



ENCYCLOPAEDIA BRITANNICA
INTEROFFICE CORRESPONDENCE

TO: CHARLES E. SWANSON OFFICE: ADMINISTRATION DATE: FEBRUARY 25, 1982
 FROM: CHARLES VAN DOREN OFFICE: EDITORIAL ADMINISTRATION
 SUBJECT: Atari Approach to EB

Atari has enjoyed meteoric increases in sales and profits in the last few years. The company was bought by Warner Communications in the mid-seventies and at first Warner was unsure what to do with it. With the appointment of Ray Kassar as Chairman of Atari in 1977 or 1978 the company took off. Revenues over the last four years are:

1979	\$ 250,000,000
1980	550,000,000
1981	1,200,000,000
1982	2,300,000,000

Atari's profit after tax in 1981 was approximately \$135,000,000.

The company's main product is of course computer games, but it also sells other items as well, notably home computers. This company alone expects to sell 500,000 home computers during 1982.

Among the high tech computer companies a tradition has grown up in the last few years of naming a "chief scientist" who normally has a large discretionary R & D budget that he can spend as he sees fit. The most famous of these men is Lewis Branscomb of IBM, but there are a dozen or so others more or less in the same league. This small confraternity of chief scientists of the high tech companies is joined by the top academic specialists in computers like Marvin Minsky and Nick Negroponte to form a very small, very special class of people. I know several of them, and they are all truly remarkable men.

Alan C. Kay is chief scientist of Atari. He has a discretionary R & D budget of approximately \$35,000,000 to \$40,000,000 a year. This is in addition to Atari's regular research budget of about \$80,000,000 per year.

I met Alan Kay in Washington on Tuesday of this week and spent the afternoon with him and with Bob Stein, who had arranged the meeting. Kay is 42 but looks younger and met me dressed in running shoes, blue jeans, and a red tennis shirt — in itself a statement. We sat in a cafe from 1:30 to 5:00 p.m. It appears that Kay has known about me for a long time; he was one of the original Whiz Kids. I have known his work but not him personally.

Kay was lured away from Xerox by Atari about a year ago. Before going to Atari he had several meetings with Kassar in which he presented a number of ideas to Kassar that, rather coincidentally, would cost, he expects, about \$25,000,000 each. Kassar, said Kay, was not scared by any of them.

One of the ideas was to form a combination with Lucasfilm to produce the finest TV simulations yet devised. This deal has been made and will be

announced within a month. The material will, it is said, transform the home video market.

For many years Kay has been an admirer of Britannica, particularly the 15th edition. He says he thinks the Propædia is one of the great books and is the finest taxonomy of knowledge ever devised. (It was therefore a pleasure for me to tell him that I was associate editor of the Propædia.) Thus it is not surprising that one of the projects he suggested to Kassar before agreeing to go to Atari was a joint venture with Britannica with the goal of producing a knowledge and information service that would be made available to subscribers possessing certain kinds of home computer and video equipment.

We discussed this idea for some time on Tuesday. Atari has a great deal of cash and remarkable know-how in this market. It was my impression that they would not expect much or any cash from us. Apparently they would expect to invest as much as \$25,000,000 in the service, which would be promoted as entirely new — not as Encyclopaedia Britannica "on line" or in "electronic form". EB would have a major role in creating this service, of course; Atari would undertake most of the task of selling it and signing up subscribers. They would want an exclusive for a stated period of time — maybe five or seven years, something like that. Possibly there would be options that could be taken up at the end of the stated period.

They would forecast approximately 1,000,000 subscribers to the service in two-and-a-half to three years. They would forecast an average sale of perhaps \$250 to \$300 per year. Total revenues of the service would thus approach the total current revenues of EB Inc.

Britannica's percentage or share was not discussed. It seemed inappropriate for me to "negotiate" with Alan Kay. That is certainly for you to do — and perhaps with Ray Kassar instead of Kay.

Atari is being very aggressive. Kassar has already written, according to Kay, to at least two members of your board. One of them, as I managed to discover, is Anna Hoffman. Kassar apparently knows her. He wrote to tell her that Alan Kay was going to meet with me.

It is my impression that the home computer market place is growing at a much faster rate than we may have thought. It is exploding rather than growing. Even in the present dismal financial climate people are putting off other major purchases and buying computers. Kay and Stein feel that some kind of encyclopaedic information service will be available quite soon. They would like the first, as well as the best, to be Britannica.

I think they are right.

I realize there are numerous perils. I spoke to Kay of the nervousness we feel about the transition from a book operation to an electronic one -- if that is what would actually happen. Kay was reassuring.

You will be contacted by Atari soon. You may hear from Anna or some other member of the board next week. I presume Mr. Kassar will be in touch with you. I think we must take this very seriously.

Charles Van Doren

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