

JULY 16, 1984

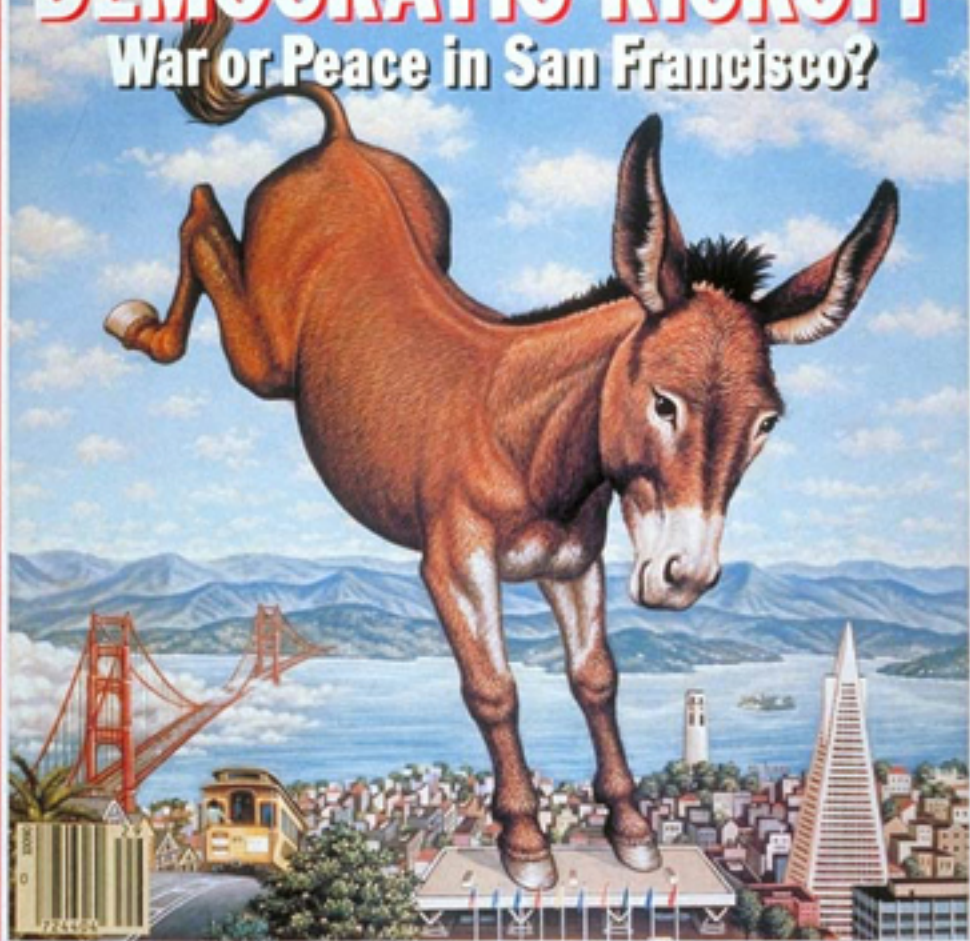
\$1.75

# TIME

## DEMOCRATIC KICKOFF

War or Peace in San Francisco?

**WONDROUS MICHAEL**  
The Jackson Show  
Hits the Road



# A New Pac-Man

*Jack Tramiel gobbles Atari*

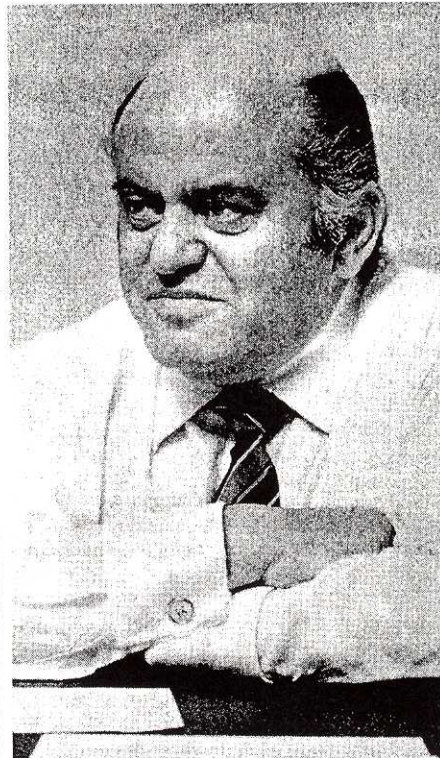
**O**f all Silicon Valley's microchipped wonder companies, Atari was one of the earliest and most colorful. It gave birth to the video-game industry and churned out amusements like Pong, Asteroids and the home version of Pac-Man. It saw its sales explode from \$30 million in 1976 to a peak of \$2 billion in 1982. It spun off famous employee alumni, like Steven Jobs, co-founder and chairman of Apple Computer. Physically, it spread to 49 buildings around Sunnyvale, Calif. But its fall came even faster, as a fickle public cooled to its video games. Losses hit \$539 million last year. Not even TV commercials featuring *M\*A\*S\*H* Superstar Alan Alda could revive Atari. Last week Warner Communications, which has owned Atari since 1976, gave up on turning the company around and sold it. The principal buyer and new boss: Jack Tramiel, 56, a blunt, balding executive whose adage is "Business is war."

Tramiel, the former president of Commodore International, who built it into the leading home-computer manufacturer, will pay no cash for Atari but will pick up \$240 million of the company's debts. He will also get rights to buy 1 million Warner shares at \$22 each, about equal to last week's price. Warner, which evidently believes that Tramiel can succeed where it failed, will hold onto a 32% stake in Atari.

Tramiel moved swiftly and ruthlessly after arriving at Atari's headquarters in a two-tone Rolls-Royce. As industry experts saw it, he intended to dismantle Atari, regarding it as a start-up operation. He pushed aside Chairman James Morgan, 42, the former Philip Morris executive whom Warner had brought in last September to perk up the company. Morgan had tried to save Atari, chiefly by slashing its worldwide work force from 9,800 to 3,500.

Tramiel went further. He installed Sons Sam, Gary and Leonard in key management posts and sent out pink slips to some 70% of Atari's remaining U.S. work force of 1,100, leaving a skeleton crew of no more than 300 engineers, financial and marketing people and clerks. Atari's manufacturing facilities will be shifted and consolidated. One center in El Paso will be moved to Sunnyvale, and Atari's software production will be relocated to Taiwan.

The company's remaining executives quickly realized that Tramiel would not run the company by committee. Tramiel, says an associate, demands "full,



**The boss at Sunnyvale: "Business is war"**  
*Unleashing a mighty flood of pink slips.*

complete, undisputed authority." The new chairman's blitz would make Atari "leaner and meaner," said Vice President Bruce Entin. "The guy was in command. He was kind of like a general."

A Polish immigrant and survivor of the Auschwitz concentration camp, Tramiel has amassed a fortune estimated at \$100 million. He did it mainly by nurturing a typewriter business he founded 26 years ago into giant Commodore International (1983 sales: \$1 billion). He left the company abruptly and unexpectedly in January, apparently because he had trouble sharing power with other Commodore executives. In the following months, he took the time to tour Sri Lanka and Hong Kong and think about his future.

Tramiel became aware that Atari was up for sale seven weeks ago and began talks with Warner Chairman Steven Ross.

After arduous bargaining in Manhattan, Tramiel's son Gary and Warner representatives closed their deal at 5:30 a.m. on Monday of last week. By that time, Tramiel was flying to California in a private jet and was at Atari headquarters by 8:30 a.m.

That Tramiel would choose to buy control of Atari is ironic. As Commodore's boss, he had helped run Atari into the ground by slashing prices on his company's own popular home computers, the Commodore 64 and VIC 20. The strategy frustrated Atari's attempts

to get into the home-computer market and diversify away from fast-failing video games.

Tramiel may try the same tactic at Atari, only this time against his former company. Atari sold roughly 250,000 of its 800 series computers last year, far fewer than the average 1 million Commodore 64s sold annually. The best guess by experts is that Tramiel's first marketing move may be to try to reverse those numbers by drastically underpricing Commodore's products. Later, perhaps next year, he might develop a model that would compete against more powerful machines made by Apple and IBM for the sophisticated home user. The general's campaign has just begun.

—By John S. DeMott.  
Reported by Michael Moritz/San Francisco and Adam Zagorin/New York

# Buyout Binge

*Fears about a Wall Street fad*

**W**all Street can be as slavish in following a financial trend as clothing designers are in copying fashion changes. This year's financial fad is the leveraged buyout. In these deals, the group of investors buying a company puts up the firm's assets as collateral. Since the loans needed for a leveraged buyout are thus backed by the company itself, there can be big profits for the investors, who often put up very little of their own cash. In one of the most celebrated leveraged buyouts, former Treasury Secretary William Simon and a group of financiers bought Gibson Greetings in January 1982 for \$80 million while putting up only \$1 million of their own money. Sixteen months later, Simon's group took Gibson public in a stock offering worth \$290 million. Simon's profit on the deal: \$66 million. Fortnight ago, Simon's Wesray Corp. launched another buyout: a \$71.6 million acquisition of Atlas Van Lines.

Once usually restricted to special situations involving relatively small companies, leveraged buyouts have become both popular and big. Last year there were 36 of them worth \$7 billion, compared with only 16 in 1979. In one of the biggest deals this year, executives of Metromedia borrowed money to buy the company from its shareholders for \$1 billion. Senior managers at Pittsburgh-based Ryan Homes are also trying to take their company private by paying shareholders for it. Last week they bid \$176 million for the big home-builder. Other companies have been acquired by one of a number of investment firms, including Forstmann Little and Kohlberg Kravis Roberts, that specialize in buyouts. Forstmann Little, for example, bought Dr Pepper for \$640 million.

Wall Street has never been famous for its moderation, and now there are growing doubts about the soundness of the deals. John S.R. Shad, chairman of the Securities and Exchange Commission, has



**Ousted Chairman Morgan**