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# Warner's Atari Inc. Introduces Machine In Effort to Revive Video-Game Business

By DENNIS KNEALE  
And LAURA LANDRO

NEW YORK—Atari Inc., aiming to revive the video-game business, announced a powerful game machine with options that include a computer keyboard.

The move comes at a time when Atari's parent, Warner Communications Inc., apparently has been discussing the sale of a 50% stake in Atari to Netherlands-based N.V. Philips. Anthony Bruehl, head of Atari's international division until he resigned last week, said in a telephone interview that "there isn't any guarantee that anything is going to happen between the two companies, but there are serious talks going on."

A Warner spokesman would say only that, "We've been holding a series of conversations with Philips" about joint ventures or combinations between the companies. Philips said the talks with Warner continue and "how they will end up we don't know."

Rumors have persisted that Warner would sell Atari.

Atari's first new video-game player in two years, the 7800 ProSystem unveiled yesterday, is scheduled for shipment in July and will sell for about \$150. It is the only new video-game hardware product expected from any major competitor this year. More importantly, said James Morgan, Atari president and chief executive officer, the new product reaffirms that Atari's most important business lies in the battered video-game market.

"Competitive activity in the video-game business is at a lull," Mr. Morgan said. "Even at one-third or one-fourth (the level) of the business of two years ago, and if it has decent margins not plagued by price cutting and overproduction, it's still a strong business," said Mr. Morgan. "If Atari's going to be unique and stand for something, it's as the videogame company, the entertainment company," he said.

Atari, which posted a loss of \$538.6 million for 1983, has laid off several hundred white-collar workers and several thousand blue-collar employees. Mr. Morgan said yesterday that Atari "will take further steps to streamline management, reduce internal lines of communications and disband activities that are the remaining barriers to Atari's future."

Home computers will account for more than half Atari's sales this year, but the video-game business will resume its dominant contribution to sales overall in the video-game market. Industry retail sales in 1985, Mr. Morgan said. That prediction comes at a time of eroding sales overall in the video-game market. Industry retail sales will fall this year to a maximum of \$1.5 billion from \$1.9 billion last year and \$2.7 billion in 1982, predicts Richard Simon of Goldman, Sachs & Co.

More than two dozen competitors selling game cartridges two years ago have been whittled to only a few.

The 7800, which by September will be sold with the Pole Position II race-car video game as a built-in feature, is positioned as Atari's top-of-the-line game machine. It will use 13 enhanced, specially written games, priced at about \$30 each. The product also will run the nearly 400 games written for the predecessor 2600 machine, without needing an adaptor but also without improving the older games' play features.

The keyboard, which Atari doesn't expect to generate a significant part of 7800 sales, begins selling at an as-yet undetermined price in the fourth quarter. Atari said it will upgrade the 7800 to an "introductory" computer best suited for young children. Memory is limited to 4,000 or 20,000 pieces of information—much less than most computers sold today—and few software programs will be available.

An Atari consumer survey of 500 "poten-

tial purchasers" found that 41% said they "definitely" would buy the machine—marketers consider a 20% portion encouraging.

At the bottom of the product line is the 2600. Atari said the price of the 2600 will be cut to about \$60, and a "substantial" part of new 7800 purchases probably will come from owners of the 16 million 2600 models in U.S. households. Atari consumer research shows that about half the people planning to buy a video-game machine this Christmas will move up from older models. Atari's slow-selling 5200 model, which the company stopped making in February, comprises the midpoint of the product line. Atari said it will reduce the 5200 price to about \$90 and that customers will decide whether it stays alive as a product.

As reported, talks between Atari and Philips have been going on for nearly eight months, as have plans between Philips and Warner to merge their record businesses. Atari and Philips have in the works several joint projects in the video-game and computer businesses.

Philips is an electronics company.

Mr. Bruehl, former head of Atari's international division, said he sat in on some of the meetings between Atari and Philips, and said he believes Philips wouldn't be interested in less than a 50% position. Discussions of the stake's price are "at the parent company level now," he said.

Some of Atari's international employees, he said, have been "unsettled" by the uncertainty over the Philips talks.

In another development, Atari recently terminated an agreement with Androbot Inc. to market small robots for the home that, among other things, were to play video games. Androbot is controlled by Nolan Bushnell, who founded Atari in 1972 and sold it to Warner in 1977. A Warner spokesman wouldn't elaborate, but sources said the Androbot products didn't meet the specifications of the agreement signed last January.

In New York Stock Exchange composite trading yesterday, Warner closed at \$21.25, up 25 cents.

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