

A NEW ATARI CORP.

The house that Jack Tramiel emptied

BY SCOTT MACE
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It would be unrealistic to call Jack Tramiel the savior of Atari, since the company he bought and now directs bears little resemblance to the Atari that Warner Communications owned for eight years.

Gone is James Morgan, the thin, energetic fix-it man brought in from Philip Morris last September as Atari sales

this company from a democracy into a dictatorship."

Earlier, Tramiel told *InfoWorld*, "What this company needs is strictly management." And he took immediate steps to install managers of unquestioned loyalty to himself. Three of them are his own sons. Gary Tramiel is in charge of collecting unpaid debts, Sam Tramiel is president, and Leonard Tramiel now oversees software at Atari Corp. Tramiel named himself chairman and chief execu-

technical experts — virtually all of the original Atari hardware and software designers had left the company already, and most of the few remaining were laid off. And he did not buy a company with any runaway new products — both the Atari 7800 Pro System, an advanced video game machine, and the 1450XLD, the unnamed successor to Atari's high-end computer — were met with an unenthusiastic reception at the last Consumer Electronics Show.

Analysts say what Tramiel has bought is the Atari name, which has a high recognition factor among the American public, especially the estimated 16 million owners of Atari video game machines. Tramiel says the new Atari products will be "fun and entertaining" — adjectives ascribed to the best of Atari's video games over the years.

Tramiel also gets whatever projects were left hanging around the Atari labs. Under Warner, the company had a notorious reputation for developing fascinating prototypes of products that never reached the market. Among the more recent lab works were a series of intriguing custom chips that performed in ways never before seen in home computers. One such chip, dubbed "Maria," reportedly is capable of playing music in 16 different voices at once. Maria can also imitate an opera singer, one source says.

Atari had similar projects in computer graphics, investigating cartoon-level animation that would remove the jagged lines and sluggish movement of today's video game characters.

Before he left Atari this spring, chief scientist Alan Kay reportedly had developed an interactive videodisc system for the company.

Atari apparently couldn't decide what to do with all its lab toys. In recent months, according to one research engineer, the company waffled between making its next generation of computers with a 16-bit chip or a 32-bit chip. Rumors persist that the company will announce an IBM PC-compatible home computer, but company insiders and analysts say the project has been dead for some time. Analysts also discount recent rumors that Atari would market a computer with the MSX operating system, a home computer standard in Japan. It's more likely, they say, that Tramiel will try to exploit



Jack Tramiel became chairman and CEO of Atari after buying the firm, with investors, in July.

sagged and the video game market ran out of steam. Also gone are an estimated 800 employees who survived Morgan's desperation layoffs last spring. Remaining are about 300 employees, hand-picked by Tramiel and his lieutenants to carry the company into its next chapter.

Tramiel is determined to see that it won't be Chapter 11, and he has said and done harsh things to turn around a company with an estimated \$400 million in uncollected debts.

Gone are the days when Atari of Sunnyvale, California, was associated with the laid-back California culture of hot tubs, rap sessions, and drugs. In an interview with the *Toronto Star*, Tramiel was quoted as saying, "I'm going to change

tive officer.

The appointments fueled speculation that Tramiel left Commodore, the company he founded and built into the No. 1 home computer maker, because chairman Irving Gould denied Tramiel's request to put his sons in top positions.

Tramiel pared Atari's employee rolls to those of a start-up. Some of the workers who received layoff notices stole equipment as they were packing to leave, according to several sources, who said such moves were more in anger toward Warner than toward Tramiel. But the microcomputer industry in general is optimistic about the new Atari, saying, in effect, if anybody can save Atari, Jack can.

In buying Atari, Tramiel did not buy

whatever inventions and patents are left at Atari.

Tramiel is consolidating Atari's few remaining manufacturing facilities. Hardware production has moved from El Paso, Texas, back to Sunnyvale, and software production is moving from El Paso to Taiwan.

Tramiel says Atari will build personal computers for homes and schools, but not for offices. He takes issue with former Atari CEO Morgan's contention that personal computers aren't useful yet. "Computers are much more useful than cigarettes," Tramiel says with a laugh, referring to Morgan's previous career at tobacco conglomerate Philip Morris. "A couple of years ago, I predicted that in 1987 the personal computer market would be 50 million computers a year," Tramiel says. "This year, there might be less computers sold than the prior year. The only reason is a shortage of components."

One of the reasons why Tramiel is a force to be reckoned with — and why Atari may one day be an industry leader again — is Tramiel's ability to get electronic parts for his computers cheaper than anybody else. Between the time he left Commodore in February and the time he bought Warner, Tramiel traveled extensively in the Far East. Sources say it was to set up manufacturing facilities for his new company, Tramel Technologies Inc. Little was known about this company before July, when Warner Communications, in its announcement of the Atari sale, said Tramiel and unnamed partners had invested \$75 million in Tramel Technologies. "It's safe to say Tramel Technologies now becomes Atari Corp.," says Atari spokesperson Bruce Entin.

Tramiel, who has described business as war, was born in Poland in 1928 and was sent to Auschwitz during World War II. After the Soviet army liberated the camp, Tramiel worked for the U.S. Army, then moved to the United States, where he set up a typewriter repair shop.

Soon he was assembling typewriters, not repairing them. He founded Commodore Business Machines in 1955, making typewriters and adding machines. Investor Irving Gould helped underwrite Commodore's expansion and became chairman of the board. When the electronic calculator arrived in the late 1960s, Tramiel and Commodore were ready to take the lead.

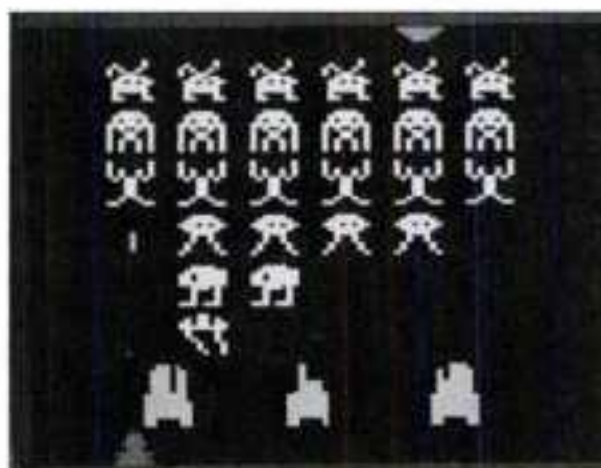
Tramiel envied and imitated autocratic, efficient Japanese management methods, and his sense of where consumer electronics markets were going has been uncanny. As he created enemies with his hard-hitting business methods, Tramiel made believers out of others. Employees of his at Commodore spoke of the "religion" inspired by Tramiel: to make products at the lowest possible cost and pass on the

savings to consumers.

With calculators dropping in price from \$1,000 to a few dollars, Commodore swerved into the microcomputer business in 1977 with the Pet. Foreign sales of the computer boomed, but Commodore's first U.S. success came with the VIC 20, a \$200 computer with 5K random-access memory and a cartridge slot. It became a million-seller in less than two years. Then came the phenomenal Commodore 64, which assured Tramiel's place in microcomputer history. These two computers drove Mattel and Texas Instruments out of the home computer business and led directly to the sale of Atari.

Tramiel says Atari will still sell the present line of Atari computer products this Christmas. Analysts such as Doug Cayne of The Gartner Group, a market research firm in Stamford, Connecticut, say Tramiel needs to sell everything he's got to raise needed cash.

But right now, only Tramiel knows what ammunition he'll serve up after the holiday season. From talking to former Tramiel associates and industry analysts, a few scenarios emerge. Here they are ranked from most likely to least likely:



Atari is known for its video games.

- Atari could market a \$1,000 computer using custom chip technology to imitate Apple's Macintosh computer, combining ease of use with high-resolution bit-mapped graphics, according to Cayne. The computer would use the Motorola 68000 chip or a new 32-bit chip from NEC. Cayne says a computer monitor would cost extra. Would Tramiel try to sell such a computer through mass market channels, which he pioneered while at Commodore? "It's hard to say," Cayne says.

- Tramiel could try to compete with Commodore at the low end. This would be risky, yet only Tramiel is given any chance of doing it successfully. Tramiel could start doing this by cutting the price of the Atari 800XL from \$299 to \$199 this Christmas. But Commodore could counterattack quickly. One source says the company sold 300,000 Commodore 64s in June alone,



Layoffs continued after Tramiel took over Atari.

and it could cut the price \$50 to \$149 if needed. But Tramiel could try to undercut Commodore on the software front, slashing Atarisoft video game prices and other Atari software from \$30 to \$10 to clear out inventory. "I think he's going to try to be the Grinch that steals Christmas from Commodore," says one former Tramiel associate.

- Through his Far East contacts and the wide world of former Commodore employees, Tramiel could create a new computer with a powerful, proprietary chip. One such chip is the 65816 microprocessor, which was primarily developed by the Western Design Center of Tempe, Arizona. The 65816 is a 16-bit chip that is completely hardware- and software-compatible with the 8-bit 6502. The 6502 and its descendants are used in Apple, Atari, and Commodore computers.

David Eyes, who worked on the development of the chip at Hayden Software and is currently writing a book on the 65816, says it's "quite possible" that Tramiel would try to acquire the chip for use in a 1985 personal computer. He notes that the designer of the chip used to work for Tramiel some years ago. The principal value of using such a chip would be the computer's capability to address much larger chunks of memory, and the chip would be able to process data faster than an 8-bit chip. A remote chance exists that the computer with that chip would be compatible with much Apple or Atari software.

- Atari might concentrate on providing computers with a great deal more memory than other computers in its price range. "I'm surprised no one's come out with a computer with a megabyte [one million bytes] of memory," says James Capparell, publisher of *Antic* magazine, which covers only Atari computers. Capparell says that whatever computer Tramiel's Atari produces, all independent software producers will have to take notice.

- Tramiel could opt to sell someone else's computer. Among the possible candidates: Sinclair's Quantum Leap (QL)

ATARI: FROM STARTING BLOCK TO AUCTION BLOCK

The time line of Atari's history is a roller coaster ride through autocratic management, brilliant ideas, fierce competition, and failed dreams. Atari started an entire industry with a mere idea, built a \$2 billion empire in 10 years, and lost it all within months. Here are highlights:

1962: MIT student Steve Russell writes the first computer game program, Spacewar.

1970: Nolan Bushnell has an idea: Instead of playing games on a computer, why not invent a machine that plays only games? The result: the first fixed-purpose game playing machine — Computer Space, a turkey that sells only 2,000 units.

June 1972: Bushnell and Ted Dabney chip in \$250 each to incorporate a company named *Atari*, an expression like "check" in the Japanese game of Go.

November 1972: Pong, the first commercial video game, is shipped. Its only instructions are "avoid missing ball for high score."

1974: Teetering on the brink of bankruptcy with arcade Pong, Atari introduces Home Pong. Its sales are \$40 million by 1975.

1976: The inexpensive AY38500 silicon chip revolutionizes the game industry. Atari now has 70 competitors in the game market. Pong is obsolete. Atari, desperate for quick cash to finance the first programmable home video game, is sold to Warner Communications for \$28 million.

1977: Atari grosses \$120 million, but most of its inventory gathers dust. Atari introduces the VCS — a game machine that hooks up to a TV set.

November 1978: Profits dip to \$2.7 million. Chairman Bushnell asks to be fired and hires Ray "The Czar" Kassar, who freezes research and development, bringing Atari back into the black.

1979: Former employees come back to haunt Atari as competition. Alan Miller, David Crane, Bob Whitehead, and Larry Kaplan leave Atari and form Activision.

1980: Atari's first home computers, the 400 and 800, are released. The industry praises both for their color graphics and sound, but the 400 gets a lackluster reception because of its flat keyboard. Sales for 1980 peak at \$415 million.

1981: Video game players drop \$5 billion into arcade games worldwide. Atari is the fastest growing company in

U.S. history, dominating 80 percent of the total video game market.

September 1981: F.X. Grubb, former vice president of marketing at Atari, starts Imagic, designing games for the Atari VCS and Mattel's Intellivision. Imagic's *Demon Attack*, designed by former Atari engineer Rob Fulop, ships \$30 million worth by 1983.

1982: Video games are in 17 percent of U.S. households. Atari sales peak at \$2 billion. More than 15 million 2600 machines are sold. Pac-Man is a runaway success. Atari responds to the Commodore 64 with the Atari 1200XL, a computer that has software and hardware incompatibility problems with the earlier home computers. By June 1983, the 1200XL is dead.

December 1982: Warner stock falls from \$54 a share to below \$30 a share in seven days. Profits are down 56 percent, Warner's first decline in eight years. Atari's share of the video game market drops to 40 percent. The entire industry is forced to cut prices. Coleco produces popular *Donkey Kong* for home use, and Coleco Vision is an immediate hit. To compete, Atari markets the 5200 — fully incompatible with the old VCS game cartridges. Perry Odak, president of consumer electronics at Atari, is fired.

1983: Warner loses \$310.5 million by the second quarter. Inventory and video game parts worth \$10 million gather dust in warehouses.

March 1983: The first wave of layoffs: 1,700 employees get the ax.

April 1983: Atari moves manufacturing plants overseas.

June 1983: Atari shows a host of new products — the 1400XL, the 1450XLD, the expansion box, and CP/M module — but never ships them. An expansion keyboard for the 2600 is announced twice but never introduced. Other products, such as the light pen, are late.

July 1983: After big losses and questionable stock-trading activities, Ray Kassar resigns.

September 1983: James J. Morgan, former vice president of marketing for Philip Morris Inc., is appointed chairman of Atari. Like Kassar, he has no knowledge of the computer industry. John Farrand, head of Atari's only profitable division, coin-operated games, is promoted to president. The price of the Atari 800 computer, which had once been \$800, drops to \$165. Credibility suffers as nonexistent products are introduced. Twenty truckloads of games, VCSs, and home computers are found in



James J. Morgan, former chairman of Atari (top), Nolan Bushnell, Atari founder

a dump. Atari says they are defective, but critics say Atari is tossing inventory it can't sell.

November 1983: Texas Instruments leaves the home computer industry. Atari layoffs peak at 3,000.

December 1983: Atari loses \$532.6 million in fiscal 1983. Faced with additional layoffs, Atari assembly line workers vote on joining a union. The union loses overwhelmingly. After losing \$420 million for the year, Warner Communications has a \$5 million profit in the final quarter of 1983.

January 1984: Atari boosts to \$249 the price of its 800XL computer, which is threatened by the more inexpensive Commodore 64.

February 1984: Jack Tramiel, who built Commodore into a \$1 billion computer industry, resigns from Commodore and disappears for four months.

May 1984: Ataritel, a long-awaited voice-recognition answering machine/computer, is still unavailable. One of Atari's last remaining geniuses, chief scientist Alan Kay, resigns.

June 1984: Of an original 6,000 employees, only 1,200 remain and rumors of another round of massive layoffs abound. The expected date: July 1. Morgan says the new 7800 game machine and several games under the Lucasfilm label will "carry the company back to its former greatness."

July 2, 1984: Warner Communications sells Atari to Jack Tramiel and an unknown group of investors for \$240 million.

Giselle Bisson

THE INDUSTRY

computer, which has been sold in England for several months but still lacks U.S. distribution. Bill Nichols, a representative of Sinclair in London, says he has heard nothing about discussions between Tramiel and the company's leaders. Founder Clive Sinclair and Sinclair Research managing director Nigel Searle were unavailable for comment. Another possibility is a machine from Amiga, a Santa Clara, California, firm that is developing a 68000-based personal computer with advanced graphics. Amiga president Dave Morse was unavailable for comment. But some analysts regard the possibility of Amiga or Sinclair deals with Tramiel as unlikely, since both companies would probably want too much money to license their technology to Atari.

• Of the long-shot school of thought is a source who says Tramiel had significant discussions with AT&T shortly before buying Atari. The source, who didn't want to be identified, says AT&T is desperately looking for a way to introduce its videotex service into the home, having discovered that its Spectre videotex terminal, being tested in southern Florida, is a flop. The source says an Atari/AT&T deal to provide home computing and telecommunications in one total package could represent the strongest threat of all to competitors.

Ultimately, Tramiel's presence will be the biggest factor in Atari's future success, for his ability to inspire his troops and put fear into the competition is legendary. At Commodore, one longtime associate of Tramiel's, who doesn't want to be identified, welcomes him back. "Our first reaction was, we're glad there's going to be some strong competition. In this end of the business, all our competitors are doing terribly. Now the game will start heating up again."

This Commodore manager disputes reports that Tramiel will avoid confronting his old company. "Jack is a man to whom revenge has a very strong meaning. If the parting between him and Commodore was not clean, I would bet he will come gunning for us."

Tim Bjarin, a market analyst for Creative Strategies in San Jose, California, agrees. "Jack will go after them [Commodore] with both guns blazing. It will impact the sales of the Plus 4 [Commodore's new computer with four built-in productivity software programs]," Bjarin says. "By buying Atari, he gets manufacturing facilities, he gets his products made, and he's able to react almost overnight. He'll probably be a significant player even by this Christmas."

Others maintain that Tramiel will go

gunning after IBM and Apple, probably next year. A longtime friend of Tramiel's says there may be a "price umbrella" for Tramiel's Atari to slip under by providing computers with as much power as the Apple IIc and IBM PCjr for a lower price.

Either way, or perhaps both ways, Tramiel says his goal is to return Atari to prominence and profitability.

What isn't clear is where Atari will fit into the marketplace. "With someplace between 15 and 20 million video game players sold, the clear perception [of Atari] is of a play company," says Tramiel's friend, who adds that IBM and Apple are making such large profit margins on their computers — and have such large built-in inefficiencies — that they are a "moving target" for Tramiel. "Their executive hallways are 8 to 10 feet wide, but Jack made Commodore's 5 to 6 feet wide," he says, pointing out how frugal Commodore was under Tramiel.

It's easy to speculate on what Tramiel will do. A harder task is to actually choose the right path in the tricky world of personal computers, and the possibility exists that Tramiel will fail. Says electronics newsletter publisher Andy Seybold, "I wouldn't want to be in his shoes and have to make a decision like that. It's a hell of a time to enter this marketplace." □