

April 29, 1982

Dear Alan,

Following are some notes and ideas coming off the meeting with EB on Tuesday (plus my dinner with Van Doren the night before).

Evidently Monday's meeting of the New Business Committee, including the guest appearance of Jerry Rubin (formerly of Mead Data Central), set the stage for our arrival. Jim Sloan's recommendation that EB enter into an agreement with Radio Shack to produce and distribute microcomputer software was met with little enthusiasm and died a quick and quiet death. While this was mainly because they seem to be relatively unimpressed with Radio Shack, at least Sloan and probably Swanson are still interested in the idea of "Britannica Software." Rubin's pitch for a videodisc encyclopaedia was not very well received either and it seems less likely now that they are going to do anything with him. As I understand it, it's not so much that they didn't like Rubin's idea as that ideas are cheap and Rubin doesn't really bring with him the means to bring his ideas to fruition. He brings no \$ and has no organization behind him. Overall, Monday's meeting left them more befuddled and nervous than before. Van Doren's analysis which I think is accurate is that more than ever what they want is someone to come riding over the hill with both the vision and the means to rescue them from their predicament. DUM DA DUM! ENTER ATARI!

We Did Good - As you now know for yourself, these are not your outwardly enthusiastic types (with the exception of Van Doren). Having been through five or more meetings with the same crew, I can say that this is the most animated and positive I have ever seen Swanson and Sloan be. They were visibly impressed with your presentation which accomplished the key task of making them understand that Atari is far more than arcade games - that it is in fact one very serious company with some very exciting plans, a savvy management, and a tremendous future. The most effective aspect of the presentation was the way you combined a vivid description of the projects you are contemplating with the frequent reminder that Atari is, after all in business to make money. This promoted the view that Atari combines the elusive and crucial elements of vision and business sense. As we added to that a sense of Atari's strong orientation to the 'home' market, Swanson & Co. found the idea of hitching Britannica to Atari's star increasingly desirable as the meeting progressed.

As to where we may have been a little weak, I think we may have left some question in their mind as to how much your enthusiasm for the Britannica deal represented the position of Atari's management - especially given your comment that you might not have gotten around to the encyclopaedia project at this time if I hadn't happened by when I did. In light of this, an invitation from Ray Kassar to Swanson (and whomever) to come out to Atari for a visit seems to be both appropriate and important. (After lunch, Swanson actually suggested such a visit as a likely 'next step.') Even if the timing for such a meeting can't be worked out for a while, the invitation should be made as soon as possible to reinforce everything positive that transpired in Chicago. (I don't know if the Warner company jet is available for such things, but it might be a nice touch.)

EB's concerns - As Swanson laid it out EB has three basic concerns that must be dealt with if they are to enter into a major joint venture which would produce and market a major electronic product:

1. The transitional period - Since EB's financial base is the sales of encyclopaedias and yearbooks, they are scared to death that even the announcement of an electronic encyclopaedia would cut seriously into sales of the books. Besides being the major source of their current paralysis, this fear causes them to want to limit the scope of initial electronic products to something 'less than' the encyclopaedia itself.
2. Revenues to the University of Chicago - The main beneficiary of EB profits is the University of Chicago and evidently EB feels some responsibility to keep those revenues coming. Clearly UC which is represented on the EB board feels the same way.
3. Sacred Institution - Over and above financial considerations, there is concern for the institution itself, that it remain in the hands and under the control of those who will protect and extend its value and reputation. Evidently when Benton died he threatened his successors with fire and brimstone if they let EB be sullied or devalued in any way.

Of these three, only the first presents a serious problem. (UC stands to get rich from a joint venture between EB and Atari. And, while it will be necessary to convince EB of Atari's good intentions in terms of safeguarding the institution of Britannica, that shouldn't be too difficult even if you have to build it into the structure of the deal itself.) As for the question of how EB is to get through the transitional period this is a complex and thorny issue which must be dealt with satisfactorily if a successful deal is to be struck. However, whether it is by making the initial product something less than Encyclopaedia Britannica or some other scenario is a question I don't think we can or should answer yet. Clearly we need to do some hard

thinking about what would be the best course for Atari. Taking into account technical considerations, questions of content and time, market conditions etc., what kind of product, sold on what basis makes the most sense for Atari. After we understand that, we can go back and try to figure out how to weave the EB deal into it. (For example, we need to consider the extent to which the existing EB is suitable as a database around which to build an initial service. If it makes sense we should figure out how to structure the deal etc. so that EB goes along with it. If that doesn't make sense, we should figure out what the alternatives are etc.) If we start with what EB wants rather than what Atari wants I fear we will end up in sorry shape. After all, which company is providing the vision here.

Nature of the Deal - As I understand it now, the greatest value of EB to the enterprise we are considering is not the marketing value of the name, although that is significant, but the database EB has compiled over 200 years, plus the weight its name brings to bear on those scholars, experts, scientists etc., whom we will need to call upon to develop the content of the "intelligent encyclopaedia." I don't understand the financial implications of all the possible arrangements, but I figure we want a structure which joins Atari and Britannica in a very tight bond - particularly one which prohibits Britannica from contributing its database or name to a competing product. Since the enterprise we are talking about becomes the future of Britannica itself (down the road when the print version if it still exists is of vastly decreased importance) I doubt highly that we can purchase it at the comparatively low cost of royalties alone. Rather, I expect the Britannica Board will want to have some significant organizational connection to the product and its development. My guess is that they will want some sort of joint venture. Certainly this seems to be in Atari's interest as well. When Van Doren and I discussed this at some length he mentioned an arrangement EB has with a firm to develop an encyclopaedia in South America whereby EB put up no money, but in exchange for providing its database was given a 25% interest, with an option to increase that percentage up to 50% with the profits generated by the venture. He suggested a similar arrangement with Atari, with the question of the highest percentage EB would be permitted to purchase to be a point up for negotiation. He suggested further that EB might be given 6 members of a 13 member board.

Encyclopaedia Britannica Educational Corporation (EBEC) - This is the separate company that Benton set up under his will for his children. It produces and distributes Britannica films and by contractual agreement is the distributor of EB materials to schools and libraries. According to Swanson the contractual

agreement between the two firms can be dropped without too much difficulty. This is good since EBEC presently has a hold on all distribution of Britannica materials to schools and libraries. Interestingly, Swanson mentioned the possibility of buying EBEC from the Benton children. I'm not sure offhand what value EBEC represents, but it is an option that perhaps should be investigated and considered.

EB Board of Directors - Given that the current EB management is of the caretaker variety, the ultimate power at EB undoubtedly resides with the Board of Directors. If Mr. Kassar feels it is appropriate, it would probably be good for him to arrange to talk with Anna Hoffman, one of the heavyweights on the board, to begin to get an accurate view of the Board's perspective on all this etc.

Bob