Chief Is Replaced At Troubled Atari
By ANDREW POLLACK
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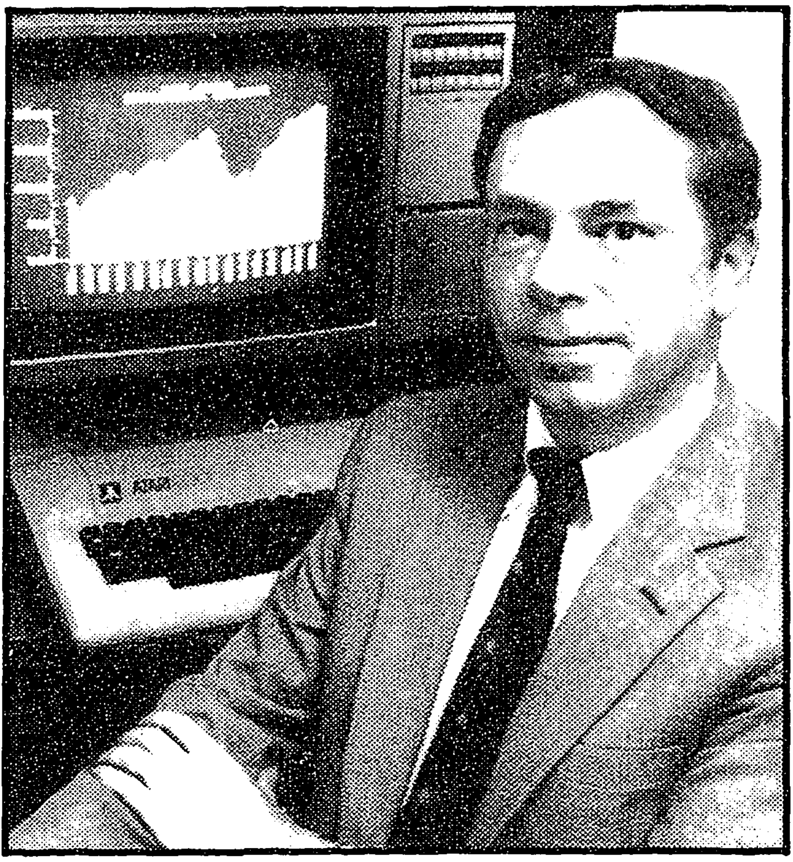

The New York Times / Don Hogan Charles

James J. Morgan, newly appointed chairman and chief executive officer of Atari Inc., with the Atari 800 computer.

Chief Is Replaced At Troubled Atari

By ANDREW POLLACK

Raymond E. Kassar, the mercurial executive who led Atari Inc. through a period of breakneck growth and sudden collapse, has resigned as chairman and chief executive officer, it was announced yesterday.

Warner Communications Inc., Atari's parent company, said James J. Morgan, 41-year-old executive vice president of marketing for the United States cigarette operations of Philip Morris Inc., would succeed him on Sept. 6.

Mr. Morgan will face the task of rebuilding a company that has been shaken by huge losses in its core home video game and computer businesses and by widespread turmoil in management ranks.

His appointment underscores a trend in the home computer industry toward hiring marketing expertise over engineering knowledge. Mr. Morgan, who says he owns a video game machine but is not familiar with computers, will become one of several Atari executives with experience in consumer marketing but not in electronics.

Apple Computer, the industry's sales leader, also picked marketing skill over technical ability when it named Pepsico's John Sculley as its chief executive in April.

Mr. Kassar's resignation had been expected since the sudden announcement last December that Warner's earnings would be lower than expected because of a deep sales slump at Atari.

Warner's stock price plummeted more than $20 in the days following. Then, about two weeks later, the company disclosed that Mr. Kassar had sold 5,000 Warner shares immediately before the earnings announcement and that he and other Atari officials were under investigation by the Securities and Exchange Commission for insider trading violations.

"It's amazing that Kassar has stayed there as long as he has," said Michele Preston, an analyst with L. F. Rothschild, Unterberg, Towbin. "Long term, they needed a new captain of the ship," agreed Lee Isgur of Paine Webber Inc.

The announcement had little apparent effect on Warner's stock price, which fell 62½ cents yesterday, to $26.75, on the New York Stock Exchange.

Warner spokesmen yesterday denied widespread speculation

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Atari, in Shuffle, Names New Chief

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that Mr. Kassar had been ousted and said his resignation, which was actually offered two weeks ago, was not related to the S.E.C. investigation. But some analysts said they thought it "suspicious" that Atari was able to find a replacement for Mr. Kassar so quickly.

Mr. Kassar, 55, joined Atari five and a half years ago, after a 25-year career at Burlington Industries. His major emphasis was to change Atari from the loosely organized band of engineers that it had been under its founder, Nolan Bushnell, into a more businesslike company. In doing so, he earned a reputation for being an autocrat who was quick to dismiss subordinates who fell from his favor.

Atari's sales grew from under $200 million in 1978, just before he joined, to about $2 billion last year, largely on the strength of its home video games.

But late last year, an explosion of competition left Atari with millions of cartridges it could no longer sell. On top of that, its home computers were not competitive and its arcade video game business had gone sour.

In the first quarter of this year, Atari reported an operating loss of $45.6 million, compared with an operating profit of $100.6 million a year earlier. This loss resulted in an overall loss for Warner of $18.9 million in the period, and Warner has said that its loss will be larger in the second quarter.

'Happened in 3 Days'

Mr. Morgan, who reached his 20th anniversary at Philip Morris last week, said yesterday that the events leading to his hiring moved very quickly.

He was first approached about the job about 10 days ago, he said. "I had lunch with Steve Ross," the chairman of Warner, he said. The next day, he had lunch with other officers, he said, and "the next day I had an offer — the whole thing happened in three days."

Mr. Morgan said he was offered a seven-year contract with a big salary and the potential for bonuses if Atari becomes profitable.

He would not disclose the terms of the contract or his salary, describing it as "a multiple of what I was getting at Philip Morris," but one Philip Morris executive said he believed Mr. Morgan was offered more than $10 million over the life of the contract.

Mr. Morgan, who has yet to meet any Atari executives, said he plans to visit the company for a few days soon. But he will not leave Philip Morris until Aug. 12, and will officially take over at Atari the day after Labor Day. Emanuel Gerard, Warner's co-chief operating officer, will serve as chief executive until then.

Consultant's Role

Mr. Kassar will remain a consultant to Warner, although he will not work with Atari. An Atari spokesman said Mr. Kassar was not available for interviews.

Steven J. Ross, chairman and chief executive of Warner, said in a statement that Mr. Kassar's "talent, energy and dedication have been central factors in Atari's phenomenal growth."

Atari has already taken many steps to restore its profitability. It reorganized management about a month ago, consolidating its home computer and video game businesses under one operating roof. It also has revamped its entire home computer line and is moving to have fewer distributors, who will handle Atari's line exclusively.

In a direct move to trim costs, Atari also moved its video game and home computer manufacturing to Hong Kong and Taiwan, eliminating 1,700 jobs in the United States. It has also begun to lay off about 1,000 white-collar workers.

Mr. Morgan joined Philip Morris after his graduation from Princeton University with a degree in history. He rose through the ranks until he became executive vice president for Philip Morris U.S.A. in 1978.

He is also a vice president of the parent company, the youngest corporate officer, and was recently named to the corporate management and product committees, which gave him a hand in developing strategies for other company products, the main ones being Miller beer and 7-Up.

"He's done a super job here," said James C. Bowling, senior vice president and a director of Philip Morris, who said Mr. Morgan was an excellent strategic planner.

Mr. Morgan said he had no specific plans for Atari but that, in general, he thought his experience in product positioning in the cigarette business would help him better define Atari's businesses as it expands beyond video games.

"It has such a strong image in the game area that when it tries to get into other areas, it carries a certain amount of baggage with it," he said. He said computerized education might be one big market that Atari has failed to exploit.

Philip Morris named William I. Campbell, currently president of Philip Morris Asia, to replace Mr. Morgan.