentum from Nintendo's 2012 release of the Wii U. Consumers showed enormous excitement and enthusiasm for new innovations across these consoles. Nowhere was the demand for more games and interactive play experiences more apparent than at E3 2013. Last year's show in Los Angeles drew more than 48,000 industry professionals, investor analysts, journalists, and retailers from more than 100 countries to experience the latest innovations in game hardware and software.

These developments represent only one part of our industry's success. We also collaborated with the Entertainment Software Rating Board (ESRB), video game companies, and industry partners to launch a new public service announcement (PSA) campaign to further educate parents about ESRB's video game ratings and the parental controls on video game devices. Video game companies and retailers have featured the PSA in stores and on websites, forums, blogs, and social media channels to maximize the campaign's reach. The PSA is an important part of our ongoing commitment to provide parents with tools to help inform and manage their family's entertainment choices, and it received unprecedented support. In particular, Vice President Joe Biden and several other policymakers publicly praised the campaign.

We also continued to transform public perception of video games by demonstrating the influence of entertainment software on areas of daily life, especially video games' many applications for education and preparing our country's future workforce:

- The **Games, Learning and Assessment Lab (GlassLab)**, in which ESA is a partner, made meaningful strides toward advancing the use of video games as educational tools. In March 2013, GlassLab released SimCityEDU, an online community and resource hub for learning tools and assessments that use Electronic Art's wildly popular *SimCity* game. GlassLab followed this with the release of SimCityEDU: *Pollution Challenge!* in November. The title sets kids on an interactive quest to identify critical environmental issues and advance cost effective solutions for fixing urban problems.
- ESA once again sponsored the annual **National STEM Video Game Challenge** in collaboration with organizations such as The Joan Ganz Cooney Center at Sesame Workshop, E-Line Media, and the Corporation for Public Broadcasting/PBS KIDS Ready to Learn initiative. Nearly 4,000 people entered the competition, which challenges students and developers to create original games that stimulate interest in critical science, technology, engineering, and math (STEM) subjects.

- Our first annual **E3 College Game Competition** recognized outstanding student talent in video game development from among the 385 colleges and universities that offer computer and video game-related degree programs and courses. Student teams submitted an exceptional array of games, five of which were displayed on the E3 show floor. We were pleased to honor teams from the Savannah College of Art and Design and the University of Wisconsin-Stout as the inaugural winners.
- We partnered with the Hispanic Heritage Foundation's Leaders on the Fast Track (LOFT) program to launch the **ESA LOFT Video Game Innovation Fellowship**. The Fellowship awarded 20 minority youths each with a grant to further their development of video games that help to solve social problems in their communities.
- We collaborated with California Gov. Jerry Brown (D) to launch "**Project A-Game**," a two-year youth game design program in Oakland and Sacramento, CA. The program will provide underserved students with an opportunity to create and operate a working game studio in their communities, while bolstering their interest in and knowledge of STEM topics. ESA donated the attorneys' fees we received from *Brown v. EMA/ESA* to help fund the program.
- The **ESA Foundation (ESAF)**, our industry's philanthropic arm, maintained its support for youth education and the future of our industry through its grant and scholarship programs. ESAF also partnered with Children's Miracle Network Hospitals (CMN Hospitals) to host Extra Life, a 24-hour video game marathon that raises funds for medical equipment, treatment, and research at CMN Hospitals. The event raised a record \$4.1 million, making 2013 Extra Life's most successful year.

ESA staff and member company representatives highlighted these and many other successes in our ongoing outreach to federal and state policymakers. This included our partnership with the Congressional Caucus for Competitiveness in Entertainment Technology to host panel discussions about the video game industry's economic contributions and efforts to support veterans, as well as briefings with lawmakers about ESRB ratings and parental controls. We also collaborated with federal officials to strengthen copyright and intellectual property protections as we continued to manage content protection programs and law enforcement trainings across the globe. Additionally, we mobilized the Video Game Voters Network (VGVN), a grassroots network of voting-age gamers, to help engage lawmakers and media on issues impacting our industry. VGVN has doubled in size since 2010, surpassing 500,000 members in 2013 – a testament to our industry's broad reach.

I have highlighted a few of our collective accomplishments. In this annual report, you can read about many others in the following pages. All the work of ESA, ESRB, ESAF, and ESAC is done thanks to the leadership of our membership and our Board members. Without them, none of this would be possible. I look forward to our continued collaboration, and know that together we can make 2014 another bright year for computer and video games.

Sincerely,

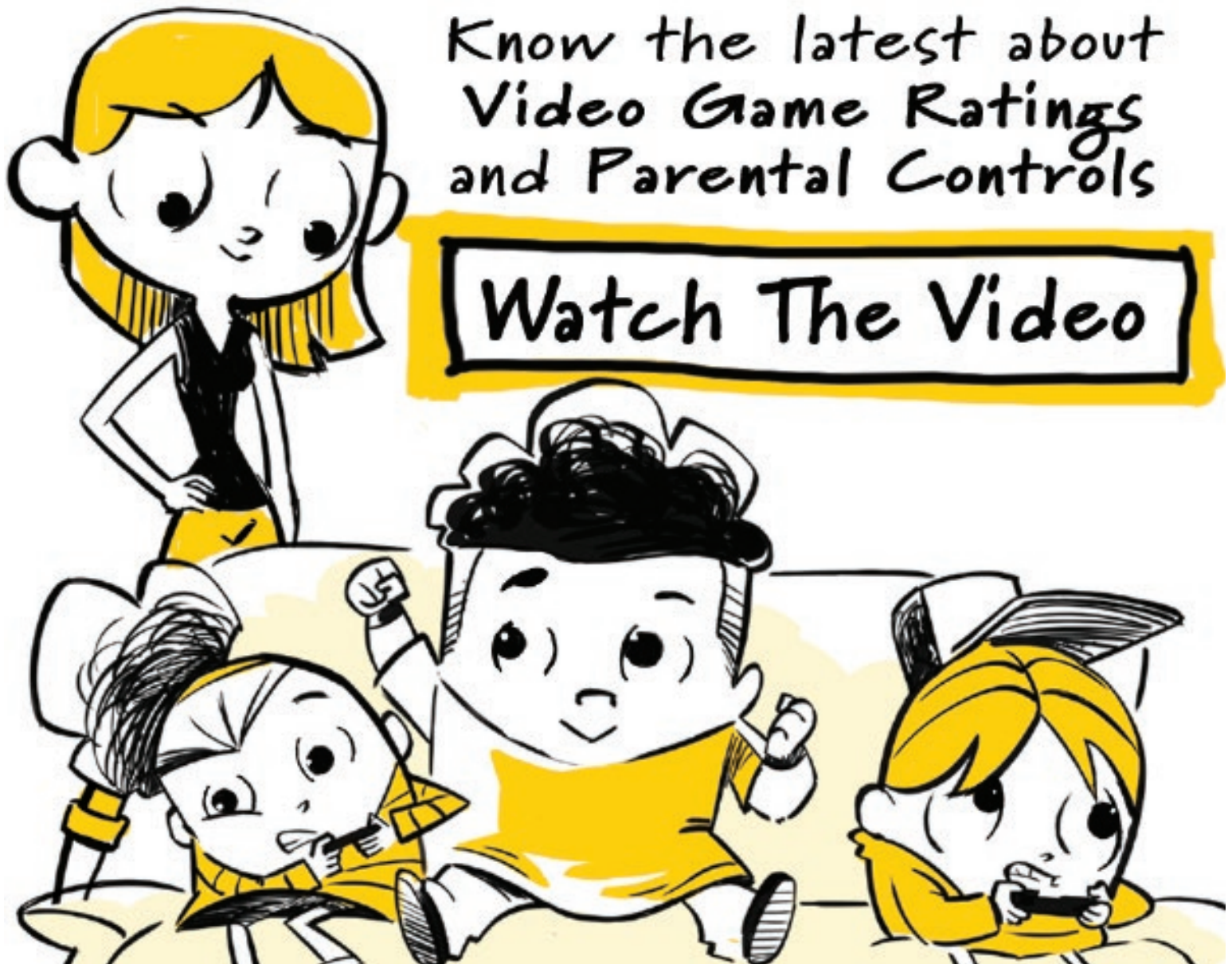


Michael D. Gallagher
President and CEO
Entertainment Software Association

ESA AND ESRB TEAM UP EDUCATION CAMPAIGN

Know the latest about
Video Game Ratings
and Parental Controls

Watch The Video



FOR RATINGS



“If you’re like most families, you probably have video game fans in your home. But not every game is right for every kid – which is where the ESRB ratings come in.”

Set to a cheerful soundtrack and quick-draw style animation, these words introduce a new public service announcement (PSA) that ESA began distributing in October 2013 to educate parents further about the Entertainment Software Rating Board (ESRB) rating system and the parental controls on video game devices. The PSA reminds parents to check each game’s ESRB rating, use the ESRB’s free mobile app to learn more about game content, and set the parental controls available on all current consoles, PCs, and handheld devices.

“While the majority of parents are aware of the ESRB ratings and use them regularly when choosing games, our public education efforts are as vital today as they were when we launched the system almost two decades ago,” said ESRB President Patricia Vance. “It is essential to keep reminding parents and caregivers of the tools that empower them to ensure the games their children play are age-appropriate.”

ESA collaborated with ESRB, video game companies, and industry partners to leverage the industry’s extensive network to maximize the PSA’s reach. Through its innovative technologies, interactions with consumers on digital and social media channels, and partnerships with retailers, the video game industry has generated more than 350 million impressions to date, and expects that number to continue growing. GameStop aired the PSA on its in-store TV networks across more than 6,000 retail locations and on its website during the 2013 holiday season. In addition, NASCAR aired the spot on a JumboTron during Miami Championship Weekend in November, and the Family Online Safety Institute’s Platform for Good posted the video online, along with a blog entry about the new campaign.

A number of policymakers expressed support for the PSA and its message. Vice President Joe Biden tweeted a thank you to ESA for launching the PSA and urged parents to check the ratings of games their kids play. Other officials who praised the PSA included Sens. Joe Manchin (D-WV) and Bob Casey (D-PA), and Reps. Marsha Blackburn (R-TN) and Bob Goodlatte (R-VA). They drew on their personal experience in emphasizing the value of the ESRB’s tools and resources.

“As a parent and grandparent, I know how important it is to provide resources so that parents can make the decision on what is best for their children,” said Sen. Manchin.

The PSA is part of the video game industry’s ongoing commitment to equip parents with tools to help inform and manage their family’s entertainment choices, and adds to a growing library of similar materials, including instructions for using parental controls and a guide for family discussions about game play.

“...our public education efforts are as vital today as they were when we launched the system almost two decades ago.”

**– ESRB President
Patricia Vance**



*Students beta-test GlassLab's
SimCityEDU: Pollution Challenge! game.*

GLASSLAB TURNS CLASSROOM LEARNING ON ITS HEAD

Silicon Valley teems with innovators who drive advancements in the next-generation technology that transforms how we communicate, shop, travel, and play. Against this backdrop, one growing organization is applying this entrepreneurial spirit to the development of video games that turn traditional learning into an interactive adventure.

At the Aspen Ideas Festival in June 2012, ESA, Institute of Play, Electronic Arts (EA), the Bill & Melinda Gates Foundation, and the John D. and Catherine T. MacArthur Foundation partnered to launch the Games, Learning and Assessment Lab (GlassLab), a nonprofit video game design lab aimed at advancing video games as educational tools. Supported by a three-year, \$10.3 million joint grant from the Gates and MacArthur Foundations, GlassLab is developing a slate of learning-based video games that engage middle and high school students in critical subjects such as sustainability.

The idea was incubated at ESA's Games & Learning Roundtable, an annual gathering of thought leaders in learning, assessment, foundation, technology, and entertainment spheres held at E3. GlassLab is not only a studio—currently housed at EA's Redwood Shores campus and an independent office in San Francisco—it is a budding distribution platform and ecosystem for learning-based games. The lab has partnered with distribution partners such as Pearson Publishing, and has teamed with big data assessment experts at the nonprofit research institute SRI, as well as educational testing organization ETS.

In March 2013, less than a year after launching, GlassLab announced the release of SimCityEDU, an online community and resource hub for learning tools and assessments that use EA's wildly popular *SimCity* platform to encourage students to think critically about the challenges facing modern cities. Collaborating closely with EA, the lab is working to modify the original game to create educational titles aligned with the Common Core State Standards and the Next Generation Science Standards.

GlassLab followed this launch with the release of SimCityEDU: *Pollution Challenge!* in November. The title sets kids on an interactive quest to identify critical environmental issues and advance cost-effective solutions for fixing urban problems. In one mission, for example, students must reduce pollution while simultaneously creating

jobs and avoiding significant public spending. The game, which received major press coverage the week of its release from *TIME*, *FastCompany*, *US News & World Report*, and *Education Week*, also includes teacher training. All funds received by the project will be used by GlassLab to create more games and to establish the lab's sustainability beyond the current grant cycle.

As beta-testers of the game quickly realized, cutting city pollution and balancing a city's budget is more difficult than it sounds. "It's like real life," said Athena Nair, a seventh-grader from Castilleja School in Palo Alto, CA, in an interview with *TIME*. "This could happen, and you'd have to fix the deficit."

Importantly, *Pollution Challenge!* and upcoming GlassLab games will measure students' learning progress and evaluate their comprehension of skills deemed critical by state standards. The game's assessment engines collect data about players' performance and improvement as they play, providing real-time estimates of student learning outcomes to teachers and parents. GlassLab is planning an initial slate of six games over the course of the three-year grant, including an upcoming game in development with NASA that will be released in Spring 2014.

The beta version of *Pollution Challenge!* has already reached 70 teachers and more than 1,500 players nationwide. The game was also featured in the nation's capital during a panel discussion at the Washington Ideas Forum in November. Several notable Members of Congress, including Sens. Orrin Hatch (R-UT) and Richard Blumenthal (D-CT), have toured the GlassLab facility.

GlassLab's efforts to harness kids' natural inclination to play and enjoy video games to learn new skills reflects a major shift in thinking about the way students learn and acquire knowledge and master new technologies.

"When education experts make video games, they're not called fun, they're called homework. So, why not have educators and video game experts work together?" said ESA President and CEO Mike Gallagher. "If it works, it'll take off."

E3 COLLEGE GAME COMPETITION CELEBRATES STUDENT TALENT

Amid the biggest blockbusters in video games, the newest generation of consoles, and multi-million dollar marketing campaigns on display at E3 2013, a pair of unique games stood apart: *Flash Frozen*, a survival game, and *Lost in Thought*, a side-scrolling psychological adventure.



ESA President and CEO Mike Gallagher meets with UW-Stout's winning student team.



Screenshot from SCAD's winning game, *Lost in Thought*.

These were the winners of ESA's inaugural E3 College Game Competition, a contest recognizing the best student talent in video game development. ESA invited students from nearly 400 colleges and universities with computer and video game development programs to submit an original game to the competition, with finalists to be chosen by a panel of industry leaders.

ESA brought five finalists – Alamo Colleges' Northwest Vista College, Brigham Young University, Savannah College of Art and Design (SCAD), University of Chicago, and the University of Wisconsin-Stout (UW-Stout) – to E3 to display their games on the show floor and present them to an expert panel of video game personalities. Judges for the 2013 competition included Capcom President & CEO Kazuhiko Abe; Ubisoft North America President Laurent Detoc; Remedy Entertainment CEO Matias Myllyrinne; Associated Press video game reviewer Lou Kesten; Polygon Editor in Chief Christopher Grant; Firaxis Lead Designer Jake Solomon; and Crystal Dynamics Creative Director Noah Hughes.

From the many exceptional games submitted, the judges selected SCAD's *Lost in Thought* and UW-Stout's *Flash Frozen* as the top

ESA invited students from nearly 400 colleges and universities with computer and video game development programs to submit an original game to the competition.

entries, acknowledging the games' creativity, diversity, and artistic integrity. Through *Lost in Thought*, players follow the work of virtual therapist Dr. Keyes, who tunnels into the minds and memories of his patients in order to heal them. *Flash Frozen* challenges players to escape a shipwrecked vessel warped by a living ice entity while surviving the harsh, frozen environment.

Students and administrators from both programs were proud of their first place finish and excited about the opportunities the competition afforded them. Stephanie Warner, a game programmer for *Lost in Thought*, told *The Calvert Recorder*, "I feel like I can get into the industry and feel like I can do great things" because of the competition. Diane Christie, the program director of UW-Stout's Game Design and Development Program, remarked, "The showcase provided [students] a unique opportunity to have their game exposed to a large number of people, and the feedback they received from game industry veterans and media professionals was invaluable."

The video game industry also benefits from students like these taking an interest in game development.

"Our learning institutions house so much innovation and talent that will shape the future of our industry," said ESA President and CEO Mike Gallagher. "The collegiate game competition is an important step for the ESA in encouraging and rewarding students pursuing careers in video game development."

ESA will again host the competition for E3 2014 and encourage college and university students across the country to take advantage of this unique opportunity.

GAMERS RAISE MILLIONS HOSPITALS ACROSS AME



S FOR CHILDREN'S ERICA



Gamers are a generous group. That's what Extra Life - a 25-hour video game marathon supporting Children's Miracle Network Hospitals (CMN Hospitals) - demonstrated in 2013.

On Saturday, November 2, more than 30,000 computer and video game players across the nation came together to raise funds for medical equipment, treatment, and research at CMN Hospitals in the U.S. and Canada. The marathon raised \$4.1 million and made 2013 the most successful year in Extra Life's history.

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Now in its sixth year, Extra Life is hosted by CMN Hospitals in partnership with the ESA Foundation (ESAF). Gamers sign up to participate and encourage friends and family members to sponsor their play with tax-deductible donations, which go to a CMN Hospital of the gamers'

choosing. During the marathon, participants can play any game on any platform to support children in their communities.

The history of Extra Life began with Tori Enmon, a courageous, video game-loving girl with acute lymphoblastic leukemia. Upon learning of her diagnosis and of her affinity for games, the games community sent Tori video games and other gifts to lift her spirits during countless hospital stays and medical treatments. The effort galvanized a nationwide movement to help children like Tori, and ultimately evolved into Extra Life.

"Tori's legacy illustrates that the joy of gaming and saving children's lives can be one and the same," said Jeromy "Doc" Adams, former game blogger and founder of Extra Life. "Extra Life allows game players from all walks of life to support children right in their own communities."

Since its founding in 2008, Extra Life has grown tremendously, raising more than \$8 million in just six years.

"Extra Life underscores the generosity of the video game industry and our dedication to improve the lives of America's children," said Jenny Lai, vice president of ESAF. "We are proud to partner with CMN Hospitals in this record-setting year, and we look forward to building on this tremendous success for Extra Life 2014."



Gamers gathered on November 2 to play and raise funds for Extra Life 2013.

PROMOTING SOCIAL CHANGE THROUGH VIDEO GAMES



ESA LOFT Video Game Innovation fellows presented their game concepts to policymakers in Washington, DC.

CHANGE AND DIVERSITY



ESA Senior Vice President for Communications & Industry Affairs Rich Taylor meets with the ESA LOFT Video Game Innovation Fellows.

In 2013, ESA partnered with the Hispanic Heritage Foundation (HHF), HHF's Leaders on the Fast Track (LOFT) program, and others to launch the ESA LOFT Video Game Innovation Fellowship, a new program providing minority youth with an opportunity to develop video games that promote social change.

Fellows were selected based on their vision and creativity, and their game's potential impact on an important local or global social issue.

Fellowship partners invited African American and Latino youths, age 16-24, to submit their video game concept for a chance to receive a \$1,000 grant to support their game's development. Fellows were selected based on their vision and creativity, and their game's potential impact on an important local or global social issue. Throughout the submission process, grantees

received direct coaching and mentorship from HHF and ESA representatives, as well as professionals from both organizations' member companies.

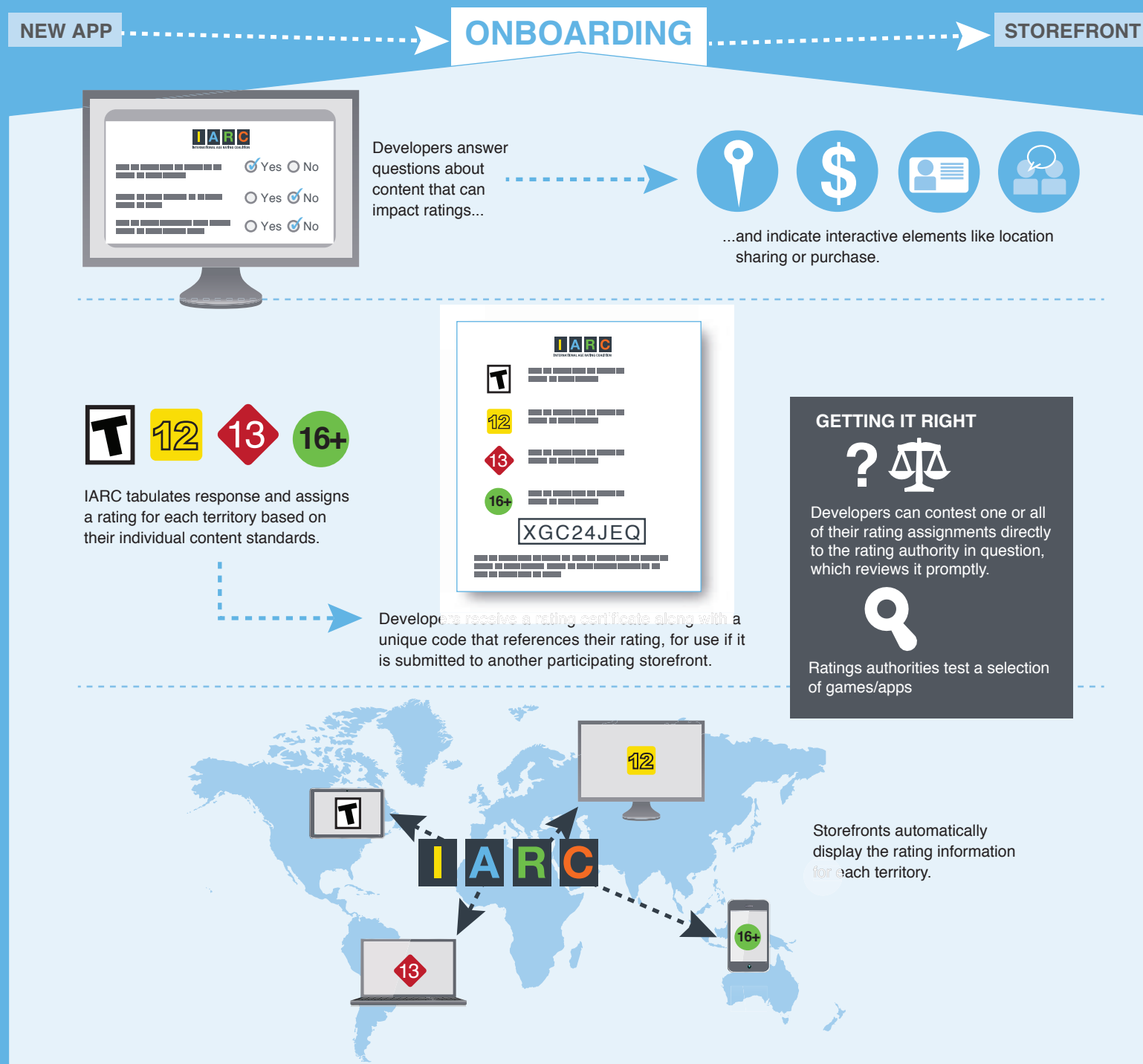
"At the core of the ESA LOFT Video Game Innovation Fellowship is the belief that using technology for social change is essential to not

only the advancement of minority communities, but America as a nation," said Jose Antonio Tijerino, president and CEO of HHF. "This program is an embodiment to our tag line of 'helping a young leader help thousands more' except in this case it can be millions more."

In December, ESA and its partners named 20 individuals as fellows and brought them to Washington, DC on an all-expenses paid trip, during which they presented their game concepts to policymakers. Fellows also had an opportunity to meet with White House and congressional representatives, as well as U.S. Army Cyber Command officials, and participated in several activities with the Congressional Black and Hispanic Caucuses.

The fellowship is the latest component of ESA's long-standing commitment to encourage innovation and promote video game development as a career path among America's youth, which also includes the E3 College Game Competition and ESAF's scholarship program.

How IARC Works



VIDEO GAME RATINGS GO GLOBAL



INTERNATIONAL AGE RATING COALITION

The video game industry has a long history of providing consumers with dynamic tools to help them manage their family's technology experiences. Since 1994, the ESRB, the industry's self-regulatory body, has assigned age and content rating information for video games sold in the U.S. and Canada to help parents make informed purchasing decisions.

In recent years, the ESRB and other ratings bodies around the world have recognized the need to adapt to the increasingly global nature of the entertainment software market, to new technologies and devices that have diversified and expanded access to game play experiences, and to the evolving needs of consumers and the marketplace at large.

To that end, ESRB continues to lead the creation of the International Age Rating Coalition (IARC) – a recently formed partnership among international rating bodies to establish a unified process for assigning ratings for digitally delivered games and apps. The IARC concept is simple: centralize and simplify the process by which developers obtain ratings in each territory where a game will be made available.

“What we’re trying to do is ensure that ratings are available across all platforms,” said ESRB President Patricia Vance in an interview with *The Wall Street Journal* about the industry’s vision for the initiative.

After a series of meetings and frequent communications between ESRB and leading rating boards in Europe, Brazil, Germany, and other countries, a single, streamlined, cloud-based questionnaire has been developed that assesses game content based upon the unique criteria and cultural norms behind each participating

territory’s rating assignments. The IARC system automatically generates localized age and content ratings, enabling digital storefronts to display established, trusted rating icons for games and apps that are culturally appropriate in the many different regions in which they operate globally. IARC also produces a set of generic ratings that may be used in territories that lack an official or participating rating authority.

In November, ESRB released a completed version of the IARC tool with ratings output for PEGI (Europe and the Middle East), USK (Germany), and Classificação Indicativa (Brazil). Mozilla Firefox Marketplace became the first digital storefront to implement the IARC system and is now displaying ratings for all mobile and Web apps. In 2014, Microsoft, Sony, and Nintendo expect to deploy IARC for their digital storefronts as well, and ESRB plans to incorporate additional rating authorities from other territories into the system.

Parents and opinion leaders, including the Federal Trade Commission, continually recognize the ESRB as the best entertainment rating system in the country. The newly created IARC system leverages the success of this important resource to ensure all parents have consistent and reliable information to provide positive interactive entertainment experiences for their families, regardless of the device on which they enjoy them.



The computer and video game industry is not only an entertainment powerhouse, it is a philanthropic leader, too. For the last 16 years, prominent industry leaders have gathered for “Nite to Unite – for Kids” (NTU), an annual gala benefitting the ESA Foundation’s (ESAF) grant and scholarship programs.

MAKING A DIFFERENCE IN



Video game industry members enjoy ESAF's 15th annual "Nite to Unite - for Kids" in October.

On October 23, 2013, NTU brought together the video game community for an evening of live auctions, local cuisine and beverage, casino games, and networking opportunities while raising funds to create meaningful opportunities for youth across America. The new format and venue - The Concourse Exhibition Center in San Francisco - made for an unforgettable evening, and involved the hard work, planning, and commitment of NTU co-chairs Laurent Detoc, president of North America at Ubisoft; John Pleasants, co-president of Disney Interactive; and Jack Tretton, president and CEO of Sony Computer Entertainment America (SCEA), as well as a number of vendors and event sponsors.

Throughout the evening, ESAF recognized the efforts of its 2013 grantees, whose important work included reinforcing math and science skills, enlivening history, increasing civic participation, and preparing students with 21st-century workforce skills. In addition, ESAF highlighted its 2012-2013 scholarship winners: 15 college freshmen, four sophomores, nine juniors, and two seniors who are pursuing video game-related degree programs in a full-time undergraduate program at accredited colleges and universities in the U.S.

ESA named Kazuo "Kaz" Hirai, president and CEO of Sony Corporation, as the 2013 ESA Champion Honoree. Recognized by *Entertainment Weekly* as one of the most influential executives in the entertainment industry, Hirai led Sony's successful PlayStation™ launch in the United States and helped elevate the PlayStation Network to its current stature in the entertainment industry and American popular culture.

With the funds raised by NTU, ESAF will support a number of nonprofit organizations in 2014 as they harness the power of video games and game technology to benefit America's youth. Grantees include Becker College (MassDiGi), Brown University's Bootstrap Program, EverFi, Girl Scouts of Greater Los Angeles, the Hispanic Heritage Foundation, HopeLab Foundation, iCivics, Pulitzer Center on Crisis Reporting, Tiger Woods Learning Center, and World Wide Workshop Foundation. ESAF will also award three educators with grants to integrate cutting-edge educational technology into their curricula through its third annual Education Challenge Grant, and will once again provide 30 women and minority students with college scholarships.

AMERICA'S COMMUNITIES

2013 EDUCATION CHALLENGE GRANT RECIPIENTS

Albert Schweitzer Elementary School in Levittown, PA, will leverage video games and technology to improve the reading, writing, math, communication, and social skills of students with developmental disabilities in its Primary Life Skills program.

East Los Angeles Renaissance Academy, an urban planning and design-focused school in Los Angeles, CA, will use *SimCity* to provide students with an interactive simulation of what it is like to be an urban planner, and how to organize and manage a metropolis.

STRIVE Preparatory Schools – Highland Campus in Denver, CO, will teach computer programming and graphic design skills to Latino and African American students by having them play and explore the game mechanics of *The Sims*. Students will then use programs such as Scratch and App Inventor to build their own games.

2013 GRANTEES

The Federation of American Scientists (FAS) is a science policy organization that promotes humanitarian uses of science and technology. Supported by a three-year grant commitment from ESAF, FAS developed, evaluated, and released *Immune Defense*, a two-dimensional video game that teaches high school students about cell biology, biochemistry, and immunology. More than 600 people, including approximately 200 teachers, have received *Immune Defense* to date.

George Mason University's Center for Digital Media Innovation and Diversity leverages the expertise of scholars and industry professionals from across the country to conduct research, design digital media products, and provide access to quality educational media products for diverse audiences. ESAF awarded a grant to fund the center's Game Design @ Mason Afterschool Program, a series of design workshops for middle and high school students from

underserved communities in Northern Virginia, Southern Maryland, and Washington, DC.

HopeLab Foundation harnesses the power and appeal of video games to improve children's health and motivate young cancer patients to follow their treatment regimens. ESAF awarded a grant to support the development and rollout of *Re-Mission 2*, a collection of six Web-based games in which players fight cancer with virtual "weapons," such as chemotherapy and radiation. HopeLab distributed the game to adolescents and young adults with cancer, as well as clinicians and clinical treatment support staff.

The Lewis & Clark Foundation seeks to bolster public understanding of President Thomas Jefferson's vision of westward expansion by awakening curiosity about the challenges faced by Lewis and Clark on their famous expedition. ESAF awarded a grant to support the Foundation's development of *Meriwether*, a historically accurate computer role-playing game for youths aged 13-20 that is based on the Lewis and Clark expedition.

The Museum of the Moving Image uses moving image media to advance understanding, enjoyment, and appreciation of the art, history, technique, and technology behind film, television, and digital media. ESAF's grant supported educational programs related to the museum's landmark exhibition, "*Spacewar!: Video Games Blast Off*," which explored the legacy of *Spacewar!* and marked the game's 50th anniversary. The exhibition drew 30,000 visitors, including 5,000 students, and its formal tour and supplemental workshop attracted 450 student participants.

The Trust for Representative Democracy is a program of The National Conference of State Legislatures (NCSL) that educates citizens about America's democratic institutions by bringing civics to life for students across the country. ESAF awarded a grant to support the Trust's development of an introductory teaching module to accompany *The American Democracy Game*, an educational computer game used by the Trust to teach middle school

students how to debate, negotiate, and resolve major public policy issues while familiarizing them with the legislative process.

Parents' Choice Foundation (PCF) works to provide parents with a trusted, independent resource for recommending toys, games, and media for families. ESAF provided PCF with a grant to develop the methodology and inter-rater reliability for the PlayAbility Scale, a new nationwide initiative that seeks to highlight digital games' therapeutic benefits for children and youth with special needs.

The Smithsonian American Art Museum tells the story of 300 years of American art, culture, and history from the colonial period to present day. ESAF awarded a two-year grant to the museum to support "The Art of Video Games" exhibition, which explores the 40-year evolution of video games as an artistic medium, as well as related programs that emphasized the role of video games in art and education. "The Art of Video Games" is currently on a national tour of 10 cities that will continue through 2016.

ThanksUSA mobilizes Americans to "thank" the men and women of the U.S. armed forces by providing college, technical, and vocational school scholarships to the children and spouses of military personnel. In 2013, ESAF continued to support the ESAF/ThanksUSA Scholarship program, which received 1,727 applications and awarded 20 students with scholarships. ESAF also supported ThanksUSA's 8th annual *Treasure Hunt*, an online American history game that reminds players of the values sustained by members of the armed services.

The University of Texas at Austin (UT) is a comprehensive research university with a broad mission of undergraduate and graduate education, research, and public service. ESAF funded the enhancement and free distribution of UT's *Alien Rescue*, an award-winning, interactive 3D game that develops middle school students' problem-solving, collaboration, decision-making, and other critical 21st-century thinking skills while motivating them to learn science.

FEDERAL GOVERNMENT AFFAIRS

ESA's Federal Government Affairs (FGA) program advances the computer and video game industry's policy priorities with Congress and the Executive Branch. ESA leverages the industry's economic success, technological prowess, innovation, and self-regulatory practices to positively influence Congress' legislative agenda and raise ESA member company and industry visibility. In 2013, FGA continued building support for the industry by educating policymakers and establishing key third-party and government partnerships – including GlassLab and those described below – that underscore video games' potential to stimulate innovations in education.

FREEDOM OF EXPRESSION

In the wake of the tragic events that took place at Sandy Hook Elementary School in Connecticut in 2012, ESA worked with Congress and the White House to address concerns surrounding violence in the media, and particularly violent video games.

In January, ESA President and CEO Mike Gallagher and Senior Vice President of Government Affairs Erik Huey joined Vice President Joe Biden and several industry leaders at the White House for a conversation about how the entertainment software industry could play a proactive role in helping to prevent future gun tragedies.

As a result of ESA's efforts, various legislative measures were either significantly modified or did not progress.

ESA's FGA team also worked with numerous lawmakers who introduced or publicly called for legislation singling out video game violence as a cause of real-life tragedies to help them gain a better understanding of the industry and the ESRB rating system, including multiple briefings in the U.S. Senate and House of Representatives. As a result of ESA's efforts, various legislative measures were either significantly modified or did not progress.

FGA also executed a comprehensive strategy to ensure that all Members of Congress were aware of the industry's new ratings education PSA, released in October, and provided congressional offices with digital "toolkits" to help them share the PSA with their constituents.



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ESA's education efforts were noted in a variety of media outlets, including a comprehensive overview in *Politico*.

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As part of our industry's continued partnerships with the White House, ESA participated in the National Conference on Mental Health. ESA actively worked to encourage and recruit member companies to support the www.mentalhealth.gov website, and Activision/ Blizzard, Bethesda Softworks, and Microsoft agreed to

promote related consumer resources via their digital properties. Vice President Biden acknowledged the video game industry for its contributions at a press event launching the new website, as did the White House in an accompanying press release.

ESA participated in the White House-hosted National Conference on Mental Health and worked with member companies to secure their support for related initiatives.

EDUCATION INITIATIVES

Games & Learning Roundtable

On June 11, ESA hosted the 4th annual "Games & Learning Roundtable" discussion during E3 2013. The roundtable featured speakers from current and former ESA partners, including NASA's Jet Propulsion Laboratory, SpaceX, Facebook, the President's Council on Fitness, Sports & Nutrition, The Outdoor Foundation, The California Endowment, the MacArthur Foundation, the Gates Foundation, and The Joan Ganz Cooney Center at Sesame Workshop, as well as several ESA member companies.

Technologies in Education

On May 17, ESA curated and sponsored *The Atlantic's* third annual "Technologies in Education Forum" in Washington, DC. ESA identified speakers and discussion topics that underscored the positive role of entertainment software in the education space. Key speakers included Federal Communications Commission Commissioner Jessica Rosenworcel, Sen. Amy Klobuchar (D-MN), and Special Assistant to the President for Education Policy Roberto Rodriguez. ESA Senior Vice President of Government Affairs Erik Huey delivered welcoming remarks at the event, and Microsoft Vice President of U.S. Government Affairs Fred Humphries introduced Sen. Klobuchar.



STATE GOVERNMENT AFFAIRS

ESA's State Government Affairs (SGA) program was persistent throughout 2013 in developing positive relationships with legislators, governors, and state attorneys general to cultivate opportunities and enhance environments to support industry growth, job expansion, and innovation.

CONTENT REGULATION

SGA continued to protect the industry against misguided attempts to regulate game content amid the renewed national debate about the impact of media violence on real-world violence.

SGA addressed 16 content regulation bills and resolutions during states' 2013 legislative sessions, mostly concentrated in the Northeast. Proposals generally fit into three categories:

- **Point-of-Sale Regulations:** Lawmakers in New York and New Jersey proposed restrictions on the sale and rental of violent video games to minors.
- **Violent Video Game Taxes:** Lawmakers in Connecticut, Massachusetts, and Missouri introduced bills that would place an additional tax on violent video game purchases. The Massachusetts bill remains pending, as the legislature meets over a two-year session.
- **Committees and Task Forces on Violence:** Several lawmakers introduced bills or resolutions to establish committees or task forces charged with examining contributing factors to gun violence, including violent video games. Lawmakers in Chicago, Connecticut, Maryland, Massachusetts, and Pennsylvania proposed such actions. Of note:
 - In January, Pennsylvania lawmakers passed SR6, a bill establishing the Pennsylvania Joint State Government Commission's Advisory Committee on Violence Prevention (ACVP). The ACVP included experts in law enforcement, education, and medicine, and was tasked with providing violence prevention recommendations to the legislature by December 31, 2013.

Other developments of note included New Jersey Gov. Chris Christie's (R) signing of S2175 into law on August 19. The bill required New Jersey's Department of Education to develop an informational pamphlet for parents about how to limit children's exposure to media violence. ESA, the Media Coalition, the National Coalition Against Censorship, and Dr. Chris Ferguson opposed the bill's passage; however, the final law will not have a significant impact on the computer and video game industry.

Although the threat of legislative action largely subsided by the end of 2013, SGA will remain vigilant as the conversation continues into 2014.

ESA Board Vice Chairman and Take-Two Interactive Inc. CEO Strauss Zelnick speaks during a roundtable discussion about the video game industry at the Polytechnic Institute of NYU.



PRIVACY

- **On September 23**, California Gov. Jerry Brown (D) signed into law SB568, which prohibits the online marketing of certain products that are illegal to sell to minors. The bill, sponsored by Senate President Darrell Steinberg (D), also allows minors who are registered users of a website or online service to request and obtain removal of information they posted. The State Privacy and Security Coalition, of which ESA is an active member, successfully negotiated amendments to this bill that limited the marketing and advertising restrictions to products such as guns, drugs, fireworks, tattoos, and obscene matter, each as already defined in California law.

ESA launched the Digital Living Project, a major new education initiative in public high schools across Los Angeles with the support of California Attorney General Kamala Harris (D).

TAX INCENTIVES

- **On March 8**, ESA Vice President of State Government Affairs Tom Foulkes, the Texas Film Commission, and members of the Texas Motion Picture Alliance (TXMPA) testified before the Texas House Appropriations Committee in support of the Moving Image Industry Incentive Program, which provides grants for film, TV, video game, and commercial production. On June 14, Texas Gov. Rick Perry (R) signed the Texas Legislature's biennial budget into law, which included \$95 million to fund the incentive program – the highest funding level in the program's history. SGA worked with key appropriators and the TXMPA to ensure the budget included competitive funding for the program.
- **On April 12**, Mississippi Gov. Phil Bryant (R) signed into law SB2462, which improved the Mississippi Motion Picture Incentive Act Rebate and made computer and video games eligible for the incentive. SGA worked with the bill's sponsor, Sen. John Hohrn (D), to include video games in the legislation.
- **On June 11**, Nevada Gov. Brian Sandoval (R) approved SB165, a film tax incentive bill that included video game production. The law allows a transferable tax credit of 15-19 percent of the cumulative production costs of a project taking place within the state. The program has a \$20 million cap per fiscal year, and takes effect January 1, 2014.

- **On August 13**, ESA co-hosted a roundtable with the Metro Atlanta Chamber of Commerce to discuss Georgia's film and digital media tax incentive and the need to increase it during the 2014 legislative session. Staffers from Georgia Gov. Nathan Deal's (R) and Lt. Governor Casey Cagle's (R) offices attended. Senate Majority Leader Ronnie Chance (R), House Majority Whip Edward Lindsey's (R) staff, Giant Studios' Candice Alger, and noted artist and video game creator Paul Jenkins all spoke in favor of the program.
- **On September 20**, ESA Senior Vice President of Government Affairs Erik Huey and ESA Board Vice Chairman and Take-Two Interactive Inc. CEO Strauss Zelnick participated in a roundtable discussion at the Polytechnic Institute of NYU in Brooklyn, NY. The roundtable was one of several hosted by New York State Sen. Martin Golden (R), chairman of the Senate Select Committee on Science, Technology, Incubation and Entrepreneurship, to learn more about the computer and video game industry and how the legislature could use tax incentives and other programs to create more jobs in the Empire State.

EDUCATING ELECTED LEADERS

- **On February 2**, ESRB President Patricia Vance spoke on a panel at the Democratic Attorneys General Association Winter Policy Conference about ESRB ratings for mobile apps.
- **On February 13**, ESA launched the ESA Digital Living Project, a major new education initiative in public high schools across Los Angeles that will be implemented with the support of California Attorney General Kamala Harris (D). Powered by EverFi technology, this innovative online program utilizes cutting-edge instructional designs, rich media, and simulations to educate students and empower them with the skill sets needed to leverage technology safely and effectively.
- **On February 19**, ESA hosted its biennial Austin Lobby Day in Austin, TX. EA, Microsoft, Nintendo of America, and SCEA participated in the meetings and provided game demos in the capitol for 10 legislators and more than 100 staff members. ESA and member companies also held individual meetings with Gov. Rick Perry (R), Comptroller of Public Accounts Susan Combs (R), and key members of the Texas Legislature.

16
The number of content regulation bills and resolutions SGA addressed during states' 2013 legislative sessions.

- **On February 24**, ESRB President Patricia Vance privately addressed 20 attorneys general and their staff at a Republican Attorneys General Association meeting, sharing information about the computer and video game industry's ratings system.
- **On May 16**, ESA President and CEO Mike Gallagher participated as a panelist during a breakout session on technology and education at the Republican Governors Association Executive Roundtable meeting in New Orleans, LA. North Carolina Gov. Pat McCrory (R) and Indiana Gov. Mike Pence (R) moderated the discussion.
- **On June 6**, ESA assisted in coordinating an informational panel for the New Jersey Assembly Women and Children Committee, which highlighted the ESRB rating system, parental awareness and use of the ratings, research, First Amendment issues, and retailers' ratings enforcement. Speakers included ESRB President Patricia Vance, Villanova University professor Dr. Patrick Markey, former Utah Attorney General Mark Shurtleff (R), and New Jersey Retail Merchants Association (NJRMA) President John Holub. To coincide with the event, Assembly Women and Children Committee Chair Pamela Lampitt (D) introduced AJR 106, which designated June as "Entertainment Ratings and Labeling Awareness Month" in New Jersey. ESA worked with the NJRMA to provide draft language for the resolution, which passed unanimously on June 24.

ESA helped coordinate an informational panel about the ESRB rating system, parental controls, and other topics for the New Jersey Assembly's Women and Children Committee.

ESA Senior Vice President of Government Affairs Erik Huey, ESA Board Vice Chairman and Take-Two Interactive Inc. CEO Strauss Zelnick, and New York state Sen. Martin Golden participate in a roundtable discussion about the video game industry.



- **On August 17**, Connecticut Speaker of the House Brendan Sharkey (D) sent a letter to select ESA member companies concerning their licensing agreements with gun manufacturers. On September 18, ESA Vice President of State Government Affairs Tom Foulkes, met with Sharkey in Hartford to discuss his letter and to educate him on the computer and video game industry's nuances.
- **On September 9**, Florida State Sen. Jack Latvala (R) joined EA Director of Government Affairs Craig Hagen in Orlando for a tour of EA's Tiburon Campus to learn more about video game production and its value to the state's economy.



ESA President and CEO Mike Gallagher, Gov. Jerry Brown, and ESA Board member and Ubisoft Entertainment Executive Director for North America Laurent Detoc at the "Project A-Game" launch.

- **On September 16**, ESA collaborated with the office of California Gov. Jerry Brown (D), The California Endowment, and E-Line Media to launch "Project A-Game," a program that will leverage video game design curriculum to provide underserved youth in Sacramento and Oakland with critical 21st century skills. Gov. Brown and ESA President and CEO Mike Gallagher delivered remarks at the event. ESA Board member and Ubisoft Entertainment Executive Director for North America Laurent Detoc also attended. ESA is supporting the program with a \$150,000 grant from legal fees that California reimbursed following the industry's successful defense in *Brown v. EMA/ESA*. The California Endowment provided a \$300,000 grant.

COMMUNICATIONS & INDUSTRY AFFAIRS

Through a program of media outreach, events, digital communications, and grassroots advocacy, Communications & Industry Affairs (C&IA) educated policymakers, members of the media, other opinion elites, and the general public about the continued evolution of the video game industry beyond entertainment. The department highlighted the important contributions games are making to the U.S. economy and in fields such as education, health, and social issues, and underscored the diversity of the gamer audience. C&IA publicized ESA's major partnerships and initiatives – including the E3 College Game Competition, ESA LOFT Innovation Fellowship, and the ESRB ratings and parental controls PSA, as well as those described below – and continued to support ESA's legislative and legal efforts.

INDUSTRY COMMUNICATIONS

- **C&IA collaborated with** Electronic Entertainment Design and Research (EEDAR) and The NPD Group to conduct a series of studies underscoring the diversity of gamers and game content. In June, C&IA released highlights from EEDAR's active games market analysis, which found a sharp increase in the number of active game titles released from 2002-2011 and projected continued market expansion through 2015. In August, the department released the results of NPD's gamer mom survey, which found that 74 percent of moms say they play video games. Another NPD study, released by C&IA in November, found that 48 percent of adults age 50 and over say they play video games. Finally, C&IA released an NPD analysis of consumers' plans to purchase games and game-related items as holiday gifts in December.
- **The department developed and released** the *2013 Essential Facts About the Computer and Video Game Industry*, highlighting the growing diversification of the gamer audience and increasing popularity of game content delivered in digital formats. In addition to providing updated sales and usage data, the research indicated that the average game player is 30 years old, 68 percent of gamers are adults, and 45 percent of gamers are women.



- **C&IA secured several speaking opportunities** for ESA representatives at high-profile events, including the Silicon Flatirons Center's Digital Broadband Migration Conference, the Wireless Telecommunications Symposium, UCLA School of Law's "Game Business & Legal Affairs" event, the Aspen Ideas Festival, GamesBeat, and Law Seminars International's Gamer Technology Law seminar.
- **C&IA collaborated with** HHF and LOFT to create the ESA LOFT Video Game Innovation Fellowship. The Fellowship awarded 20 minority youths, aged 15 to 25, with a \$1,000 grant for creating a video game that sought to solve social problems in their community. On December 4, the 20 Fellows were brought to Washington, DC for a STEM education panel on Capitol Hill, featuring ESA President and CEO Mike Gallagher. Following the panel, the Fellows presented their games at a White House briefing to attendees including Mark DeLoura, White House senior advisor for digital media; Julie Rodriguez, White House deputy director of public engagement; and Bess Evans, White House senior advisor on public engagement.
- **On September 16**, C&IA collaborated with The California Endowment, E-Line Media, and the office of California Gov. Jerry Brown (D) to announce the launch of "Project A-Game" in Oakland, CA.



VIDEO GAME VOTERS NETWORK (VGVN)

VGVN is ESA's online community focused on promoting the positive impact that video games have in our society. Through legislative outreach, active online forums, and interaction with both new and mainstream media, VGVN's more than 500,000 members actively protected the rights of video game creators and consumers.

- **VGVN leveraged** its social media properties to urge members to challenge misguided claims about video games made by policymakers and the media, and applauded those who defended the industry:

- On May 7, VGVN tweeted a graphic responding to a segment about video game addiction on Katie Couric's talk show, "Katie," and encouraged followers to retweet the post.
- On April 11, VGVN tweeted a graphic responding to MSNBC "Morning Joe" host Joe Scarborough's erroneous claim that playing violent video games leads to violence, and urged followers to retweet the post at Scarborough.
- On March 28, VGVN tweeted a graphic thanking Rep. Duncan Hunter (R-CA) for understanding that playing video games does not cause violence, and encouraged followers to retweet the post.
- On February 12, in response to House Minority Leader Nancy Pelosi's (D-CA) favorable comments on Fox News, VGVN issued an alert asking members to tweet at Rep. Pelosi and thank her for understanding that video games are not the cause of violence. The message was tweeted more than 700 times, generating approximately 202,000 impressions.

Through legislative outreach, active online forums, and interaction with both new and mainstream media, VGVN's more than 500,000 members actively protected the rights of video game creators and consumers.

- **On March 9**, VGVN participated in SXSW Gaming in Austin, TX, encouraging attendees to join VGVN and hosting a VIP reception. The VGVN reception showcased video games with a Texas connection and hosted a number of state and local elected officials.
- **On January 31**, in response to negative charges about violence and video games, VGVN issued a national alert asking for its members to write their federal and state legislators and remind them that gamers vote and are paying attention to their actions and comments. Members sent more than 10,000 letters in response.

LEGAL, POLICY & REGULATORY AFFAIRS

ESA's Legal, Policy & Regulatory Affairs program supports the industry's collective legal interests by managing litigation to prevent direct attempts to regulate the industry; tracking cases that significantly impact the industry and filing amicus briefs supporting industry interests; providing reporting and analysis on IP, technology, privacy, security, trade, and a broad array of e-commerce issues affecting the industry domestically and globally; and advancing industry interests on those issues through regulatory filings and advocacy before agencies, courts, and policymakers.

Games seized in the August 26 raid of a location used by a counterfeit games distributor.



GENERIC TOP-LEVEL DOMAIN (GTLD) DISPUTE

- **ESA submitted comments** in response to the Internet Corporation for Assigned Names and Numbers' (ICANN) request for public comment on its approach to applications for "closed" gTLDs, as well as community objections to applications from Amazon EU and Beijing Gamease Age Digital Technology Co., Ltd. for the ".game" gTLD. Beijing Gamease subsequently agreed to modify its application to make clear that the registry would be open to third parties. ESA also began discussing potential resolutions with Amazon EU, seeking similar revisions to that company's application.
- **On June 4**, ESA filed comments urging ICANN to require gTLD operators to abide by specific safeguards to reduce the risk of abusive domain registrations, particularly those targeting the copyright and entertainment industries. On June 28, ICANN amended the gTLD Registry Agreement to incorporate the six basic safeguards (Whois verification, abusive activity prohibitions, security checks, statistical reports, complaint handling, and consequences for abuse) endorsed by ESA.

INTERNATIONAL RATING LEGISLATION

- **ESA and member companies coordinated lobbying efforts** in Mexico to address a video game rating bill introduced to the Mexican Senate. The proposed legislation would create a Mexican rating system, impose a labeling requirement, and require retailers to verify a consumer's age before selling M-rated games. The sponsoring senator agreed to shelve the bill until the subsequent legislative session in order to work with the industry on alternative solutions.
- **ESA and member companies coordinated lobbying efforts** in Chile to address a bill that would require the industry to place oversized rating labels on the front and back of video game packaging that would cover 25 percent of each side. Following its rejection by the Chilean House of Representatives, the proposed legislation was sent to a Joint Commission of legislators to review the bill and provide a recommendation. ESA continues to work with members to organize lobbying efforts before the commission.

PRIVACY

- **ESA's privacy-related advocacy in 2013** focused on two key projects: implementation of the Federal Trade Commission's (FTC) children's privacy rule and an effort by the National Telecommunications & Information Administration (NTIA) to develop a "code of conduct" for mobile apps. From the

spring onward, the FTC released multiple FAQ documents clarifying the interpretation of its revised Children's Online Privacy Protection Act Rule, which became effective in July. ESA met with FTC staff in August to discuss game industry concerns regarding some of the agency's FAQs. Separately, ESA participated in the NTIA's multi-stakeholder process to create a "code of conduct" for mobile privacy. ESA worked with members, ESRB, and other stakeholders to share our experience on what approaches would be easiest for consumers to understand. Despite those efforts, stakeholders failed to come to consensus, and the project ended in July. No further meetings are scheduled.

The sponsoring senator agreed to shelve the bill until the subsequent legislative session in order to work with the industry on alternative solutions.

FINANCIAL CRIMES ENFORCEMENT NETWORK (FINCEN)

- **On March 18**, FinCEN issued guidance on the application of anti-money laundering regulations to "virtual currencies." In October, ESA petitioned FinCEN for an administrative ruling clarifying the agency's position on in-game currencies to confirm that FinCEN did not intend for its guidance to apply to in-game currencies that do not permit cash out.

ACCESSIBILITY

- **Throughout 2013**, ESA continued to work on the FCC's "user interface" and "emergency information" accessibility proceedings, which impose various accessibility requirements for certain video programming. ESA filed multiple sets of comments in the user interface proceeding that supported making essential video programming features accessible, but advocated that non-video programming functions of multipurpose devices should not be included in the mandate. In August, ESA filed comments in the emergency information proceeding, arguing that applying the new requirements to IP-delivered video programming would be overly broad.

ENERGY

- **ESA continued to support console makers** in their engagement with the California Energy Commission (CEC). As part of a rulemaking, the CEC is evaluating whether to adopt a mandatory energy standard for game consoles, among other consumer electronics and appliances. Throughout the spring and summer,

ESA worked with the CEC and other stakeholders to answer technical questions about game consoles, explain their energy saving features, and put forth a voluntary proposal for continued improvement in energy efficiency. Separately, in March, the Environmental Protection Agency finalized its voluntary ENERGY STAR program requirements for game consoles.

INTERNATIONAL TRADE AND COPYRIGHT

- **Throughout 2013**, ESA coordinated the video game industry's efforts to eliminate potential tariffs and border charges on industry products and services. ESA worked with the United States Trade Representative (USTR), foreign country delegations, individual ESA-member companies, U.S. tech interests, and foreign video game industry associations to extend the World Trade Organization's Information Technology Agreement (ITA) to include game consoles, parts and accessories, console software, and point of sale activation cards used in connection with games and game services. Including industry products would prohibit the imposition of tariffs and border charges on these items across 75 countries that are ITA signatories.

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- **ESA led industry efforts to educate the U.S. officials** responsible for negotiating trade agreements impacting online services, including the Trans-Pacific Partnership Agreement, Transatlantic Trade and Investment Partnership, and the Trade in Services Agreement. On September 12, ESA provided USTR negotiators with a briefing and demonstration of leading online game services, features, and payment mechanisms, and urged officials to alert the industry to countries' efforts to opt out of or weaken commitments involving those services. ESA also cautioned officials about possible efforts by the EU and other countries to characterize online games as audiovisual products that would be exempt from these agreements' trade-liberalizing obligations.
- **ESA continued its ongoing engagement of USTR officials**, including by meeting regularly with IP negotiators to ensure that game industry interests are preserved in trade agreement negotiations and treaties considered within the World Intellectual Property Organization. Additionally, ESA and International Intellectual Property Alliance (IIPA) members

filed the *IIPA 2013 Special 301 Report on International Copyright Protection and Enforcement*, a report documenting legal and enforcement deficiencies in 42 high-piracy countries that helps to shape USTR's bilateral agenda and inform policymakers' resource allocation for international engagement. On October 25, ESA submitted a filing in connection with USTR's annual "Notorious Markets" review, identifying physical markets and online marketplaces and resources outside the U.S. that facilitate piracy affecting the industry.

TARIFF 22

- **ESA continues to partner with the Entertainment Software Association of Canada** on the Copyright Board of Canada's proceeding to determine whether recent amendments to the country's Copyright Act override the Supreme Court of Canada's decision in *ESA v. Society of Composers, Authors and Music Publishers of Canada*, which held that game publishers are not required to pay additional royalties for games that are distributed online rather than on physical discs. ESA submitted filings to the Copyright Board arguing that the amendments have no impact on the principles underlying the Court's decision and that game publishers cannot be charged additional royalties based solely on the means by which they deliver a game to consumers.

COMPREHENSIVE COPYRIGHT REFORM

- **In April**, Rep. Bob Goodlatte (R-VA), chair of the House Judiciary Committee, announced the launch of a "comprehensive review of U.S. copyright law," with the goal of examining existing laws' adequacy in light of recent technological innovations. In advance of this review, ESA met with key legislative staff to highlight the video game industry's priority copyright issues. On November 13, ESA submitted comments to the administration's "Internet Policy Taskforce," highlighting concerns about how a rigid "digital" first sale doctrine could undermine industry business models.

CONTENT PROTECTION

ESA's Content Protection program collaborates with the member representatives of the Content Protection Working Group (CPWG) to design and implement IP enforcement strategies to protect members' businesses from various infringement threats in the U.S. and six foreign countries. These threats include illegal game file downloads, pirated games sales, or console circumvention technology and services offerings, both online and via retail outlets. The Content Protection team also conducts regular training and outreach to domestic and international law enforcement officials to support prosecution of IP criminals.

ONLINE ENFORCEMENT

- **From January through September 2013**, ESA's content protection efforts resulted in the removal of 4.2 million infringing game files from host sites. ESA estimates that its efforts also resulted in removing access to these same infringing files from an additional 5.5 million linking websites.
- **In March**, ESA implemented a new enforcement escalation process, through which it achieved significant rates of compliance with takedown notices submitted to linking websites and their hosting service providers. To date, 30 percent of all sites ESA targeted either took down their "games" section or shut down completely. Another 28 percent of targeted sites now regularly comply with ESA's notices by removing infringing URLs.
- **Through September 2013**, ESA secured Google's removal of more than 1.5 million links to infringing games from its search results, a 1,200 percent increase over the number of links Google removed in 2012. ESA also identified and requested that host sites remove more than 3.7 million URLs used to facilitate instant downloads of infringing copies of ESA members' games.



A device confiscated by Mexican Customs officers showing examples of pre-loaded infringing titles.

PHYSICAL GOODS ENFORCEMENT

- **On March 27**, Judge Donald Nugent of the U.S. District Court of the Northern District of Ohio sentenced Jeffrey Reichert to a prison term of one year and one day, followed by two years of supervised release, in connection with his illegal sales of console mod chips through his website, fallsinc.com. Reichert, who was one of the many online mod chip sellers targeted in the 2007 ESA-supported Operation Tangled Web enforcement action, was convicted in a jury trial in January on one count of criminal violation of the Digital Millennium Copyright Act. This represents the first U.S. jail sentence imposed on a console-modding defendant convicted by jury.

- **On April 4**, Brazilian software association and ESA anti-piracy partner ABES obtained a law enforcement action by the Rio de Janeiro Military Police against a warehouse and laboratory that was providing pirated product to the Camelodromo da Pavuna marketplace. The authorities seized more than 302,000 infringing game copies, as well as 82 disc burners and 18 printers used for creating the games' packaging. This was the largest quantity of games seized in an ESA-supported enforcement operation since September 2011.
- **On April 25**, ESA's local counsel in Mexico worked with Customs authorities at the Mexico City International Airport to procure the confiscation of 1,995 handheld game devices that contained infringing copies of ESA members' games. The shipment had arrived from Shenzhen, China, earlier that week.
- **On May 15**, ESA's local counsel in Brazil worked with the specialized IP enforcement unit of the São Paulo Civil Police to conduct an enforcement action against an infringing games distributor. The authorities seized 8,000 games and 130 game recording devices, and arrested and held two individuals on more than \$15,000 bail each. On May 16, in a separate action against a different distributor, the same police unit seized 22,000 games and arrested three individuals.



Sampling of games seized during the May 16 enforcement action in São Paulo.

- **On July 25**, ESA's local counsel assisted in the biggest seizure of counterfeit products in Brasília, Brazil, in 2013. Thirty law enforcement agents seized nearly 20,000 counterfeit games from a Federal District marketplace and arrested nine individuals. After the raid, the government announced its intention to begin administrative proceedings to revoke permits held by the tenants who were operating the raided stalls, which generated significant media attention.
- **On August 26**, ESA's local counsel in Brazil coordinated with the São Paulo Civil Police's Special IP Unit to conduct a significant enforcement action against a counterfeit games distributor. The authorities seized 9,600 games, 5,000 disk inlay cards, and 59 R4 game copier devices, and arrested one individual.

ENTERTAINMENT SOFTWARE RATING BOARD

The Entertainment Software Rating Board (ESRB) is the nonprofit self-regulatory body for the video game industry. ESRB administers a world-class content rating system for video games and apps and continues to be among the most comprehensive and trusted rating systems in use today. In 2013, ESRB led the development of IARC and continued to promote and expand adoption of its ratings through the activities described below.



A screen shot from ESRB's "quick-draw" video promoting the updated version of its free mobile app released in 2013.

ESRB RATINGS

- **In 2013**, ESRB assigned more than 5,600 ratings, spanning boxed games sold in retail outlets across the U.S. and Canada and digitally-delivered games and apps that ESRB assigned through its new streamlined Digital Rating Service (DRS). Platforms using the DRS include Xbox LIVE Arcade, PlayStation Network, PlayStation Mobile, Vita and Certified Devices, Nintendo eShop, DSiShop and WiiShop Channel, and Windows 8, Windows Phone, Verizon, and T-Mobile app stores.
- **For the first time since 1999**, the ESRB introduced new versions of its highly recognizable rating symbols. The updated design has a cleaner, bolder look and less text, both of which improve how the icons appear on mobile and digital storefronts.
- **In addition to a Rating Category and Content Descriptors**, digitally-delivered games and apps may receive Interactive Elements notices that inform consumers about the sharing of user-provided personal information with a third party ("Shares Info"), the broadcasting of a user's location to other users ("Shares Location"), or the potential exposure to user interactions and other user-generated content ("Users Interact").

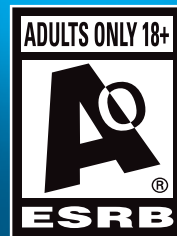
ADVERTISING REVIEW COUNCIL (ARC)

- **In 2013**, ARC continued to monitor and enforce the industry-adopted advertising and marketing guidelines to ensure that products are appropriately labeled and marketed responsibly. In August, ESRB issued an updated ARC Manual to reflect the ever-changing media landscape, including new guidelines for social media channels.

CONSUMER RESEARCH

- **In August 2013**, ESRB commissioned Peter D. Hart Research Associates to conduct an online survey among adult online gamers and parents with kids that play digitally delivered games. The survey assessed participants' awareness and use of ESRB ratings, and gauged how helpful they believe ESRB rating information would be for mobile and online games. Key findings included:
 - A high number of parents (85 percent) and adult online/mobile gamers (77 percent) are aware of the ESRB ratings, with 73 percent of parents using the system regularly to select games for their children.
 - Parents and adult gamers have very low awareness of mobile storefront ratings (27 percent aware and 16 percent aware, respectively).
 - Both parents and adult gamers share significant concerns over online and mobile privacy, particularly about the collection/sharing of personal information with third parties.
 - Both parents (80 percent) and adult gamers (77 percent) consider Interactive Elements to be "very important" to them personally when managing or choosing the games their children play.
 - Seventy-two percent of parents and 54 percent of adult gamers would prefer ESRB rating information over current mobile storefronts' proprietary rating systems (i.e., Apple, Google, Amazon).
 - Both groups report that the presence of ESRB information, including rating information and the ESRB Privacy Certified seal, makes them more likely to choose one online or mobile game over another.

UPDATED RATING SYMBOLS



ESRB introduced updated versions of its familiar rating symbols in 2013. The new icons have a cleaner look and less text, which optimizes them for display on digital and mobile platforms.



The ESRB Privacy Certified program introduced redesigned seals that evoke the familiar and trusted ESRB rating icons and added a new seal specifically for mobile apps.

MARKETING, COMMUNICATIONS & PUBLIC EDUCATION

- **ESRB updated its popular rating search app** with a new design and enhanced rating search features, added access to more than 10,000 mobile app ratings, and introduced new versions of the app for iPad and Android tablets. ESRB promoted the app through a new “quick-draw” style video that was posted to YouTube, generating nearly 100,000 views. Consumer downloads of the app increased by 30 percent over 2012, generating almost 400,000 rating searches in 2013.
- **ESRB aggressively promoted its rating system**, Rating Summaries, and mobile tools during the holiday season. The 2013 campaign included content placements on parent-focused websites; distribution of infographics and matte articles; Twitter parties; events including the KidzVuz Holiday House Party and Activision Family Game Summit; and support for ESA's latest ratings education PSA campaign.
- **The ESRB website** continues to grow as a useful resource for consumers, with more than 13.6 million visits and more than 2.8 million rating searches conducted in 2013.

ESRB AND RETAILERS

- **The ESRB Retail Council (ERC)** consists of seven national retailers that represent 85 percent of the overall packaged game sales market in the U.S.: Amazon, Best Buy, GameStop, Redbox, Target, Toys 'R' Us, and Walmart. ESRB implements two mystery shopper audits of ERC members annually to measure compliance with store policy enforcement and signage, and also reviews ERC member websites biannually to monitor their display of rating information.



ESRB President Patricia Vance meets with leaders from international classification authorities at the 2013 International Ratings Summit during E3.

- In November 2013, the most recent mystery shopper audit found (weighted by market share) that retailers enforced store policy 86 percent of the time while 82 percent displayed the correct rating signage.
- In October 2013, a website audit of ERC members found that 93 percent of Web pages presented accurate rating information.
- **In March**, the FTC released the results of its most recent mystery shopper audits, reporting that video game retailers successfully prevented 87 percent of attempted purchases of Mature-rated games by children under the age of 17. This remains an all-time high for the video game industry and was “the highest level of compliance among the industries [monitored],” according to the FTC.

ESRB PRIVACY CERTIFIED PROGRAM

- **In late 2012**, the FTC announced revisions to its Children's Online Privacy Protection Act (COPPA) Rule, which significantly expanded privacy requirements for websites and mobile apps that engage with and collect information from users under age 13. In response, ESRB revised the requirements for its Privacy Certified program and added new services to help companies comply with the revised Rule and other online privacy laws and best practices. The rebranded Privacy Certified program launched in June 2013, and includes expanded services tailored to mobile app developers, redesigned Privacy Certified seals for websites and apps, a new seal specifically designed for mobile apps, and new member confirmation pages that enable users to endorse members for their responsible privacy practices. On July 1, the FTC re-approved the program's COPPA Safe Harbor status.
- **Privacy Certified** also added three new members in 2013:
 - KidzVuz, a popular online community that enables kids to share video reviews of their favorite products;
 - Peep Software, which specializes in creating games that are fun and engaging for children of all ages; and
 - Kandu, a mobile, social platform for kids and teens.

ENTERTAINMENT SOFTWARE ASSOCIATION OF CANADA

The Entertainment Software Association of Canada (ESAC) is the voice of the Canadian video game industry, which employs approximately 16,500 people at nearly 350 companies across the country, and contributes CAD \$2.3 billion to Canada's economy. ESAC works on behalf of its members to ensure the legal and regulatory environment is favorable for the long-term development of Canada's video game industry. Association members include the nation's leading interactive software developers and publishers, such as EA, Ubisoft, Activision Blizzard, Microsoft Canada, Nintendo of Canada, Sony Computer Entertainment, Disney Interactive Studios, Take Two Interactive, Warner Brothers Interactive Entertainment, DeNA Studios, Frontier Developments, Gameloft, Glu Canada, Longtail Studios, Silverback Games, and United Front Games, as well as distributors Solutions to Go and Team One Marketing.

ANTI-COUNTERFEITING LEGISLATION

- **In March**, the government introduced a bill to legislate a number of enforcement mechanisms aimed at protecting intellectual property. One of the most important measures provides Canada Border Service Agency personnel with ex-officio powers that would allow them to seize counterfeit goods at the point of entry. ESAC advocated for these measures for a number of years as a member of the Canadian Anti-Counterfeiting Network and the Canadian Intellectual Property Council. ESAC continues to partner with other organizations to ensure that appropriate amendments are made to the bill and that it passes as quickly as possible.

ANTI-SPAM LEGISLATION

- **In September**, ESAC was invited – along with a select group of 12 high-level representatives from Canada's biggest industries – to meet with Industry Minister James Moore to provide feedback on draft regulations for the anti-spam legislation passed by Parliament. The bill could have wide-ranging effects on businesses that communicate to the public using commercial electronic messages. ESAC continues

to work with industry partners and officials at Industry Canada to advocate for a more flexible approach to the bill's implementation.

LABOR MOBILITY AND TEMPORARY FOREIGN WORKERS

- **Temporary foreign workers and labor mobility** continued to be high priority issues for ESAC in 2013. ESAC worked to educate parliamentarians and government officials about the video game industry's need for access to skilled workers from abroad, amid low public support for foreign workers. ESAC met with Minister of Employment and Social Development and Minister for Multiculturalism Jason Kenney and also with officials within the Prime Minister's Office to discuss this issue in fall 2013, in anticipation of a sustained push on this issue in 2014.

One of the most important measures provides Canada Border Service Agency personnel with ex-officio powers that would allow them to seize counterfeit goods at the point of entry.



EA Canada's David Rutter and ESAC President and CEO Jayson Hilchie at the 2013 Canadian Videogame Awards.

ESSENTIAL FACTS 2013

- **ESAC released its 2013 Essential Facts** about the Canadian Video Game Industry in October 2013. This economic research bolsters ESAC's role as a source of credible industry information and allows us to deliver a positive message to government decision-makers. The report reached more than 125,000 Twitter users and generated more than 15 media articles, including a feature on the national broadcast on CTV News. In addition to the annual booklet, ESAC also commissioned an infographic for social media platforms and a companion video in both French and English.

E3 2013

- **ESAC leverages E3** as a platform to educate Canadian audiences about the tremendous success of the Canadian video game industry each year. In 2013, ESAC issued a release highlighting the major new Canadian games on display on the show floor. ESAC also participated in the International Ratings Summit and Associations Policy meetings, and held multiple member development meetings.

MEMBERSHIP DEVELOPMENT DINNERS

- **Throughout 2013**, ESAC hosted prominent developers across the country at informal consultative dinners in Halifax, Montreal, Toronto, and Vancouver. Attended by a large number of member and non-member studio representatives, these dinners provided ESAC with an opportunity to recruit new members and gain a better understanding of key issues in various regions.



ESAC President and CEO Jayson Hilchie at the 2013 Ottawa International Game Conference.

STANDING COMMITTEE ON CANADIAN HERITAGE

- **In 2013**, ESAC continued to work with Members of Parliament (MPs) to support the House of Commons Standing Committee on Canadian Heritage's study of the Canadian entertainment software industry, which began in the fall of 2012. ESAC worked with MPs to identify witnesses who could participate and tell their unique stories, and assisted witnesses with developing their remarks. A number of ESAC member companies testified before the committee in-person or via teleconference, as did most of the other associations representing segments of the industry. Minister of Employment and Social Development and Minister for Multiculturalism Jason Kenney testified on the challenges facing our industry with regard to employee recruitment and immigration. ESAC also appeared before the committee to recommend actions that the government could take to help bolster the Canadian video game industry. The committee's report echoed many of ESAC's recommendations.

This economic research bolsters ESAC's role as a source of credible industry information and allows us to deliver a positive message to government decision-makers.

CANADIAN VIDEOGAME AWARDS (CVAS)

- **ESAC supported the fourth annual CVAs**, which took place on April 20 in Vancouver, BC. ESAC staff participated on several steering committees that contributed to the success of the awards. The event provided a platform to showcase the creativity, innovation, and talent of the entertainment software industry in Canada. Many ESAC members received recognition at the CVAs for both blockbuster games and innovative casual titles.



ESA MEMBERS

AS OF JANUARY 2014

345 Games

505 Games

Activision Blizzard

Capcom USA, Inc.

Deep Silver

DeNA

Disney Interactive Studios, Inc.

Electronic Arts

Epic Games, Inc.

gloops International Inc.

Konami Digital Entertainment

LEVEL-5 Inc.

Little Orbit

Mad Catz Interactive, Inc.

Microsoft Corporation

Namco Bandai Games America Inc.

Natsume Inc.

Nexon America, Inc.

Nintendo of America Inc.

Nival

NVIDIA

SEGA of America, Inc.

Slang

Sony Computer Entertainment America

Sony Online Entertainment, Inc.

Square Enix, Inc.

Take-Two Interactive Software, Inc.

Tecmo Koei America Corporation

Tencent

Trion Worlds, Inc.

Ubisoft Entertainment, Inc.

Wargaming

Warner Bros. Interactive Entertainment Inc.

XSEED Games

Inside back cover and back cover photos: E3 2013 attendees experience the latest video game innovations firsthand.





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