Customer Report 2011

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By

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Why this report?

Stardock is a privately-held company. It does not release financials to the general public. Nonetheless, the company has a reputation for being transparent with its customers. I founded Stardock back when I was a college student nearly 20 years ago, and one of the principles I've held to since that time was the importance of sharing with others what was involved in running your own company – the triumphs and the failures.

Stardock (Stardock Corporation) consists of two business units:

1. Stardock Software, Inc., which makes consumer software and enterprise software.
2. Stardock Entertainment, Inc., which develops and publishes its own and third-party games.

Last year, there was a third business unit:

3. Impulse, Inc., a digital distribution platform that enables developers to sell and manage their software to users around the world. The platform also allows users to update and manage their software purchases as conveniently as possible.

This business unit was sold to GameStop in May 2011.

This report summarizes Stardock's performance in 2011. It also includes our 2011 customer survey.

To learn more about Stardock, visit www.stardock.com.

Previous reports:

- **2008**: http://www.stardock.com/media/stardockcustomerreport-2008.pdf
- **2009**: http://www.stardock.com/press/CustomerReports/Stardock2009.pdf
- **2010**: http://www.stardock.com/press/CustomerReports/Stardock2010.pdf

Regarding Impulse

In May 2011 Stardock completed the sale of its Impulse business units to GameStop. Impulse is a digital distribution platform designed to make it easy for consumers to find, purchase, download and update PC games and PC software.

There were three primary factors that led to the decision to sell Impulse:

1. It was consuming the rest of the company. The phenomenal growth of digital distribution meant that Impulse was quickly becoming the top business unit at Stardock. It had more than doubled its growth from the previous year and was on its way to more than double its growth again.

    Impulse's success came at a cost. High talent software developers are precious and Stardock found itself having to transfer its best developers from both the software and games unit to Impulse in order to ensure that the platform could scale and compete in the market.

    While Impulse was able to benefit from Stardock's top development talent, the effects on the rest of the company were patently obvious. Object Desktop, Stardock's flagship software product, languished and the Elemental: War of Magic project suffered greatly as well.

2. The Games unit wanted to able to release its titles on Steam and other platforms.

3. Running a large store was not compatible with Stardock's internal culture. Stardock is a technology company. It has historically had only enough sales staff to manage enterprise accounts for its non-game software. It had only enough marketing staff to handle its own publishing requirements. The environment at Stardock has tended to focus on making "cool stuff" and not having a particular focus on concepts like "quarterly profits" or "sales quotas". Instead, the philosophy has been that if what you produce is excellent and if you do a reasonable job marketing it, the rest will take care of itself. Running a retail store was threatening to alter that environment.

When it came time to find a good home for Impulse, the natural partner was GameStop. They have a broad retail presence, great relations with publishers and the clout to ensure they could get the kind of content that had been a challenge for us to obtain.

For example, GameStop was able to quickly get worldwide rights to many PC game titles that we had struggled to obtain. In addition, they were able to get many publishers that Stardock lacked the clout to sign. From Stardock's vantage point, getting one of the major retailers refocused on the PC market would provide long-term benefits both to us and our fellow PC game development studios.

Stardock Entertainment

Last year Stardock had three big announcements. First, the sale of Impulse. Second, Stardock games would be available on Steam and other platforms. And third, was the announcement of Sins of a Solar Empire: Rebellion.

Sins of a Solar Empire: Rebellion

The continued success of the Sins of a Solar Empire franchise demonstrates, we believe, a significant gap in the PC gaming market. Specifically, the "dumbification" of games that we've seen over the past decade appears to be creating an expanding market opportunity for those developers who are willing to create games that cater to individuals who are interested in a complex game experience but also want high production standards.

Figure 1: Sins of a Solar Empire: Rebellion is a real time strategy game with 4X depth.

The counter-argument to making complex strategy games with high production values is that the demographic for these games, males 25 to 55, does not have a long-term market future. This argument assumes that the current key gaming demographic: 15 to 25 year olds – both male and female – have been raised on games that hand hold the player through a well-developed story (sometimes referred to playing on a "rail") and are unlikely to be interested in games that rely on the player "discovering" the nuances of game play over many hours.

Stardock's position is that as the new 15 to 25 year old demographic transitions to the "older" demographic that their gaming requirements will transition as well. If this is the case, it will bode well to studios

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interested in developing games that appeal to men and women that involve considerable game play sophistication.

Stardock partner, Ironclad Games, the developer of Sins of a Solar Empire is working on a new title called Sins of a Dark Age which extends the MOBA game concept to be far more strategic.

Elemental: Fallen Enchantress

Creating a modern, 4X, turn-based strategy game that does not belong to an existing franchise has been a challenge. Our first attempt was Elemental: War of Magic which ran into both technical and design problems that led to us essentially starting over when the time came to create Fallen Enchantress.

While it would have been easier to simply call Elemental: Fallen Enchantress, "Fallen Enchantress" without the Elemental moniker, it was decided that Stardock's top priority should be to serve its customer base who had purchased War of Magic and reaffirm that buying a Stardock game means you will be buying an excellent game.

Originally, it was hoped that Fallen Enchantress would be able to make use of most of the assets and code from War of Magic. Ultimately, it was decided by Stardock Entertainment Vice President, Derek Paxton, that it made more sense to start fresh and let the game design determine the course of what could or couldn't be used from War of Magic.

The internal consensus has been that in order for Fallen Enchantress to succeed it must be so good that its relationship with Elemental: War of Magic won't be "the story". As a result, the design and production values of Fallen Enchantress are significantly higher than had it been a "new" franchise game.

The outlook so far seems very positive for Fallen Enchantress with beta feedback very positive. With at least half a year of development left, we will have the opportunity to create, what we hope, is the marquee turn-based strategy game of its time period.

The internal measure of success for Fallen Enchantress is whether it is viewed as being worthy to be discussed in the company of games such as Civilization IV, Master of Orion 2, Master of Magic, Galactic Civilizations II, Age of Wonders II:SW, Heroes of Might and Magic III, and Alpha Centauri. That is the objective for the game and the rationale behind its development.

Our ability to meet our objectives will depend largely on our own talent combined with our ability to distill the feedback, suggestions, and criticisms of beta releases into a form that remains coherent with Derek "Kael" Paxton's design.

Planning for the future

Within 5 years, decoupled gaming will become common. Decoupled computing is the concept in which the device that is doing the processing/rendering is not physically connected to the output devices (display, speakers) or the input devices (gamepad, keyboard, mouse).

How this future will manifest itself remains to be seen. The likely players will be Apple's AirPlay and Intel's WiDi standards. The actual *gaming* experience won't change very much except that the player will have a lot more flexibility as to *how* they play their games.   However, the *development* experience will change radically depending on which platforms emerge as the leaders in this future.

Other Platforms

Stardock expects to make some announcements later this year in this area.

# Stardock Software

Desktop Enhancements

Stardock's software unit has historically been the company's primary source of revenue. Its focus has been to develop software that extends the usability of Microsoft Windows. That software is then sold to consumers directly and licensed to OEMs and the enterprise.

Half of CNET's top desktop enhancement downloads are programs developed by Stardock. If you're using a program that is "skinned" right now, there's a decent chance it's using technology licensed from Stardock.

Object Desktop's most popular programs include:

WindowBlinds

WindowBlinds has remained very popular as it has evolved with Windows®. Version 1.0 was released in 1999. Stardock anticipates releasing WindowBlinds 8 this year (it is coincidence that the version numbers now correspond with Microsoft version releases). Its primary focus will be to customize the Windows 8 experience.
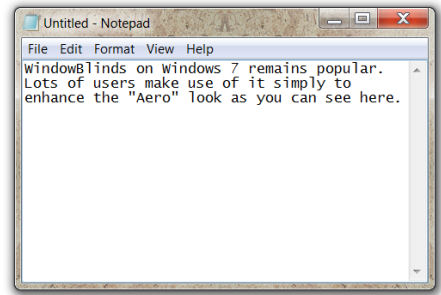
DeskScapes

DeskScapes provides animated wallpaper support. Stardock worked with Microsoft during the development of Windows DreamScenes which was part of Windows Vista Ultimate. Microsoft has subsequently discontinued Windows DreamScenes, but DeskScapes and the .Dream format continued to evolve. Stardock anticipates releasing DeskScapes 4 this year.
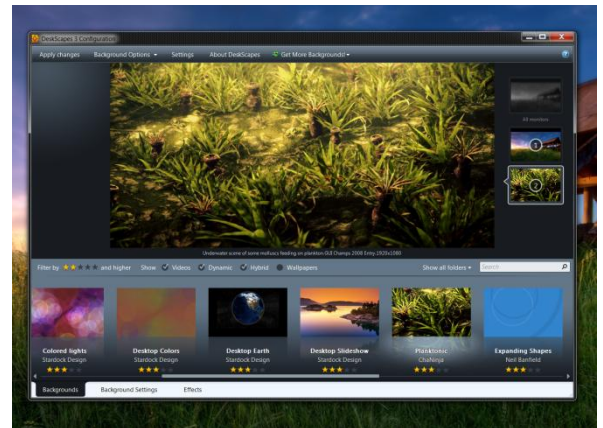
Fences

Fences has remained very popular and we plan to release version 2 this year. It allows users to organize their desktop icons into "fences".

ObjectDock

ObjectDock is one of Stardock's oldest programs. Stardock first released Tab LaunchPad for OS/2 in 1994. Our tendency to give our products excessively generic names has been… consistent. ObjectDock's popularity has recently increased as users look for ways to *effectively* organize their programs in a Windows 8 world.

Multiplicity

Multiplicity allows users to take multiple computers and use them as one (typical use case is a desktop PC and a laptop). A single keyboard and mouse can control several different computers as well as unify their clipboard. Stardock is working on Multiplicity 2 which it expects to release this year.

New Software

WindowFX

WindowFX isn't a new program, but the new beta version is a total rewrite. WindowFX is essentially a catch-all for all the little desktop enhancements we can't justify putting into their own program. We expect to release this new version this spring.

Tiles

Tiles has grown in popularity since its release earlier this year. Tiles is how we *wish* Microsoft had integrated Metro into the desktop for Windows 8. It enables users to create "pages" of tiles that they can then organize their tasks around.

Stardock: XS

We are evaluating the future of Object Desktop this year. Our suite of popular desktop enhancements is almost 20 years old (if you count from its OS/2 version).

One challenge Stardock continues to face is supporting so many different versions of Windows. We are evaluating whether to create a new suite designed for Windows 7 and later users and migrate our customers to this new suite while continuing to support Object Desktop users with updates to *existing* programs but not adding new ones.

The opportunities present in WinRT (Microsoft's new API) along with the opportunities to embrace and extend what Microsoft is developing seem to justify creating a new suite to this end. The first program we've released under this concept is Start8. It's freeware and in beta.

Windows 8 concerns

Stardock remains concerned about the direction of Windows 8. Since we are not currently a cross-platform development shop, our success relies heavily on the success of Windows.

It is our projection that if Microsoft does not address the following items in Windows 8, then that version of the OS will be considered a general failure:

1. Allowing desktop users to use Windows 8 entirely as a desktop OS. Specifically, interface and experience changes are necessary to prevent users from being shifted back and forth between the desktop and "Metro".

2. A realistic way to organize programs on Metro. Currently, Microsoft has termed "Groups" as being columns of tiles with a column label. Users are expected to either show a tile or hide it. If they are hidden, they can only be found through searching (typing). There is no folder concept in Metro as there is on the desktop, Android, Mac, or iOS.

3. A migration away from mouse-over discovery of features back to visual discovery features. In the present consumer beta, Windows 8 requires the user to move the mouse around the screen to discover new elements, which work inconsistently depending on the context or the application.

In the near-term, if Microsoft is unable or unwilling to address these kinds of basic issues, there will almost certainly be no shortage of third-party programs to address this. Stardock has already released Start8 into beta which reintroduces the Windows Start button and integrates the Metro start page features onto the desktop.

However, it is our opinion that there is not a viable *commercial* market for software that exists to fix features of Windows 8 because many, if not most, users will simply not migrate to it and may choose other computing avenues.

We maintain that the primary threat to the PC (and gaming consoles) comes in the form of Apple's AirPlay combined with Bluetooth 4.0+ controllers. A Windows 8 failure may buy enough time for Apple to release displays (and get partners to release displays) with embedded AirPlay. The "computing" will be done on an iPad/iPhone, the keyboard/mouse handled by Bluetooth and the display via AirPlay.

Conclusions

2011 was Stardock's most successful year since its incorporation in 1993. It used the capital gained from the sale of Impulse to bring in world-class talent and evaluate the accelerating trends in consumer software. Over the next 18 months, it hopes to begin announcing a wide range of new products, games, and technologies.

For our industry, it's a time of transition. The PC consumer market could potentially see a consolidation in which virtually all PC games are sold either through Steam, GameStop Impulse, Battle.net, or Origin while non-games end up on a Microsoft Marketplace type system.
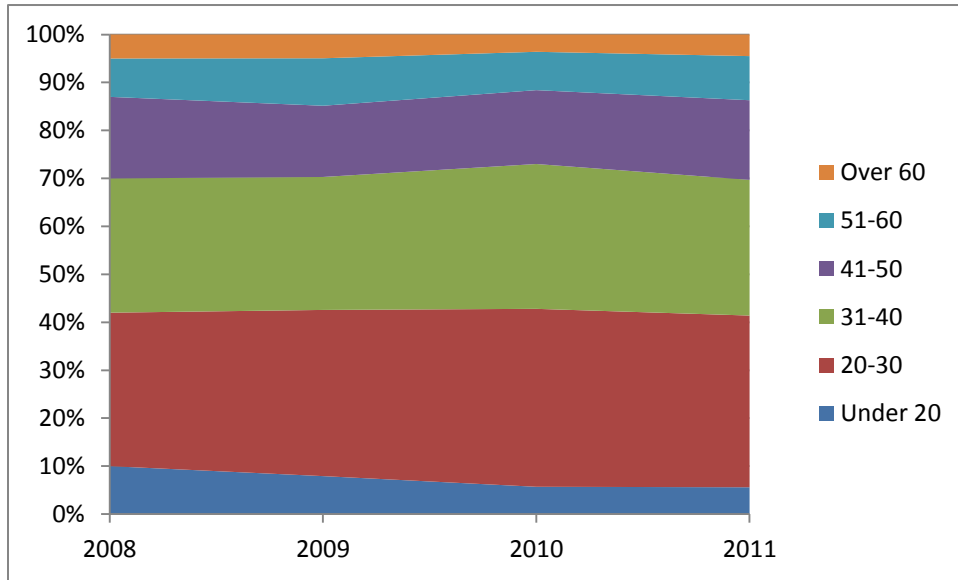
While these changes are taking place, the mobile space is exploding. Developers who were once PC developers are migrating in ever greater number to either iOS or Android. And Apple, with AirPlay, is setting itself up to compete head-to-head with the next generation console offerings.

It is a good time to be a software developer. It's an even better time to be a software consumer.
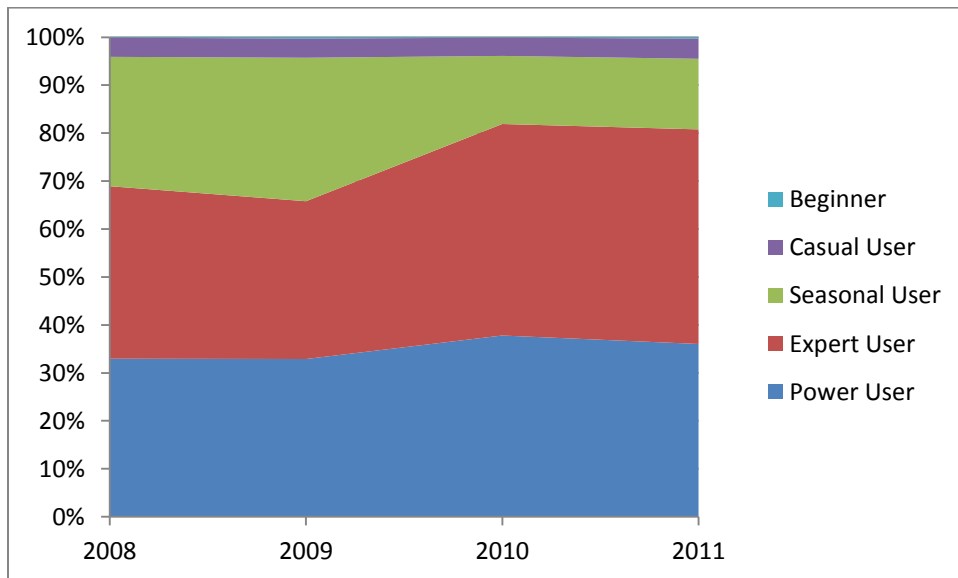
Stardock Customer Survey 2011

The Stardock survey was mailed out to approximately 4 million people this year. Below are the results. Where possible, we have included comparisons to previous years:
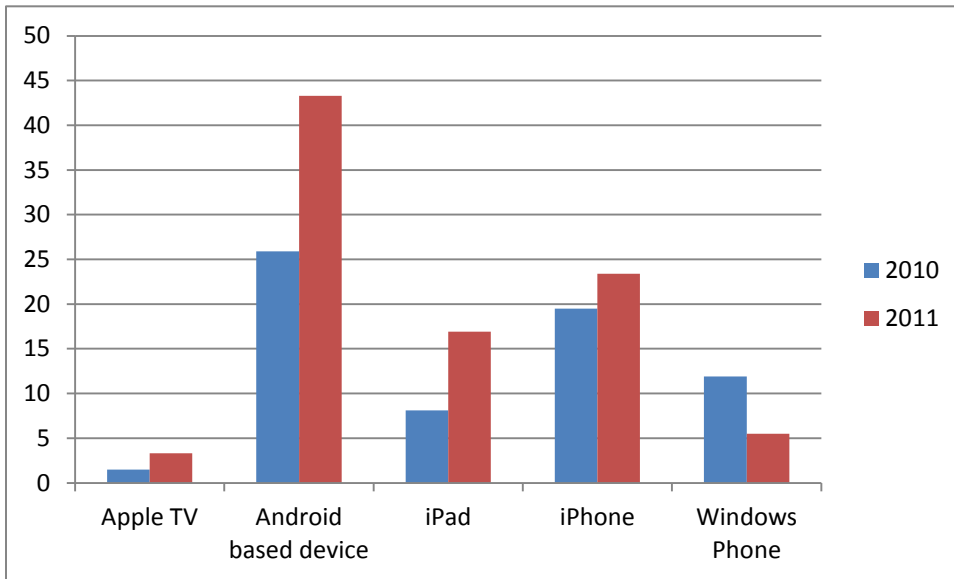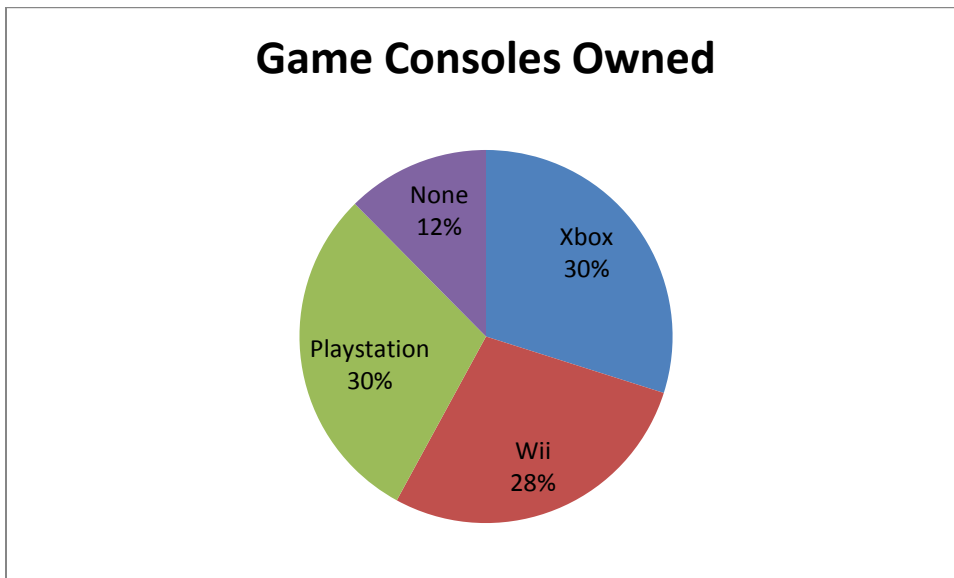
How old are you?

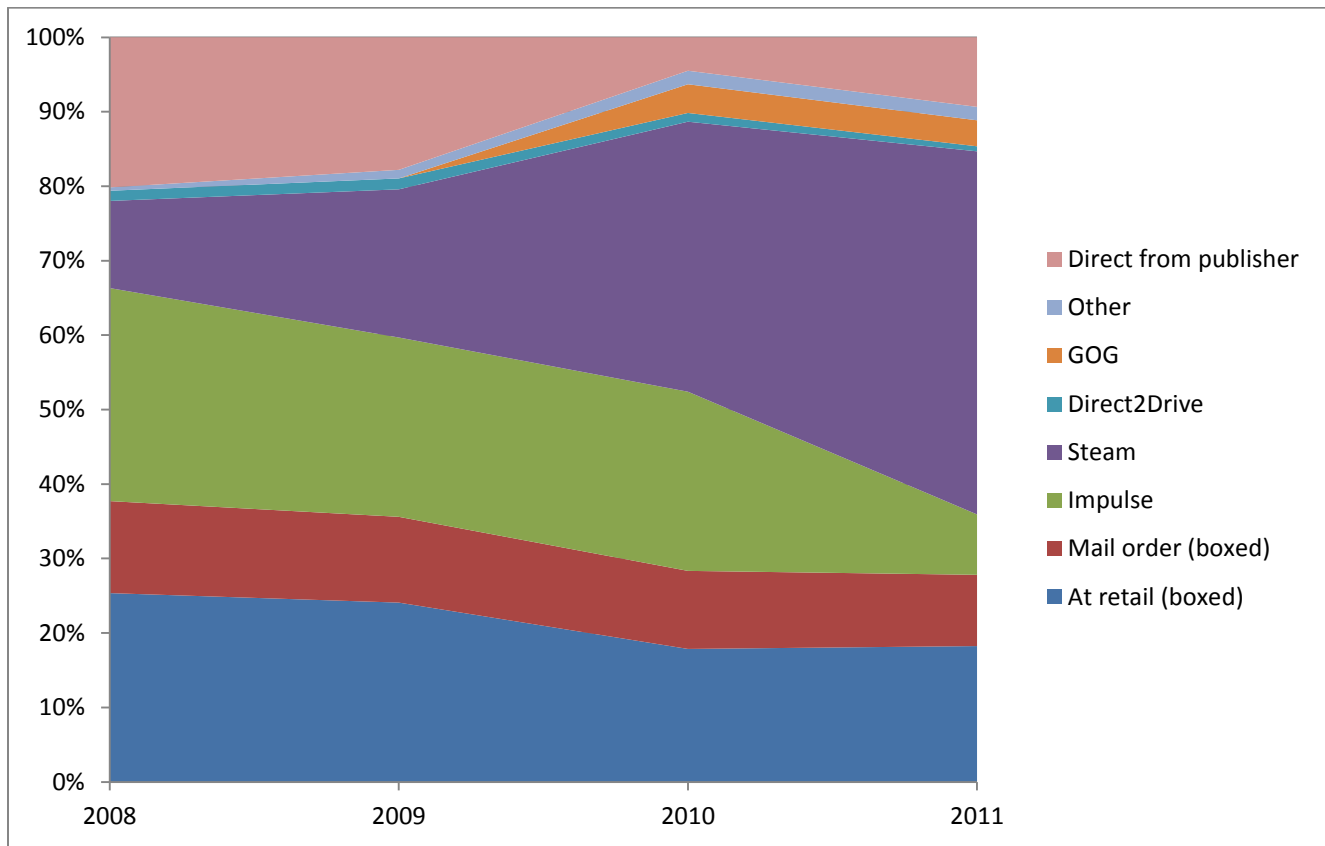Chart legend: Over 60, 51-60, 41-50, 31-40, 20-30, Under 20. Years 2008, 2009, 2010, 2011.

How would you rate your computer knowledge?

Chart legend: Beginner, Casual User, Seasonal User, Expert User, Power User. Years 2008, 2009, 2010, 2011.

Which devices do you own?

Which Consoles do you own?

Game Consoles Owned

None 12%
Xbox 30%
Playstation 30%
Wii 28%

Stardock Customer Report 2011
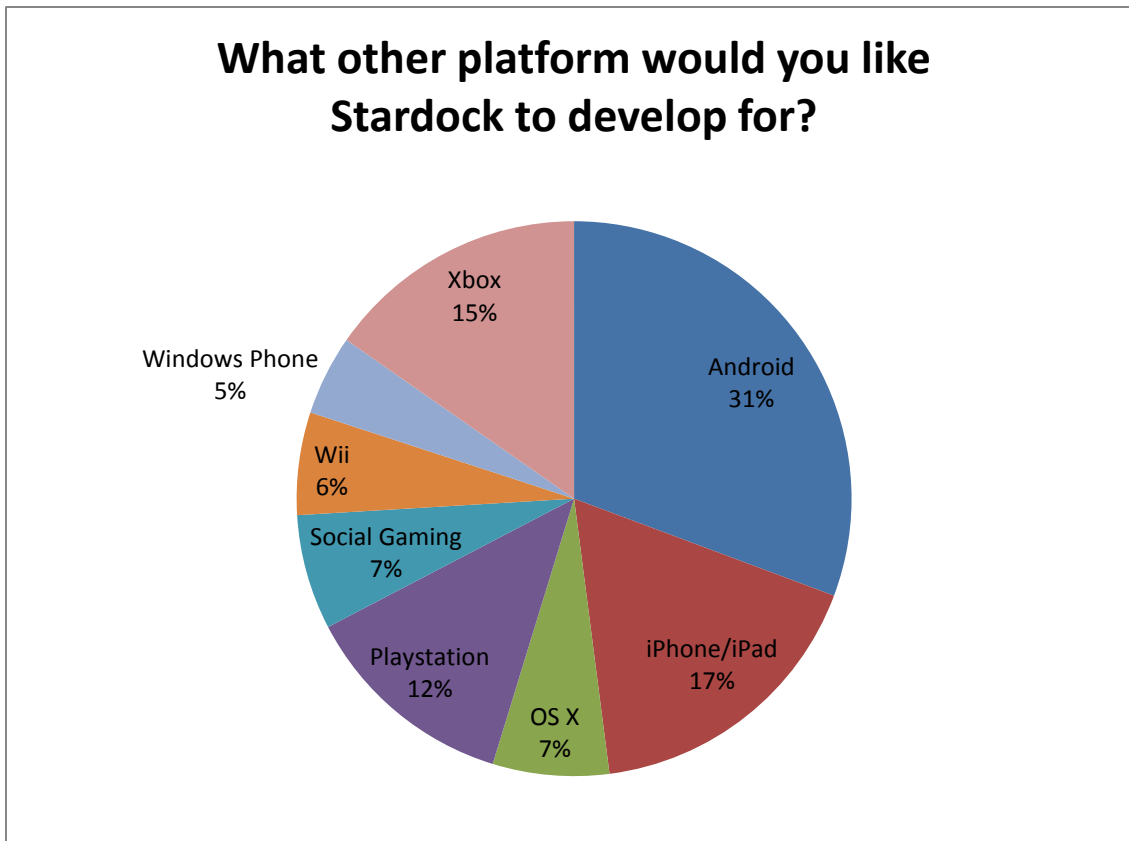
Where do you purchase your games?

A couple of notes on this chart. We didn't include GOG in the 2009 and 2008 of the survey. Since this is a Stardock survey, the Direct from publisher (first bar) grew as people purchased from Stardock instead of Impulse. We estimate than all of the digital retailers (GameStop, Steam, GOG, etc.) all saw their revenue increase substantially this past year.

Are you male or female?
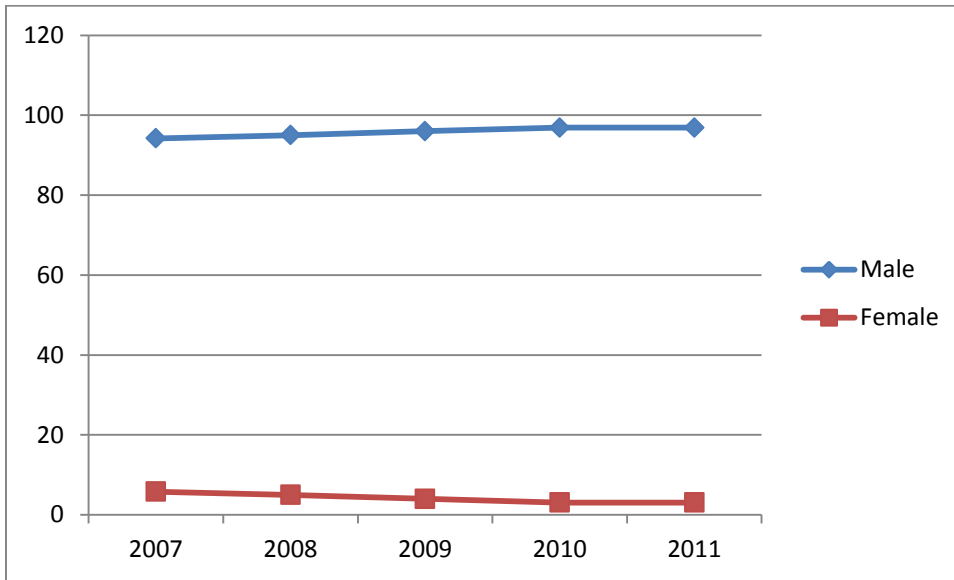
Not much progress here.

What other platform would you like to see Stardock develop for?

What other platform would you like Stardock to develop for?

- Android 31%
- iPhone/iPad 17%
- Xbox 15%
- Playstation 12%
- OS X 7%
- Social Gaming 7%
- Wii 6%
- Windows Phone 5%

Stardock Customer Report 2011

How do you normally hear about new or updated Stardock products?

Pie chart: How do you normally hear about new or updated Stardock products?

- Other 3%
- Twitter 1%
- Word of Mouth 8%
- Third Party Website 10%
- Stardock Website 16%
- Search Engine 4%
- Magazine 3%
- Google+ 1%
- Facebook 3%
- Email from Stardock 39%
- Advertising 12%