

March 17, 2008

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Notification concerning judgment in civil lawsuit

GungHo Online Entertainment, Inc. hereby provides notification that with regard to ongoing litigation at Tokyo High Court concerning damage to credibility and loss of opportunity caused by acts of unauthorized access to GungHo by a former employee, following a ruling by said court pertaining to a claim for compensation for damages, at a meeting of the Board of Directors held today it was decided to appeal the ruling to the Supreme Court. The details are as follows.

Details

1. Details of the lawsuit

November 6, 2006, Tokyo District Court
Law suit launched

October 23, 2007, Tokyo District Court
First ruling handed down that defendant (former employee) should pay 3.3 million yen to the plaintiff (GungHo Online Entertainment, Inc.)

March 13, 2008, Tokyo High Court
Ruling on appeal to verdict of District Court

2. Outline of the ruling

The defendant (former employee) should pay 5.5 million yen to the plaintiff (GungHo Online Entertainment, Inc.)

3. Cause of the lawsuit and details leading to the court ruling

The defendant saw the access ID of the defendant's immediate superior staff member and stole this ID, using it to make unauthorized access to the game server for "RAGNAROK ONLINE," an online game provided as a service by GungHo, wherein the defendant created and sold virtual money within the game, from which the defendant acquired a profit in excess of 58 million yen. This action is in contravention of the Unauthorized Computer Access Law and also against the game regulations laid out by GungHo Online Entertainment, Inc. and this abuse of the trust, reputation and popularity of an online game that GungHo has built-up through management efforts over a long-period of time caused a considerable downturn in the social standing and corporate value of the company. At the same time, these series of actions were widely reported in the media, and due to their wide-ranging and severe impact, they resulted in damage to credibility and loss of opportunity and it was therefore resolved to launch a claim for compensation amounting to a total of approximately 74.86 million yen, including various costs.

4. Future actions

In the current ruling it was accepted by the court that (i) illegal acts by the defendant did take place, and (ii) the illegal acts by the defendant caused damage to the credibility of the company. However, the company cannot accept the content of the ruling concerning the influence that caused the illegal acts by the defendant, and has therefore resolved to appeal the case to a higher court for a ruling. This decision will have minor impact on the business results for this period.