STOCKS AND BOMBS

BEHIND THE WALL STREET VIDIOCY

BY P. GREGORY SPRINGER

'Twas the night before Christmas and all through the stock market, not a space creature was selling, not even Atari.

Actually, it was December 8th when Warner Communications Inc., parent corporation for Atari video games, admitted that their year hadn't been that hot, that—in fact—stockholders could probably expect their shares to be about a dollar down from expectations, from $5.25 predicted to maybe $4.25 or less. Atari stock quickly plunged a high dive—down over 16 points on the New York Stock Exchange following the announcement. In a few days, the stock was down even more, some 23 points.

Gulp. Unlike video gamers, when players of the stock market run a losing streak, they have bigger problems than sore trigger fingers and a shortage of quarters. We're talking *millions of dollars* at stake.

Atari shuffled its feet and admitted it had a slow year, and other stocks followed suit. Mattel, the leading competitor, claimed a loss for the fourth quarter of 1982, and began to offer a $50 rebate for purchase of its Intellivision game machine.

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Coleco Industries, new kid on the block, dropped 3.25 points. Tandy, manufacturer for the Radio Shack computer and retailer of videogames, dropped 6 points. Commodore and Texas Instruments, personal computer makers, also dropped when the news was heard.

What happened? What did the slump mean for the average video player on the street? Are games on the way out?

Not hardly. While the news came unexpectedly to most people—retailers and stock players alike—some of the people at Atari shrewdly profited from the bad news. Warner Communications chairman Steven Ross had sold 140,000 of his shares in the stock at a time when it seemed blue-chip. That move, which was only revealed days later, dealt Ross a cool profit of $1.5 million in savings.

On the day before the announcement, The *New York Times* business pages boasted about the strength of the video games industry. The headline called it "The Video Game Explosion." (This was not the first time the Times had used misdirected logic regarding retail consumer products. When Tylenol virtually disappeared in a poison panic, a Times writer claimed only a miracle could save the brand name. Instead, druggists hoarded "black market" bottles for eager headache fans, and soon even the

Illustration by Al Brandtner


BOOM or BUST
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capsules will be back in "tamper-free" bottles.)

Anyone should have seen it coming. In June there were only 100 different game cartridges available. By December, over 400 titles were out on the streets, and the number was growing. Retailers ran out of space to stock the games, and consumers got selective. No longer were games being bought simply because they were what was on hand; players got picky.

"E.T. is a bomb," claimed Bob Abbiante of the Sounds Alive retail chain, referring to the Atari videogame version of the Universal movie. "Having a film title on your cartridge makes no difference," he said. "People are not asking for Raiders of the Lost Ark, people are not asking for E.T." Abbiante blamed poor graphics and "rushed-out" games as the cause of the failure. Some had predicted that the E.T. game would sell as many as 8 million units, with a wholesale take of $190 million for the game. Now, expectations only reach one to two million in sales.

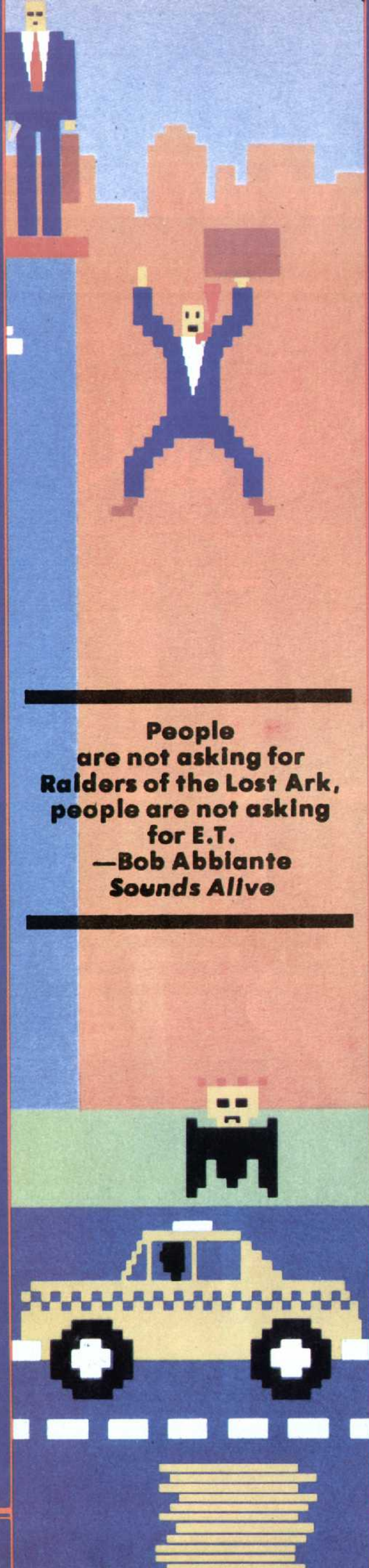
What is selling, instead, are games players ask for by reputation for playing well, two examples being Parker Brothers' Frogger and Activision's Pitfall.

One unworried spokesman from Parker Brothers, Rich Stearns, told *Variety* when the market seemed shakiest, "If the game isn't any good you're not going to fool that 10-year-old boy out there. What may be Atari's problem right now is not the industry's problem. There's no question about it. Atari saw a big opportunity to cash in on a high potential (with E.T.). They wanted to hit Christmas."

Instead, *Variety* commented, "Atari seems to have gotten hit." Reports indicated that Atari paid $21 million just for the rights to make a videogame out of *E.T.*

Heads rolled. When Warners made their announcement, *Wall Street Journal* wrote about "the horror of investors in video game stocks," and noted that Wall Street was "stunned." Perry Odak, president of the consumer products division of Atari, was "relieved of all his duties." Two other senior executives in the videogame and home computer division, Lee Henderson and Thomas McDonough, were also dismissed, after having been recruited to the company only that year.

Atari leads the videogame pack, but being number one apparently isn't easy. Apart from the firings and the slump, Atari has become greatly more complicated since the founding days in 1972 when Nolan Bushnell brought Pong to the masses and created a monster. Warner purchased Atari for $28 million in 1976, a minor cost for a major enterprise that some have called "the greatest acquisition in history." In



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Sounds Alive

November of 1982, three former Warner executives were convicted of fraudulently arranging the company's purchase of stock in a movie theatre, getting $170,000 in bribes that went into a secret cash fund. The federal prosecutor claimed that "the real culprit" was Steven J. Ross, the company's chairman and the guy who'd just made a bundle juggling his Atari stock.

Atari isn't idle itself in courtroom action. It sues other video game companies frequently. In the U.S., Atari has sued and won patent battles. Last spring, N.V. Phillips of the Netherlands was enjoined from selling a video game called K.C. Munchkin that Atari said was a copy of its Pac-Man home cartridge. An Atari lawyer has been quoted saying that the company already has been successful in France, England, Hong Kong and Japan in fighting copyright problems with competitors. Currently, Atari has been waging a battle against Coleco Industries, the plastic backyard swimming pool company which entered the video game market this year with a super bang. Atari, asking $350 million in damages, charges that Coleco has infringed their patent and waged "unfair competition." Specifically, the suit names an adapter that, hooked up to ColecoVision's game unit, plays cartridges designed for the Atari VCS 2600 videogame player. Coleco filed an anti-trust countersuit, asking $500 million, claiming Atari intends to monopolize the market.

The truth is that as recently as spring of 1982, Atari controlled nearly three-quarters of the home videogame market. But since then, everyone's Aunt Edith has entered the market, and Atari controlled only 56 percent by year's end.

Despite the final lap slump for 1982, Coleco still turned up in the ratings as one of the year's top ten selling stocks.

"I can't begin to handle everything," lamented an owner of a record store that carries videogames on the side. "It's getting to be like the record business. You have to stock the hit games, because that's what people walk in and ask for."

Variety bannered the headline on page one of their last issue of 1982, "Vidgames Save Disk Chain Sales," which in Varietiese means that home videogame cartridges had given a profit to record outlets during an era when recording and vinyl was suffering.

So while turmoil seems to be the order of the day on Wall Street (what else is new?), the growing industry for games themselves seems to have only hit a temporary snag, due largely to the burst-at-the-seams growth in 1982. The market was glutted, but nobody had a finger in the dam. All fingers were, instead, fondling joysticks blindly.

All fingers except those manipulating behind the scenes at Atari.