

Atari aims to revitalize aging brand, battered balance sheet

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In the new West Los Angeles corporate offices of Atari Inc., the desks are mostly empty and the walls are mostly bare, but there's a red neon logo in the lobby that almost anyone would recognize.

It's the perfect home for the once-leading video game company, which carries a name known around the world. The company is trying to rebuild itself after years of chaos, false starts and financial losses.

Most people remember Atari for helping to create the video game business in the 1970s with titles such as "Pong" and "Asteroids," as well as the first popular game consoles that let people play at home.

Since the game market crashed in the mid-1980s, however, Atari has been through one corporate drama after another, passing through several owners including Warner Communications and Hasbro. In the past five years, as part of the public French company Infogrames, it has had four chief executives and lost more than \$700 million.

The new team setting up shop in L.A. has spent the past year cleaning up Atari's ample financial messes.

"It was like an old onion that smells really bad, and every time you peel away one problem, you find another," said Chief Executive Jeff Lapin, a game-industry veteran known for turning around troubled companies.

Together with President Jim Wilson, Lapin is looking to largely bypass

the shrinking multibillion-dollar business of selling video games at retail stores and instead to leap into the fast-growing but still small digital side of the business. In the next few months, Atari will roll out a major online initiative with updated versions of old favorites such as "Missile Command" and "Centipede" that can be downloaded or played on social networks like Facebook.

It's also building out a licensing program that includes not just consumer products but also movies based on its classic games. Two are already in development at different studios.

"I look at us as basically a startup, but one with a brand everybody in the world knows and a great library of intellectual property," Lapin said.

Atari's financial resources are certainly akin to those of many tech startups.

As of March 31, the company had \$13.4 million in cash and a \$57.4 million credit line, plus \$25.4 million in debt. Given that Atari doesn't have enough money at its disposal to make and market a major video game like "Call of Duty," moving into digitally distributed games _ which typically cost less than \$1 million to produce _ is a strategy guided by necessity.

Atari's position nonetheless is an improvement from the \$7.7 million in cash it had a year ago. Infogrames-owned Atari had, over the previous decade, borrowed hundreds of millions of dollars to fund an acquisition spree, but was unable to effectively integrate its assets or maintain a healthy balance sheet. As losses mounted, it ended up having to sell development studios, intellectual property and its European distribution business.

"The company wasn't just being mismanaged, it was being abused," said

Atari co-founder Nolan Bushnell, who recently joined the board of directors after a 32-year absence. "It ended up a shell."

Lapin first joined Atari's board in late 2007 and was elevated to the top spot last December, after the departure of high-profile executives from Electronic Arts Inc. and Sony Corp. who lasted little more than a year. Together with Wilson, he slashed costs, laid off employees and canceled projects. The pair also decided to move the headquarters of Infogrames _ which last year officially changed its name to Atari _ from Paris and New York to L.A., a hub for gaming talent. (Atari remains a publicly listed French company.)

Atari is not yet profitable, although it has almost stopped hemorrhaging money. In the most recent six-month period its operating loss narrowed to \$2.7 million from \$54.8 million a year earlier, while revenue fell 42 percent to \$61.6 million.

The company still has a development studio in France that's working on a racing game called "Test Drive Unlimited 2." Northern California's Cryptic Studios, which Atari bought in 2008, operates multiplayer online games such as the recently released "Star Trek Online" and "Champions Online," both of which have very small user bases compared with the market-dominating "World of Warcraft."

But to drive much of its growth, the company hired a veteran Microsoft and Yahoo executive to head its online activities. Thom Kozik, executive vice president of online and mobile, has contracted with outside producers to make 15 to 20 updated versions of Atari games for the Web.

Though some of its games will be pay-to-download, Atari is embracing the increasingly popular free-to-play business model used by companies such as Playdom, which was recently acquired by Walt Disney Co. in a

deal worth up to \$763 million. Most players of so-called F2P games spend nothing, while a small but avid group pay for virtual items that enhance the experience.

"Over the next six months you're going to see some of our best brands coming out as casual online games and digital downloads across multiple platforms, and you'll see a handful of retail releases," Wilson said.

Atari also is aggressively licensing its original logo for a slew of items including bags, hoodies and wallpaper. Wilson, who is overseeing the effort, said the company is "staying out of the tchotchke business."

But, as well-known brands such as Playboy have learned, the strategy carries risks.

"Trying to sell retro Atari may say to people that you're consumed with your past and not focused on your future," said Helen Gould, a director of verbal identity for brand-consulting firm Interbrand.

Licensing throws off a small but stable source of revenue that Atari very much needs, however, and could let the company enjoy some riches from its intellectual property much like superhero giant Marvel Entertainment, acquired by Disney last year for \$4.3 billion.

International Creative Management, Atari's Hollywood agency, has set up "Asteroids" as a movie in development at Universal Pictures and "Roller Coaster Tycoon" at Sony Pictures Animation and is shopping other titles like "Missile Command."

"We want Atari to be a company that's a part of the zeitgeist," said ICM President Chris Silbermann.

The tension between Atari's desire to profit from its past and its push to

become relevant in the present is best captured in Bushnell, whose very presence denotes a desire by new leadership to connect with the company's glory days. The 67-year-old inventor said he spends two days a week on average consulting on upcoming online games such as Centipede and Asteroids but often finds himself regaling new employees with stories from the 1970s.

"We dominated this business from its dawning until the mid-'80s," said Bushnell, but "the wonderful thing about the video game business is that legacy positions are never set in stone."

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