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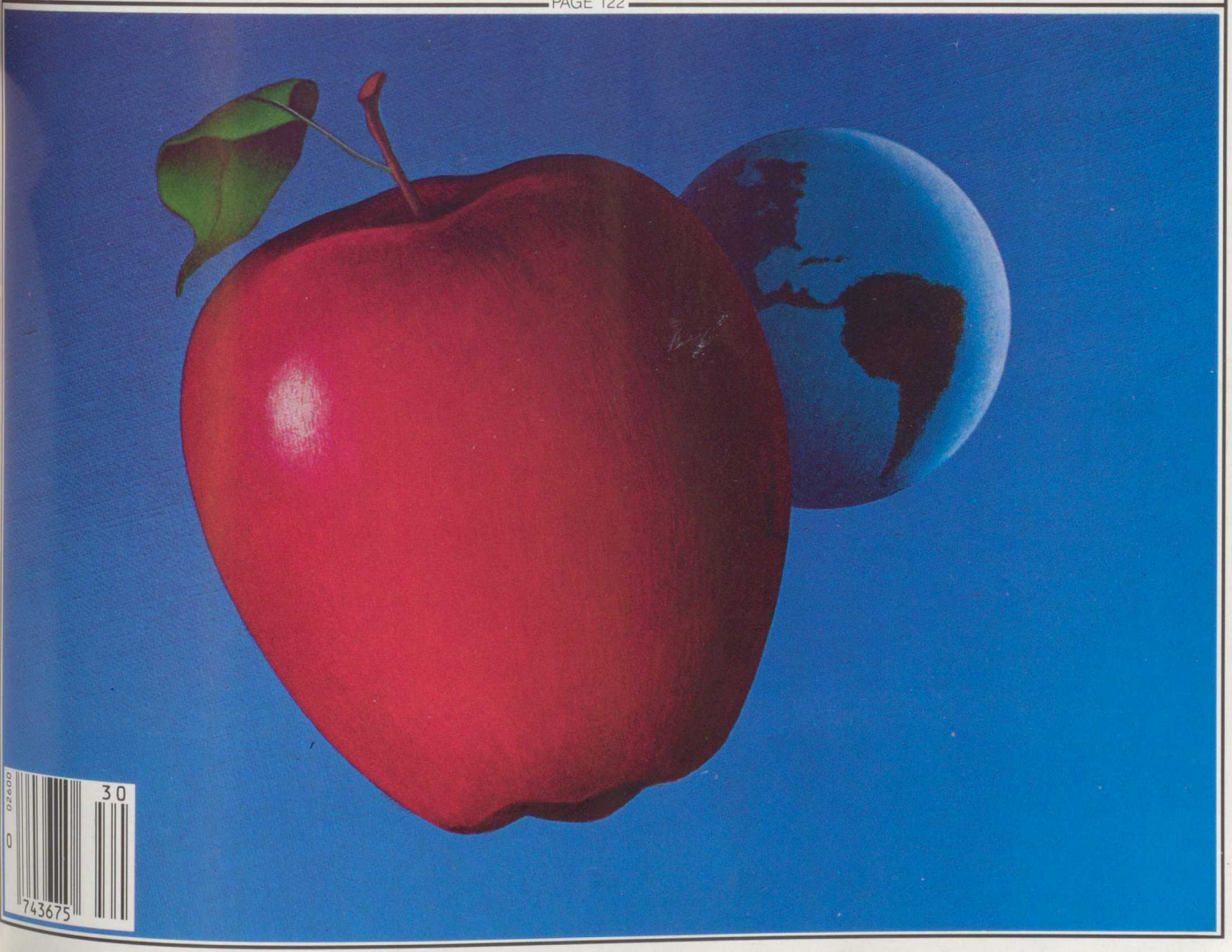


JIM MORGAN'S UNHAPPY 10 MONTHS AT ATARI

When James J. Morgan took a two-month vacation before joining troubled Atari Inc. as chairman and chief executive officer last September, executives worried that he might not be the man for the job. "He never had a sense of urgency," says a former executive. "Rome was burning, and he was fiddling around."

Less than a year later, the video game and home computer maker is in the hands of Jack Tramiel, the founder of Commodore International Ltd., who picked up Atari for $240 million in notes after parent Warner Communications Inc. despaired of Morgan's ability to turn the company around (BW—July 16). Battered by Atari's dismal performance and kept in the dark by Warner about its discussions with Tramiel until only five days before the July 2 sale, Morgan left Atari on July 6.

Although Morgan will not discuss his 10-month stint at Atari, former executives say that many of the decisions he made there indicate that his background in marketing cigarettes for Philip Morris Inc. did not prepare him for the fast-paced world of home computers and video games. Indeed, his first move when he reached Atari in September was a 30-day freeze on product development and product introductions to give him time to come to grips with his new charge. Atari was soon to report $536 million in losses for the first nine months of 1983. And with the critical Christmas season around the corner, it did not have enough home computer products in the pipeline to satisfy demand. Moreover, the glut of video game cartridges had driven prices of what were once $40 games as low as $4. Even the coin-operated-games division, once Atari's steadiest performer, was losing money.

IN THE WORKS. Although Morgan bragged to employees that his seven-year, multimillion-dollar contract gave him the freedom to run the company as he saw fit, time was not on his side. The 30-day freeze not only delayed important product decisions but to many Atari executives it also signaled the beginning of the end for a home computer strategy that had been in the works for months.

The goal had been to bring out by Christmas computers in the $500 to $1,000 range that could go beyond rudimentary game, education, and word processing functions. These new computers, dubbed the 1450XLD and 1400 models, were aimed at a gap in the market between Commodore's low-cost machines and the higher-priced models from Apple Computer Inc. "There was a strategy, and he didn't see it," says a former executive. The freeze also kept the new line out of mass production for Christmas, 1983, and entirely halted plans for a Japanese-built 1600 computer that could use the same software as International Business Machines Corp.'s Personal Computer. "By putting the IBM PC-compatible on hold, Morgan missed a chance to have the kind of product the market is now looking for," says Clive G. Smith, a senior analyst at Yankee Group.

WAS MORGAN UNPREPARED FOR THE FAST-PACED HOME ELECTRONICS WORLD?

ANDREW POPPER

Instead, Morgan decided to continue to battle titan Commodore in the under-$500 market, where Atari's machines were being undercut by $100 or more. "We took apart [Commodore's] Vic 20 and 64 [models]. We knew what they were making them for. We just couldn't compete. But [Morgan] refused to believe it," says a prominent member of that team. And despite the fact that Atari had lost its shirt in the video game business, the only project Morgan pushed through in his first month was the 7800 ProSystem, a video game unit. Says one former executive: "He wanted to make his mark with the birth of a product. Everybody in the company who knew anything tried to discourage him from bringing that thing out."

GRASPING FOR STRAWS? After Atari continued to report sizable losses, Morgan decided to resurrect the discarded home computer product strategy. In June he reinstated the 1450XLD computer and said it would be out in time for Christmas, 1984. But the delay cost the company almost one year's worth of home computer sales. "I would like to flatter myself that as he learned more about the industry he began to realize that we were right, but on the other hand, he may have been grasping for straws," says one of the original strategists.

Many feel that Morgan's inability to jump into the gap when there were product shortages last Christmas represented a strategic blunder. At the time, Morgan claimed that Atari had not expected such high demand for its home computers. He said a few minor manufacturing problems prevented the company from shipping more product. But insiders say an internal battle over where to manufacture the lower-priced 800XL was almost entirely responsible for Atari's missing the Christmas market.

An offshore manufacturer, insiders claim, was willing to make the 800XL in Hong Kong at a cost that would have made the product profitable at a retail price of $199. But Morgan, under pressure from Paul Malloy, his head of manufacturing, decided to use the company's

Taiwan video game plant to make the home computers. Because there was not time to make the move before the Christmas season, says an executive, the 800XL was shipped in limited quantities, and Atari missed the window. Further production snags prompted higher costs, forcing the 800XL to retail for $299, a full $100 more than the Commodore 64.

Although Malloy says the "die was cast for Christmas before Morgan ever got there," other sources say Malloy convinced Morgan that the 800XL could not be made at the Hong Kong plant and that it needed more design revisions. "You could take Jim and put him in at Procter & Gamble or Seagram and he would be a sterling performer," observes one of Atari's former strategists. But, adds another, Atari "is different. You have to bring out a whole new product line with a group of temperamental engineers."

'TO THE BONE.' When Atari's first-quarter losses of $35 million were announced in April, Morgan stubbornly maintained that the company was in fighting shape. He had consolidated Atari's 40 sprawling offices in Silicon Valley to about 28 and had axed all but nine of Atari's new development projects. By June, he had also reduced the company's Sunnyvale staff by 1,450 to 1,100. But, says a former executive, "he wasn't willing to cut to the bone." In an interview in February, Morgan admitted that firing people "tears me up inside. I almost feel like I should do penance and go visit their families." Morgan reportedly never fired anyone directly and had only one top executive fired outright during his time at Atari.

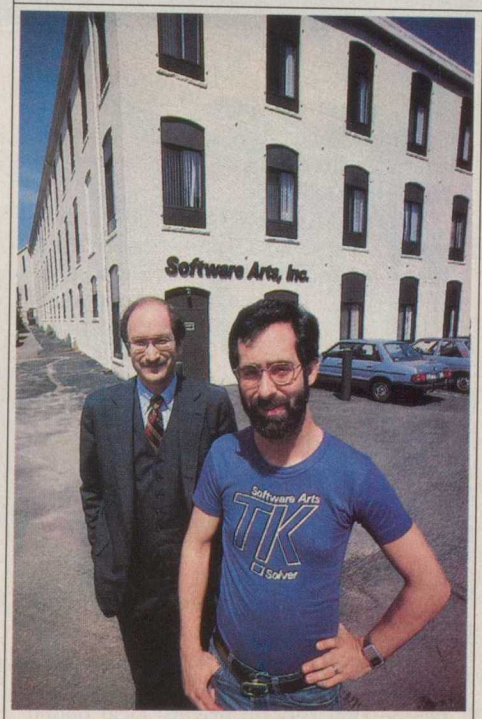
But the losses continued to mount, and by the end of the second quarter the company was $100 million deeper in the red. Back in New York, Warner executives were becoming frustrated with Morgan's inability to cut costs. According to one insider, Warner finally had to send out Robert Morgado, one of its own senior executives, to pare down Atari's overhead by as much as $100 million. New York also began to question Morgan's projections for Atari's results. For the first quarter of 1984, according to this insider, Morgan had estimated a $10 million loss. The actual loss totaled $35 million. He projected 1984 sales of $1 billion, but given the softness of the video game market and Atari's lack of home computer product, Warner executives advised him to cut the figure in half and reduce overhead further.

Finally, Warner Chairman Steven Ross, whom Morgan once called "the best man with numbers I have ever seen," had seen enough of Atari's numbers. Under pressure, particularly from Herbert J. Siegel, the chairman of Chris-Craft Industries Inc.—which owns 29% of Warner's stock—Ross engineered the Tramiel takeover without consulting Morgan. Siegel had long been pushing the company to get rid of Atari, but Ross, according to an insider, kept hoping that Morgan would "bring in a home run." That way, if Warner did decide to sell the company, it would fetch a better price. Although Morgan remains a Warner employee, he is currently on an extended vacation and has yet to discuss his future role with the company.

Tramiel, who has had more than seven years in the home computer business with Commodore, has wasted no time putting his distinctive imprint on Atari. In just two weeks he has fired 700 people at Atari's Sunnyvale offices and has axed several of Atari's current products, including the 7800 video game system and the $150 600XL home computer. As one insider who worked with both Tramiel and Morgan put it: Tramiel "is a boss, not a manager." ▣

SOFTWARE

THE BITTER FEUD BLEEDING VISICALC'S CREATORS



SOFTWARE ARTS' LANGE AND BRICKLIN: PLAGUED BY LAYOFFS AND LAWSUITS

RICHARD HOWARD

Daniel S. Bricklin and Daniel H. Fylstra first met in 1979, when Bricklin was in his final year at Harvard University business school. Bricklin had formed Software Arts Inc. to develop a new type of financial-modeling software for personal computers. Fylstra, a recent business school graduate, agreed to market it. Within two years the product, VisiCalc, was selling more than 30,000 copies a month, and Software Arts and VisiCorp, Fylstra's company, formed the leading edge of the personal computer software industry. It was a textbook success story.

But now the relationship between the two companies has soured. Sales of VisiCalc have all but dried up, and VisiCorp and Software Arts are deep in a legal battle that is sapping their resources and delaying new product development. "It's like two men locked in a fight under water," says Alfred R. Berkeley III, managing director of Alex. Brown & Sons Inc., an investment banking firm. "Instead of trying to swim, they're pulling each other under."

In an effort to stem their losses, Software Arts and VisiCorp have resorted to drastic layoffs. VisiCorp furloughed 70 workers on July 5 on top of 40 layoffs in May, leaving just 55 workers at the San Jose (Calif.) company. And Software Arts, in Wellesley, Mass., halved its work force to just 65 people in June.

Both companies still face the challenge of bringing to market successful new products that will pick up where VisiCalc left off. At Software Arts, Chairman Bricklin hopes to bolster an eroding revenue base by marketing a new version of VisiCalc starting on July 25 and by introducing new products later this year. VisiCorp Chairman Fylstra is counting on VisiOn, a "windowing" program that splits the computer screen into sections and lets users share information between different applications, such as word processing and financial analysis.

SAGGING SALES. Many industry analysts doubt that the companies will ever recapture their once-huge share of the personal computer business software market, estimated by Input, a Mountain View (Calif.), market researcher, to total $1.8 billion. Although the VisiCalc program has sold more than 700,000 copies—more units than virtually any other software program—many believe VisiCalc is obsolete. Its sales have declined sharply since the appearance of easier-to-use products, most notably Lotus Development Corp.'s Lotus 1-2-3, introduced last year as the first "integrated" software package that allows users