

PREPARED STATEMENT

OF

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BEFORE

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ENERGY AND COMMERCE COMMITTEE
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Chairman Markey, Ranking Member Stearns, and Members of the Subcommittee, we at Linden Lab very much appreciate this opportunity to share with you our vision of how virtual worlds are altering how people and organizations use the Internet, and fundamentally changing the nature of communication itself. Through the Second Life Grid, we believe we are creating an evolutionary Internet platform with vast commercial, scientific, educational, and social potential.

We founded Linden Lab in 1999 to develop a unique form of shared 3-D entertainment. When we launched Second Life, in late 2003, we had server space representing a 1-square-kilometer patch of “land,” and about 500 residents. We welcomed our 100,000th resident in January 2006. Since then, we have experienced phenomenal growth. Today, we have approximately six million unique registered users, roughly 50,000-60,000 of whom are online or “in-world” at any one time, and roughly 900,000 of whom have been in-world during the last 30 days. Our users exchange approximately \$850,000 worth of “virtual currency” per day on our platform. Our servers support nearly 390 square miles of “land,” or the “virtual” equivalent of over six times the area of Washington, D.C.

Why have we seen such explosive growth? The Second Life Grid is the next step in the fulfillment of the Internet’s promise, where people create and consume content, and also interact with each other in a 3-D environment. The potential for commerce, education, entertainment, and other interaction in a 3-D environment filled with other people is far greater than in the flat and isolated two-dimensional world of the World Wide Web.

And so, while Second Life began with a large “game-play” element, today we see a vibrant mix of in-world businesses, real-world “brick and mortar” brands, educators, scientists, and curious and creative individuals. These groups create, engage in commerce, and mix with one another across what might otherwise be real gaps--caused by geography, culture, telecommunication, or lack of information.

To help you understand what Second Life users are creating, we have prepared a short video, especially for this hearing. We will share with you typical Second Life stories and applications, so that you can get a glimpse of the many ways in which people throughout the world are using Second Life to broaden their reach. You’ll even see a familiar face or two.

[video shown, and submitted separately]

As you have hopefully seen, a lot of new and very innovative things are occurring “in-world.”

But on a broader scale, why does this matter? We believe it matters because virtual worlds, and particularly Second Life, hold great promise for America, for our economic development, and for our ability to compete globally. Most fundamentally, virtual worlds mark a leap forward in how we can communicate and work together over geographic distances. As you have seen in the video, in virtual worlds there is a sense of geographic “place” and personal “presence,” even when users are miles or continents apart. In Second Life, you can “see” the other person, verbally speak with him, as well as chat with or “instant message” him. You occupy a multi-tiered communication platform with dimensions that do not exist with e-mail, telephone calls, conference calling, or other platforms.

This vastly expands our ability to collaborate over distance: large (or small) groups can hold conferences; view evidence, charts and other content; do language training; and design code, blueprints, and plans as if they were in the same room. Moreover, in a “virtual” atmosphere, even persons who have never met can establish rapport and trust with one another. This is one reason why large companies are effectively using Second Life across distributed communities of employees. Other reasons are the ability to transfer and view information immediately in Second Life, along with low production and infrastructure costs and barriers to entry.

By making this type of “immersive” environment widely accessible, virtual worlds are poised to do what the telephone, the Internet, and e-mail did--reduce communication costs and create new and faster ways to produce, and thus increase productivity. These increases in productivity tend to occur exponentially, so it is vital to America’s growth that we lead the charge, and develop the expertise and framework to master this technology.

There is another aspect of the Second Life Grid, of which I, as a lifelong entrepreneur, am particularly proud. As of today, more than 50,000 users are “net gainers” on the platform, and this number is rapidly growing. In other words, these users are successfully creating goods or services in Second Life and making a profit. Second Life has provided thousands of people with a way to supplement their incomes, through no significant expenditure but their own time and imagination.

This demographic of creators is diverse--more than 40 percent of active user time “in-world” is spent by women and an equal percentage by persons over forty--not a stereotypical “gamer” profile. They range from semi-employed artists who design “virtual” offices, to stay-at-home soccer moms and grandmothers who design clothing, furniture, and new applications. And since more than 70 percent of our users are outside of the United States, Second Life provides an opportunity--if we continue to master this technology--for America to become a “net exporter” of these services.

I am proud of and inspired by all that the Second Life Grid is making possible, for all of these individuals and businesses, and I believe that our nation’s technological leadership and standard of living ultimately will depend on the success of Second Life and other virtual worlds. We want to work with you to ensure we get it right.

Important Applications of Our Technology

People in Second Life have created over 1 billion in-world “objects,” occupying total storage space of about 100 terabytes. Most of these objects derive their value from their intellectual or artistic appeal, or sheer utility. Second Life is as diverse as the real world in terms of types of activities it offers--maybe even more so.

Political Outreach and Community. Virtual worlds offer enhanced opportunities for public participation in government, including new ways for Members of Congress to connect with their own constituents, or with groups located around the world. As you saw in the clip of Chairman Markey’s address in Virtual Bali, virtual worlds provide a great opportunity for expanded political discourse, in ways not possible--or at least not cost-effective--in the physical world.

Public luminaries such as Judge Richard Posner and former Speaker Newt Gingrich have held successful (and widely discussed) events in Second Life. The City of Boston has a Second Life prototype in the works, to extend community involvement and promote outreach. At the neighborhood level, residents of Queens have used Second Life to design their community garden.

We are particularly proud that this very hearing is being streamed live into a 3-D model of this hearing room, with in-world residents watching from their seats in this virtual environment. You may even see some spontaneous text chat emerge from the gallery.

Education and the Arts. A wide range of academic and educational organizations use our platform, for research and modeling, distance learning and real-time collaboration. We offer a program called *Campus: Second Life*, which provides semester-long grants of “land” to educators who want to teach in the virtual world. As of today, there are more than 400 universities in Second Life and more than 4,500 teachers involved in Second Life.

Health Care. Hospitals, doctors, and medical researchers are sharing information, designing new treatment options, and collaborating on medical research using Second Life. The Center for Brain Health at the University of Texas at Dallas, for instance, is using Second Life in treating autism. Through virtual therapy sessions, clinicians help patients develop cognitive and socialization skills and prepare them for practical tasks like job interviews. And many emergency “first responders” are using Second Life to train for scenarios that are difficult to stage in the “real” world.

Recently, IBM opened its Virtual Healthcare Island, through which it will assess how information technology can transform health care delivery to meet patient needs. Earlier this year, Palomar Pomerado Health, which is opening a new state-of-the-art medical center in San Diego in 2011, opened a simulation of the real-life campus now under construction. “Virtual” visitors will help the “real” hospital test new concepts for health care delivery, such as the use of RFID technology to ensure that patients en route to surgery arrive at the right place, on time.

eCommerce. Virtual worlds offer opportunities both for large corporations seeking to increase productivity and for individual entrepreneurs who can profit from virtual “micro-economies.” (The average “virtual currency” transaction in Second Life is approximately one dollar--which might buy, for instance, new accessories or clothes for your “avatar,” or admission to a museum or musical event.) Individuals profiting in Second Life from their own creativity range from young artists to retirees, to semi-employed workers in non-technical fields--people who may never before have had an opportunity to use technical talents for profit. Second Life’s “micro-entrepreneurs” also include many individuals who have physical disabilities that challenge their abilities in physical space, yet

who thrive, create, and earn money in virtual space. Indeed, many persons with disabilities have launched new careers in-world, and gained enormous fulfillment from their new, “virtual” activities.

Major companies such as IBM, Intel, and Cisco also are making wide and effective use of Second Life as a platform for corporate communication and information. They, and countless other companies, use our technology to unite employees scattered across the globe--for collaborative projects, business planning, and distributing their companies’ corporate culture. And many brick and mortar companies, such as Pontiac, Coca Cola, Starwood and Adidas, have used Second Life effectively and innovatively for brand-building and marketing.

Public Diplomacy. Virtual worlds offer opportunities to connect people of different cultures, in ways not possible in the physical world. The USC Center on Public Diplomacy has created a Virtual World Project, for instance, to explore new ways of practicing public diplomacy. The Center has worked with the U.S. State Department, for example, to explore the possibilities that virtual worlds offer for hosting International Information Program initiatives, which can engage international audiences to create an environment more receptive to our national image abroad.

Because of their strong sense of presence, ability to foster trust across borders, and multi-layered communication platforms, virtual world technologies offer a way to reach whole populations across the globe--even across unfriendly borders--that might be resistant to establishing rapport or trust through other means. Virtual technologies could provide the “Voice of America” for the new diplomatic age.

Potential Misuse of Virtual Worlds

We believe that individuals within Second Life ought to have a considerable measure of creative and personal control over their own experience. And like any large platform, the sheer volume of in-world activity prevents Linden Lab from being able to police all in-world activities, at all times. That said, we take considerable steps to discourage and prevent illegal activity, and our users lend us a great deal of assistance in this endeavor.

Our policies prohibit illegal activities, both in general and specific forms. And unlike some online communities, we have the ability to track, retain, and investigate information related to potential crimes--and thus the ability to closely assist law enforcement. Perhaps most fascinating, because so many of our users are deeply invested in Second Life, whether for economic or other reasons, they act to protect their own environment much as real world residents do. For instance, they will report inappropriate material in public areas, obstreperous or intrusive “ad farms,” suspected underage users, gambling, or other inappropriate activity. We in turn respond to these reports, if and when they arise, and suspend wrongdoers or report them to law enforcement.

Among the issues we have tackled head on are gambling, money laundering, child safety, and so-called virtual “banking.” In addition, we are working hard to make sure that we address the concerns of parents about the use of Teen Second Life.

Gambling. Because there are a variety of conflicting gambling laws around the world, we chose last year to ban games of chance in Second Life. Residents are not permitted to operate casinos taking “virtual currency” on games such as Baccarat, Blackjack, Keno, Roulette, Pachinko, Gow, Poker, and any other game, new or old, that relies on chance. This policy also prohibits sports betting. Our “G-team” actively searches for such activities, and where we discover gambling, we

remove all related objects from the in-world environment. We take escalated measures against egregious or repeat offenders, including suspension from Second Life.

Money Laundering. We have a large team dedicated to dealing with fraud and abuse, and we have systems in place that make it extremely difficult to engage in money laundering. We also have sophisticated anti-fraud and fraud-tracking tools. Since we implemented them, our fraud and chargeback rates are approximately 0.3 percent--a small fraction of the online industry average of approximately 1.2 percent.

Financial activity on our platform is tracked and monitored. Users generally purchase "Linden Dollars" through a credit or debit card, or PayPal. Users who sell Linden Dollars on the LindeX "virtual currency" exchange can then receive payment for this "balance" (usually through PayPal) only upon passing through verifiers and fraud tools--designed to detect fraud markers (inconsistent activity, suspicious transaction patterns, inconsistent account information, etc.) or a lack of credible corresponding in-world activity. Moreover, as a micro-transaction platform, large transactions (*e.g.*, in the thousands of dollars) clearly stand out. The result is that using the LindeX exchange as a money laundering or fraud conduit would be extremely difficult.

Teen Access/Internet Safety. Second Life's Adult Grid is just that: an adult environment. It is not intended for minors, and when discovered, minors are removed and banned. But we know teenagers are interested in virtual worlds, so in 2005 we created a separate secure environment for teen residents called Teen Second Life. We developed Teen Second Life for kids aged 13-17. With the exception of Linden Lab staff (who are available to help) and educators (who undergo a background check), no adults are permitted to interact with these users. We are committed to providing a safe environment for our teen residents. As part of this effort, we provide advice to parents on how to stay involved with their teens and help them, through the use of our online safety tips, to protect their identity and communicate safely with others while online.

In addition to these efforts, we have joined other leading technology companies as part of the Berkman Center's Internet Safety Technical Task Force. We have hired a former senior government Internet crime prosecutor to carry out these and other safety measures. Working with other leading technology companies, we collectively will focus our work on identifying effective online safety tools and technologies that can be used by companies across multiple platforms, to address Internet safety concerns.

Conclusion

We are excited about the possibilities that lie ahead. The fast pace of technological advancement allows for continued improvements upon ways in which individuals can stay connected. Imagine the potential that the World Wide Web held in 1994. What was once a novel concept, hobbled by clunky software and limited connectivity, is now ubiquitous. Most of us cannot imagine life without the Internet. It has become an extension of our lives. The Second Life Grid offers an even more advanced way to network with fellow human beings.

Through Second Life and other virtual worlds, the real world will become a better, more connected place.

Thank you.