

The Magnavox Company

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April 26, 1983

Mr. James Levy, President
Activision, Inc.
Drawer No. 7286
2350 Bay Shore Frontage Road
Mountain View, California 94039

Dear Jim:

During our meeting in Briarcliff Manor last week you proposed to settle the pending lawsuit on the basis of a paid-up license. Although at this point in time we are willing to consider this approach, one obvious problem is to arrive at a mutually acceptable sum in payment for such a license. This payment has to be based on estimates of your company's future cartridge sales during the life of the patent in suit, as well as on past sales.

Of the games that we have seen and based on information currently available to us, we believe that the following nine cartridges listed in your 1982 catalogue are for games covered by the reissue patent Re 28,507:

Boxing	Skiing
Barnstorming	Pitfall
Grand Prix	Fishing Derby
Stampede	Ice Hockey
Tennis	

The nine cartridges listed above amount to 47% of the total of 19 titles listed in your catalogue.

As to future sales, enclosed is an estimate of video game cartridge sales through 1986 from a recent report published by Stanford C. Bernstein & Co. This report estimates Activision's total cartridge shipments through 1986 to be 77.6 million units. Using your figure of 50 cents per cartridge and assuming that the same percent, i.e. 47%, of the cartridges come within the scope of the patent, this amounts to a royalty of 18 million dollars through 1986. In reference to our comparison of Activision's business and license with that of Mattel, please note that for the latter years Activision cartridge sales are projected to be higher than those of Mattel.

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The 18 million dollar figure is based on sales estimates through 1986, which is long before the expiration of the patent in suit in 1989. Moreover, as I mentioned to you during our meeting, as a result of a decision by the Canadian Patent Office board of appeals, we expect the Canadian counterpart of U.S. patent No. 3,728,480 to issue in the very near future. We believe that the claims allowed by the Canadian Patent Office are sufficiently broad to cover most of the video games that might be marketed in Canada.

It may well be that you have estimates for future sales by your company that are more accurate than the ones in the Bernstein report. If so, we will be glad to consider them and any proposals which you care to make in the hope of arriving at a solution which would be fair to both of our companies.

Very truly yours,

Thomas A. Briody /BF

Thomas A. Briody
Corporate Patent Counsel

TAB/AT/jw

Mike Staur Co.

12/28/82

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Christopher D. Kirby

December 28, 1982

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TABLE 13
Forecast of Video Game Cartridge Shipments
(millions)

	1977	1978	1979	1980	1981	1982E	1983E	1984E	1985E	1986E	Compound Annual Growth Rate	
											1977-82	1982-86E
<u>Atari</u>												
VCS	1.0	2.5	3.5	7.2	22.5	34.0	40.0	40.0	35.0	30.0	102%	(4)%
5200	-	-	-	-	-	1.5	7.5	12.0	15.0	16.0	-	100
New Models, other	-	-	-	-	-	-	4.5	11.0	20.0	30.0	-	-
<u>Total</u>	<u>1.0</u>	<u>2.5</u>	<u>3.5</u>	<u>7.2</u>	<u>22.5</u>	<u>35.5</u>	<u>52.0</u>	<u>63.0</u>	<u>70.0</u>	<u>76.0</u>	<u>105%</u>	<u>21%</u>
<u>Mattel</u>												
Intellivision	-	-	-	0.6	4.5	12.0	14.0	10.0	9.0	6.0	-	(15)%
M-Network, Other	-	-	-	-	-	4.0	6.0	9.0	9.5	10.0	-	30
<u>Total</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.6</u>	<u>4.5</u>	<u>16.0</u>	<u>20.0</u>	<u>19.0</u>	<u>18.5</u>	<u>16.0</u>	<u>-</u>	<u>2%</u>
<u>Activision</u>	-	-	-	0.1	4.5	8.0	12.0	15.0	18.0	20.0	-	26
<u>Coleco</u>												
ColecoVision	-	-	-	-	-	2.0	5.0	5.0	5.0	6.0	-	32%
Atari & Mattel, Other	-	-	-	-	-	6.0	10.0	9.0	9.0	9.0	-	11
<u>Total</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8.0</u>	<u>15.0</u>	<u>14.0</u>	<u>14.0</u>	<u>15.0</u>	<u>-</u>	<u>17%</u>
<u>Odyssey/Magnavox</u>	-	0.2	0.4	1.5	3.1	4.0	4.5	4.0	3.5	3.0	-	(7)%
<u>Imagic</u>	-	-	-	-	-	4.0	7.0	10.0	13.0	16.0	-	41%
<u>CBS/Bally</u>	-	-	-	-	-	-	3.0	6.0	8.0	10.0	-	50%
<u>Parker Bros.</u>	-	-	-	-	-	3.0	5.0	6.0	8.0	9.0	-	32%
<u>GCE/Milton Bradley</u>	-	-	-	-	-	0.3	2.5	5.0	7.0	9.0	-	134%
<u>All Others¹</u>	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.9</u>	<u>5.0</u>	<u>9.0</u>	<u>14.0</u>	<u>15.0</u>	<u>16.0</u>	<u>127%</u>	<u>34%</u>
<u>Total Industry</u>	<u>1.1</u>	<u>2.7</u>	<u>4.1</u>	<u>9.6</u>	<u>35.5</u>	<u>83.8</u>	<u>130.0</u>	<u>156.0</u>	<u>175.0</u>	<u>190.0</u>	<u>138%</u>	<u>23%</u>
% Growth	N/M	154%	46%	134%	270%	125%	55%	20%	13%	7%		

1 - Includes: Apollo, Astrocade, Commodore, Comma Vid, Data Age, MCA, Spectravision, Tigervision, Twentieth-Century Fox, U.S. Games, and others.

Source: Bernstein estimates.

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