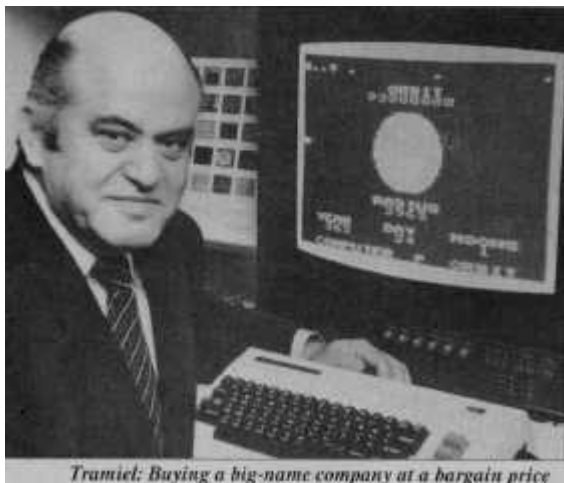


# A Tough Man For A Tough Job

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DAVID PAULY with MICHAEL ROGERS in San Francisco & CAROLYN FRIDAY in New York



*Tramiel: Buying a big-name company at a bargain price*

Jack Tramiel has always whipped through the personal-computer market at microchip speed. Following his January exit from Commodore International, a company he had helped found, he lined up a low-cost computer-assembly line in the Far East and raised \$75 million in capital. Last week Tramiel was right back on center stage, taking over the hemorrhaging Atari home-computer operation from Warner Communications. After negotiating the takeover deal well into the early-morning hours on Monday, Tramiel typically did not wait around to sign the final papers. Instead, he immediately took off from New York for Sunnyvale, Calif. By taking advantage of the three-hour time difference, he was on hand at Atari headquarters in time to begin the week's work.

The Atari-to-Tramiel transaction was a startling one even for the volatile small-computer business. The sale of the troubled video-games company had been rumored for months, but the most likely buyer had seemed to be N.V. Philips, the Dutch electronics giant. Equally surprising were the terms of the deal: Warner all but gave Atari away, prompting one Wall Street analyst to call it "the most embarrassing" takeover transaction of 1984. Tramiel put up \$240 million in notes, but they carried below-market interest rates. The two parties also traded stock warrants. Tramiel got an option to buy 1 million Warner shares at \$22 each, and Warner got an option to buy 32 percent of the new Atari operation -- which represents the seller's only real chance to profit on the deal. Under Warner, Atari had been unable to make a successful transition from games to computers, something the smart, ruthless Tramiel may be able to do.



*Morgan: Even the beer party didn't help*

Tramiel, who likes to observe that "business is war," lost no time in exercising his unique style of management at Atari. He immediately put three sons into top management spots. Chairman James J. Morgan, hired by Warner only last September to turn Atari around, was gone by mid-week --

possibly to contemplate settlement of his long-term contract or another job at Warner. Virtually all of Atari's marketing and research people were fired-and within a month Tramiel is expected to have pared the company's worldwide employment from about 5,000 to a skeletal operation of no more than 1,500. The new owner promised to cut more than the payroll. He is said to have insisted on signing all checks himself, and insiders say he will try to get out of Atari's \$6 million Olympics advertising campaign and its \$10 million promotional deal with actor Alan Alda. (Warner, in fact, has set up a reserve fund to cover contract buyouts and any lawsuits.) "The company is being run almost as a start-up," says an Atari spokesman.

In effect, Tramiel has bought himself a manufacturing and distribution infrastructure, a famous brand name -- and time. It might have taken him two years to start up a new company from scratch. A master of low-cost manufacturing, Tramiel is now expected to shift at least some production of the Atari 800XL home computer to his new plant in Hong Kong. Lower production costs and sale prices might make the 800XL competitive enough in the low end of the market to help build up Atari's cash flow. Most experts then expect Tramiel to raise his sights and produce a computer selling for about \$1,000 that will be competitive against Apple's Macintosh and the IBM PCjr. "People have figured out that you need more computer to do something interesting," says Egil Juliussen of Future Computing, a consulting firm, "and the market is moving that way." Some suggest the new entry might be ready for this Christmas season.

Atari has clearly no way to go but up. The video-games fad has fallen as spectacularly as it rose: in the last 18 months Atari has lost nearly \$1 billion, more than wiping out the profits from its salad days. In recent weeks Atari's Silicon Valley headquarters has seemed like Death Valley. Morgan trimmed the payroll, creating tearful scenes in the corridors; but insiders say real cost control eluded him. The company's budgeting system made it easy to hide overruns, says one, and "rarely could a product manager quote you his unit cost or development cost." Atari announced new products at a frenzied pace, hoping that, in the words of one official, "something would be a big hit and save us." The introduction of the 7800 video game machine may have been the biggest mistake of all, The market for "dedicated" machines -- which only play games -- had already been destroyed by low-cost computers that not only play sophisticated games but do much more. Even Morgan's attempts to keep up employee spirits by announcing a dress-as-you-like day and a Friday beer party backfired among employees who thought he was making light of a dire situation.

No Relief: But Warner Communications was dead wrong if it figured its problems would end with the sale of Atari. The company's stock plunged more than \$4 to close below \$19 a share last week, and the entertainment giant may not win back a following on Wall Street until it finishes a restructuring plan that includes the divestiture of other operations. One prime candidate to follow Atari to the disposal bin is the Franklin Mint operation. And despite his reputation as Mr. Fixit, Tramiel's problems may be just beginning. The abrasive new man at Atari may have trouble courting independent dealers -- they all remember how Commodore abruptly shifted away from their outlets to mass merchandisers. What's more, the \$75 million that Tramiel will invest in the new Atari is small change compared with what's in the till at IBM and Apple. "I suspect he bit off more than he can chew," says Fred Anshel, an analyst at Dean Witter Reynolds Inc. "But he has worked miracles before." It remains to be seen if Atari can fly again or if it is destined to be remembered as one of the best boom-to-bust stories of all time.

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