

## Jack Tramiel Dreams Big Again

By ANDREW POLLACKSUNNYVALE, Calif.

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His bold plan to revive  
Atari depends on a whole  
new line of computers.  
But they're still in the lab.

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By ANDREW POLLACK

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**W**HEN the Atari Corporation opened its booth at last month's Consumer Electronics Show in Las Vegas, its refreshments — champagne and hotdogs — were more of a message than a meal. "A champagne party on a hotdog budget," one executive billed it — and the message was clear: Jack Tramiel, a man with a cost-cutter's eye and a showman's flair, was back in business.

Pizzazz and pennypinching have long been Mr. Tramiel's trademarks. In an industry famed for its California techno-whiz kids, the 56-year-old Mr. Tramiel has turned his mix of hustle, hard-nosed bargaining and aggressiveness into an art. It served him well in the 25 years during which he built Commodore International from a Bronx typewriter repair shop into a leader in the home computer market. And now, a year after he resigned from Commodore in a dispute with its chairman and largest shareholder, he is putting his style to the test again, this time at Atari.

In his drive to revive the company that he helped crush during his days at Commodore, he is trying to prove that his success there was not a fluke, and, some suggest, to get back at his old company, too. In his younger days, he survived a Nazi concentration camp, a major Canadian financial scandal and the calculator wars of the 1970's that almost drove Commodore to bankruptcy. But some believe that saving Atari, which he bought from Warner Communications last July, could be his greatest challenge yet.

"The guy's got to be another Lee Iacocca to pull this off," said one former Atari executive who scoffs at that likelihood.

Mr. Tramiel, however, is off to a fast start. He has enlisted his three sons and drawn upon much of his personal fortune to get the venture underway. He has pared expenses by dismissing most Atari employees and trying to cancel prior contracts. Just before the crucial Christmas selling season, he slashed the price of the Atari 800XL computer, from \$180 to \$120, catching arch-rival Commodore napping and producing a spurt of sales for Atari.

In January, the company introduced new computers that promise to be both extremely powerful and inexpensive — and if Mr. Tramiel has his way, very lucrative: He hopes they will bring Atari's revenues to \$1 billion in 1985, turning a profit for the company and pulling it out of the red ink that has engulfed it for the last two years.

And he is already talking about building an assembly plant in Nevada and of buying a semiconductor company to give Atari the vertical integration that was a major reason for Commodore's success.

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Jack Tramiel, chairman

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# At Atari, Jack Tramiel Dreams Big Again

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Now, regardless of what they think of Mr. Tramiel personally, many in the industry are rooting for him to put the magic back in mass market computers, the way he did with the Commodore 64. They say if anybody can do it, Jack Tramiel can.

"A lot of people would love it if a Messiah came along and saved the industry," said Trip Hawkins, president of Electronic Arts, a software company in San Mateo, Calif.

But Mr. Tramiel and Atari have a long way to go. They must actually bring the new computers to market, with adequate software, in record time. They must raise a large amount of money and subsist until then on sales of the 800 computer, which have fallen since Christmas, prompting Atari to cut the price, once again, last week to \$99.

They must overcome a blizzard of lawsuits caused by cancellations of contracts and dismissals of personnel. They must compete not only with a dazzling new computer being developed by Commodore's Amiga subsidiary but also with the giants in personal computers, I.B.M. and Apple, which both sell products in the price range of Mr. Tramiel's top-of-the-line new machine.

And Mr. Tramiel, for his part, must overcome a darker side of his success: His reputation for sudden changes in tactics, for which he was known at Commodore, have made some retailers and software companies reluctant to trust him. He is still remembered for announcing with great fanfare new Commodore products that never made their way to market and for changing distribution channels abruptly. He has not helped his credibility this time around by publicly stating that Atari will ship 5 million computers in 1985, a number that even his son, Sam, said will be hard to reach.

Right now, the industry seems split 50-50 on whether he will succeed. "We believe they're for real," said Norman Ricken, president of Toys R Us, a leading vendor of home computers.

"They will easily break all records for getting a product to market if they do all they say they are going to do," said Mr. Hawkins, a doubter.

He compared the claims Atari is making to those that Coleco Industries made before bringing its Adam computer to market. The Adam, billed as a machine that would set the computer world afire, bombed instead: Coleco was late in bringing it to market and when it did, the machine was plagued with quality problems.

More than Mr. Tramiel's personal fortune rests on the fate of Atari. He is carrying into battle with him the remains of the home computer industry. For two years or so the business of providing games and educational software for home computers thrived. But now, with consumers disillusioned by the machines' limited capabilities, sales have plummeted.

Warner Communications, which came into the business in the late 1970's, was so hurt by the downturn that it virtually gave Atari away to Mr. Tramiel last summer, trying to rid itself of the problems before they affected the parent company's results too severely.

In 1984, with a handful of exceptions, all the companies that made game and educational software for those machines lost money and some have gone out of business. Retailers are going back to selling televisions and video cassette recorders. "Everyone's either gone or hurting," lamented Kenneth Williams, president of Sierra On-Line, a software company based in Coarsegold, Calif.

The changing market might be too much even for Mr. Tramiel to contend with. Consumers are moving toward more expensive and more powerful machines selling for \$1,000 or so, the domain of I.B.M. and Apple — a price range that Atari plans to undercut with its new machines while offering similar power. Both larger companies have far greater resources than Atari and machines that have tons of software available for them.

It is not clear whether consumers in the higher price range will be swayed as much by price as those in the lower price range are. Said one competitor: "I think the industry has changed and maybe he's not the player for the current time."

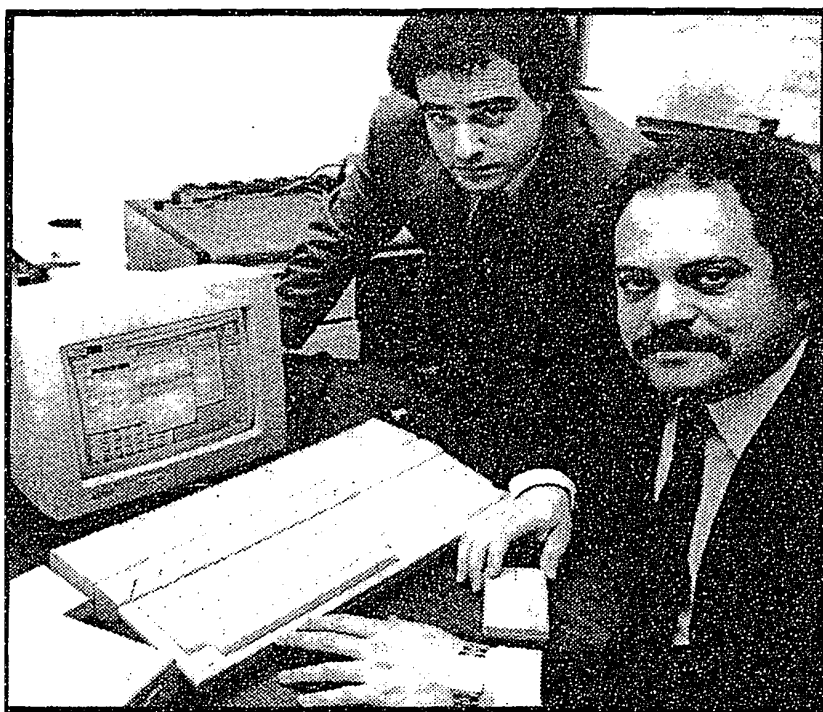
The doubters do not alarm Mr. Tramiel. "I'm used to that kind of talk," he said, noting that Wall Street always doubted him when he was with "the old company."

He also said that revenge is not a motive for his returning to the computer business. Rather, he said, he just grew restless following his resignation from Commodore. After a several-month tour around the world, the burly executive decided it was time to get back to work.

He did it with a vengeance. In early July, after an all-night negotiating session with Warner, Mr. Tramiel agreed to buy Atari for \$240 million in promissory notes. He hopped on a plane and arrived at Atari headquarters in California the same morning, a Monday. By Wednesday, virtually the entire marketing and sales staffs, several hundred in all, were gone.

"When you have a cancer, you cut it out," said Mr. Tramiel. "The key to running a company is not marketing. It's how you design and buy. If you buy right, you can always sell it. If you buy wrong, even with a whole army you will not be able to sell it."

Only a shell of the "army" remains today. The American staff numbers 250, down from 1,300 employees when Mr. Tramiel arrived, and many of the survivors are engineers, just as in the old days before the marketers gained predominance. Staffing now is so skimpy that the company's main telephone number is often answered by a



Garry Tramiel, left, and Sam Tramiel with Atari 520 ST

recording indicating that the receptionist is busy. The cuts mean that Atari, which once occupied more than 40 buildings around Silicon Valley, today occupies only five.

The new Atari is truly Spartan, with none of the swimming pools, beer bashes or other amenities that are considered part of the Silicon Valley's corporate culture. Although an occasional reminder of Atari's illustrious past creeps in — the new ST computers will come with Breakout, a classic Atari video game, built into the operating system — there is now little to suggest any link with the old Atari.

Now, Mr. Tramiel is working hard to reverse Atari's failures. His three sons are in key positions. Sam, 34, who used to work for Commodore in the Far East, is president of Atari. Leonard, 30, fresh with a Ph.D. in astrophysics from Columbia, is working on software. Garry, 25, formerly at Merrill Lynch, is in finance.

Many of the other top employees — about 25 in all — are former Commodore people. "Atari is really Commodore West now," said Ron Jeffries, publisher of a computer industry newsletter, The Jeffries Report.

Managers say they are part of "Jack's family." They adhere to Mr. Tramiel's business philosophy, which he refers to as "the religion." That teaches one to be budget-conscious, hard working, decisive and flexible enough to switch directions instantly — and to be devoted to Jack Tramiel. One tenet of the religion is this: "Business is war."

Among the top catches from Commodore are four engineers. Livid at their departure, Commodore sued the four, accusing them of stealing trade secrets. When they unpacked their bags after arriving in California, Commodore representatives were on hand to watch.

That lawsuit is one of many Atari must contend with. Last week, eight former Atari managers filed a class action suit charging Warner and Atari with violating verbal employment contracts. The workers claim that the management of the old Atari convinced them not to look for new jobs because Atari was going to be turned around soon. Instead, Atari was sold to Mr. Tramiel a month later and they all lost their jobs.

Atari under Mr. Tramiel also ran into trouble when it began cutting back or trying to renegotiate contracts made by the old Atari. Software companies, advertising agencies and others found that they were not getting paid. When the new Atari held its first big press conference in November, a model who had posed in an ad for the old Atari picketed outside with a sign saying "Atari cheats advertising models." Embarrassed company officials rushed out, offering to pay her \$1,565 demand.

As creditors sought payment, Atari tried to whittle their claims down or shift the burden to Warner. "They had all the excuses under the sun," said Howard Pearlmutter, president of Softweaver, a software company in Santa Cruz. Before settling with Atari, Mr. Pearlmutter sought to organize more than four dozen creditors owed as much as \$200 million. Their slogan was "Don't Trammel Me."

Some creditors, including Walt Disney Productions and MCA, have huge lawsuits pending against the Atari. Atari officials shrug off the suits, explaining that the new Atari would be crippled if it honored all the contracts arranged by the old Atari.

"The old Atari negotiated contracts that were out of the realm of reality," Sam Tramiel said, adding that Atari can now get software for one twentieth of the price the old Atari agreed to pay. "Sure there's a contract, but I'm not going to kill myself that there's a contract. You've got to understand the reality of the business."

The reality for Atari now is actually to get its new computers to market. At the low end, Atari has announced the XE series, a replacement for the existing Atari 800 XL machines. The 65 XE, with about 65,000 characters of internal memory, is expected to sell for about \$100, while a 130 XE, with 128,000 characters, is expected to sell for \$120 to \$150.

At the upper end, Atari officials say the company in April hopes to demonstrate a computer that can process 32 bits, or units of information at once, likely to be called the TT, which would be sold to the business market. Company officials refer to the product as the "Vax-in-a-box," claiming the computer will have the power of a VAX superminicomputer, a machine

made by Digital Equipment that sells for more than \$100,000. Atari says its computer will have a microprocessor from National Semiconductor, an operating system based on Bell Laboratories' Unix, and a price under \$1,000.

But the main hope for the future is the ST line of computers, which will be based on the Motorola 68000 microprocessor, the same chip used in Apple's Macintosh. The new machine will resemble the Macintosh in other ways and so similar is the machine that it has been dubbed the "Jackintosh."

The reason that it resembles the Macintosh is that it uses a software system called GEM, which is similar to the one in the Macintosh. GEM was developed by the pioneering and respected Digital Research Inc. of Monterey, Calif. Scruppy Atari and bookish Digital make strange bedfellows. But Digital, too, is in need of a comeback, and Atari is its best chance. Digital's fortunes fell after I.B.M. adopted the rival MS-DOS operating system for its personal computers.

The ST has some advantages over the Macintosh, at least on paper. It will be able to use color, albeit with lower resolution, while the Macintosh is only black and white. And the ST will be cheaper. Atari says a version with 128,000 characters of memory will sell for \$400 and one with 512,000 will sell for \$600. A three-and-a-half inch floppy disk drive will sell for \$150

and a monochrome monitor for \$150. That means a user could get an ST for \$700, compared to \$2,200 for a Macintosh. Atari has also said it will bring out a 10 megabyte hard disk for \$400, a price well below the \$1,500 for which such devices now sell.

Skeptics say Atari will never be able to pull off these feats, at least by its announced shipping date of late April. Apple spent several years developing Macintosh. Atari will have spent just about 10 months on its product. Some think that if the product does appear, users will get what they pay for — a shoddy knockoff of Macintosh.

Others question whether the company will get distribution for the machine and software support from independent software companies. Retailers are said to be divided on whether they will carry the product. In addition to Toys R Us, K-Mart is said to be likely to carry the product.

Software companies also seem divided. Many big ones like the Lotus Development Corporation, Electronic Arts, Broderbund and Software Publishing are not signing up. Some say they will wait and see. Mr. Tramiel has introduced products in the past that never came to market.

Mr. Tramiel also must reverse the image he had at Commodore of not caring about software. In January, he spoke before a group of software executives promising assistance and even financial aid to software developers. "There was a certain amount of snickering," said Stewart Alsop 2d, publisher of PC Letter.

Still, some software writers are convinced that Mr. Tramiel has a new attitude. Companies like Spinaker Software and Creative Software say they will write programs for the machine. Newcomers like Matrix Software of Boston see the Atari market as virgin territory.

Atari also has other factors working in its favor. Software developers will be writing not only for the Atari machine, but for the GEM software system, which can be used on other machines as well, including the I.B.M. PC. Also, it appears that Macintosh software can be converted to run on GEM.

To outsiders, the biggest uncertainty is Atari's financial health. Many wonder how Atari is going to finance its expansion plans. So far, the company has existed on the \$30 million Mr. Tramiel put in initially, some of which he has recouped by selling stock to other company officers.

The company inherited several hundred million dollars worth of inventory from Warner, which it sold off at below book value. The now privately held company had \$125 million in revenues in the fourth quarter of 1984 and was profitable, according to

Sam Tramiel.

Nevertheless, sales were still short of the \$150 million the company had projected. And with Christmas over, sales of the 800 have slowed. "There is no question business is not good," said Jack Tramiel.

Atari has already tapped Warner for cash. In August, Warner purchased some receivables for \$10 million and gave Atari an additional \$8 million in cash. Sources say Atari has continually gone back to Warner seeking concessions, such as getting Warner to assume more of the past expenses, though it has received no more money. The two companies are constantly bickering about who should be responsible for particular expenses, incurred by the old Atari as well as the new Atari.

Atari has good leverage. Warner got no cash up front for Atari. Its hope of recouping its investment rests in its potential Atari stake. Under the original agreement, Warner received warrants for a 32 percent interest in Mr. Tramiel's new venture.

To make and sell as many computers as Atari says it will, some experts say the company will need to raise as much as \$200 million in the next several months. "You don't go from a standing start to shipping millions of computers without those resources," said one source somewhat familiar with Atari's financial situation.

One source of money has already fallen through. The company inherited \$300 million worth of receivables from Warner. But it has only been able to collect \$50 million and does not expect to get much more. Most of that money is owed by retailers and distributors who, for two years, have been drowning in Atari products.

For years, when Atari cut prices requiring it to compensate dealers, it did so by shipping them more merchandise. Many retailers want Atari to take back old products. Others think Atari owes them money for cooperative advertising programs. In other cases, the books are so tangled that it is impossible to determine who owes whom how much.

Other sources of funds are available, however. In his pact with Warner, Mr. Tramiel agreed to invest up to an additional \$45 million. Atari has talked of raising \$150 million, the first \$50 million in a private stock offering, the second in a public offering this year and the remaining \$50 million to be raised next year.

The company has not yet placed the private offering. While some outsiders suggest that is because the company has not been able to get favorable enough terms, Atari officials say they simply haven't needed outside funds yet.

Jack Tramiel hints that startup costs will be, in effect, financed by

Atari suppliers, who are now awash in excess inventory and will advance the company parts in order to reap benefits later. "The best bank is the supplier," said Mr. Tramiel.

If Atari does get the money and make it to market, it will face a final hurdle: A computer now being developed by the Amiga Corporation that the industry believes will be more powerful even than the ST.

Amiga is owned by Commodore, purchased last year for \$25 million in cash and stock. Commodore seems to have gone downhill in the year since Mr. Tramiel's departure. It failed to cut prices on its flagship Commodore 64 at Christmas and earnings for that quarter plummeted 97 percent. Many in the industry say that Commodore has lost its spark, that Atari and Commodore have switched personalities.

But Commodore's best move last year was its purchase of Amiga right from under Atari's nose. Indeed, the old Atari had given Amiga \$500,000 in seed money to develop a powerful new computer. The new Atari is now suing Amiga for breach of contract.

The secrets behind Amiga are Agnes, Daphne and Portia. They are three specially designed computer chips that allow the Amiga computer to display sophisticated graphics. A program, for example, could teach biology with realistic pictures of the workings of organs.

The computer will have windows and a mouse, like the Macintosh and ST, but unlike those machines, it will be able to carry on several tasks at once. Amiga has said the machine will sell for less than \$1,000 with a disk drive.

The Amiga computer, originally expected last year, has been late to market. David Morse, president of Amiga, said the machine is almost ready to go, but he will not say when it will be released. The industry however, believes it will appear in the summer, at the earliest. It is known that software companies already have prototypes of the machine to develop software, something that is not true of the Atari ST.

Some think the Amiga can blow away not only Atari, but also Apple. "People who have seen the Amiga are just goo gah," said Mr. Jeffries, publisher of The Jeffries Report.

But if Atari delivers on time it might be able to generate some momentum before Amiga strikes. It would be helped more if the Amiga is priced close to \$1,000 and is distributed through computer stores, leaving the mass merchants to Atari. But if Atari is late and if the Amiga sells at \$700, Atari could be in trouble.

In any case, the return of Jack Tramiel has at least added some excitement to a business that has been in the doldrums for a year. And that could help business for everyone. ■