

## Microsoft's billion-dollar venture in video games is on the line with 'Halo 3'

by Jonathan Sidener

Ask any 14-year-old boy about "Halo 3," and chances are you'll get a response involving the armor-crusted space Marine, Master Chief, who battles to save humanity from a federation of aliens known as the Covenant.

**BEST LAID PLANS** - Microsoft is betting heavily on the success of its new video game 'Halo 3.' CNS Photo Illustration by Michael P. Franklin. Predecessors "Halo" and "Halo 2" were so successful that Master Chief has joined Mario and Pac-Man in the pantheon of video game characters. The series is so popular that it has spilled over to the realms of best-selling novels, comic books and a big-screen rendition from Oscar-winning director Peter Jackson.

But beyond the adolescent adrenaline rush and marketing hype of the alien-zapping space Marine, "Halo 3" is the latest development in the big-bucks battle for control of the video game industry.

For Microsoft, which has spent billions carving out a beachhead in the video game market, the success of the sci-fi shooter could determine whether the company's Xbox initiative delivers profits or more fiscal bloodshed.

The company's gaming division has reported only one moneymaking quarter - the period when "Halo 2" premiered - since the original Xbox launched in 2001. Microsoft's Xbox 360 was launched a year before the PlayStation 3 and Wii from Sony and Nintendo. That means independent game studios have had an extra year to understand the technology of the Xbox 360. In practical terms, this means that Microsoft will have the biggest lineup of games this holiday season - and games drive sales of game systems.

To game-industry analyst David Cole, Microsoft's head start provides a window of opportunity that won't be repeated.

"Right now is a time for Microsoft to take advantage," Cole said. "They need a big spike in hardware sales."

While Microsoft has a big lineup of games for the holiday, "Halo 3" is the true franchise title: a game with so much buzz and expectation that it will influence the purchase of large numbers of game systems.

The original "Halo" was developed by independent studio Bungie. Microsoft bought Bungie to ensure that the game and its sequels could be played only on Microsoft's systems.

Against a background of a resurgent PlayStation 3 and the unanticipated success of the Nintendo Wii, "Halo 3" has what may be a one-time chance to expand the number of Xbox 360 users to a point where the gaming division becomes profitable.

"It's not a stretch to say that they have billions riding on 'Halo 3,'" Cole said. "In the past, they've made very substantial investments in the Xbox platform. There's a real question whether that will ever pay off if 'Halo 3' doesn't do well."

No one doubts that "Halo 3" will be a blockbuster and a catalyst for holiday sales of the Xbox 360 and other games. More than 1 million copies of the game were sold before launch, adding to the more than 14 million copies of its predecessors' titles.

"Halo 2" rang up more than \$125 million in sales.

The success of the first two installments clearly allowed the original Xbox to claim a distant second and

avoid a dismal third-place finish against Sony's PlayStation 2 and Nintendo's Gamecube.

But with so many forces influencing the topsy-turvy world of video games, not everyone sees the culmination of the "Halo" trilogy as crunch time for the Xbox.

"It's not a make-or-break holiday for the Xbox 360," said Brian O'Rourke, an analyst with In-Stat, an Arizona market research firm.

"It is a make-or-break year for the 360 to become the No. 1 console."

While "Halo 3" is the elite game, Microsoft will have plenty of other strong titles such as "Project Gotham Racing 4" and "Mass Effect," O'Rourke said.

"They have to have hits," he said.

"The Wii has been a knockout and has had an effect on 360 sales. Microsoft needs to gain back 'mind share.'"

In the past, serious video game players needed a cutting-edge computer to play first-person-shooter games such as "Doom" and "Quake." Video game consoles from Sega, Nintendo and Sony couldn't match the 3-D graphics of computer games.

But "Halo" changed that.

"Microsoft and ('Halo' developer) Bungie were able to bring the industry-standard first-person shooter to the Xbox," said Nick Williams, an analyst with IGN Entertainment's GamerMetrics. "They were able to expand the experience beyond the hard-core gamers."

The first installment of the series popularized multiplayer gaming, Williams said. While an experienced player might burn through "Halo's" levels in 20 hours, the chance to play against friends extended the "addictive game play" immeasurably, Williams said.

GamerMetrics, which monitors the buzz on IGN's gaming Web sites, expects gamers to buy more than 4 million copies of "Halo 3" in the first month.

"We've seen more than 50 million page views of 'Halo 3' content," Williams said. "That's almost two times the next-ranked game."

The plot, or story line, in the "Halo" games has been a big factor in their success, said Ricardo Torres, senior editor at CNET's gaming site, GameSpot.

"Bungie paid a lot of attention to the story line," Torres said. "'Halo' was more than just shooting and great graphics. 'Halo 2' left a lot of loose ends in the story, and a lot of people are expecting 'Halo 3' to tie them up.

"There's been a lot of talk about video games becoming a more movielike experience. The 'Halo' games have

contributed to that."

Torres said "Halo 3" is one of the rare games that can sway consumer decisions and bring in large numbers of new customers for a game system.

"It's one of those games that a lot of people will want to play, and that means they'll have to buy a 360," he said.

While Torres said it's still uncertain which of the three gaming systems will dominate, it's clear where Microsoft has to pin its hopes:

"For Microsoft, it really does boil down to 'Halo 3.'"

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