



THE ATARI REPORT

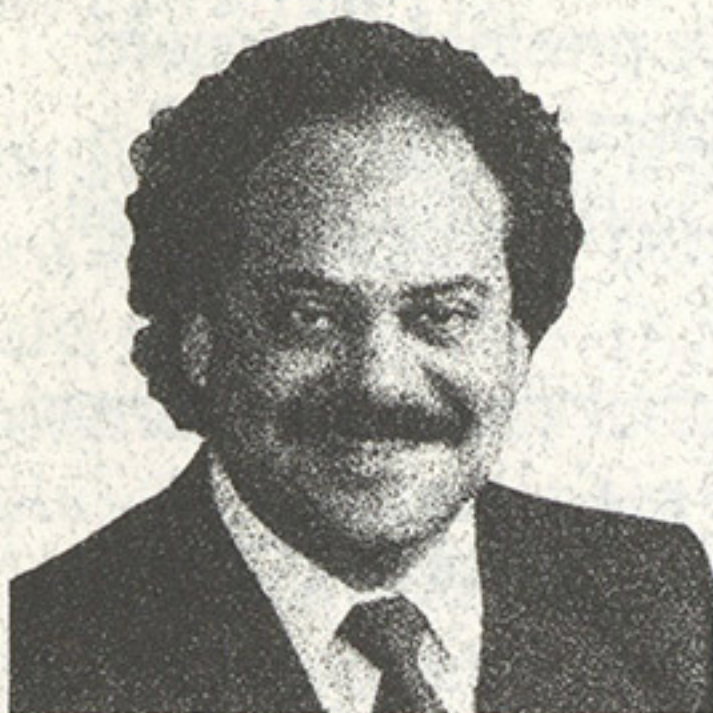
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Vol. 2, No. 1

Fall 1989

The Year of the Handheld

by Sam Tramiel



Handheld is the password in today's personal computer market. Both the businessman on the go and the fidgety kid in the

backseat want to be able to be productive and mobile at the same time. Whether forecasting the first 5 years' revenue of a fast-track future Fortune 500 or racking up style points "skateboarding" in California Games, users on the move want power and portability. For Atari, this is the year of the handheld.

We believe the most functional piece of compact technology you'll find in this year's personal electronics market is **Portfolio**—the computer industry's first handheld IBM-compatible personal computer. One pound in weight and about the size of a VCR tape, it is small enough to slip into a coat pocket.

The world's first portable color video entertainment system, the **Lynx**, was introduced both to consumers and the media with tremendous success at the June Consumer Electronics Show in Chicago. "Color" is the key factor here as it displays dramatic graphics from an outstanding palette of colors, unlike any other product of its kind. And, with ComLynx, it can be connected to up to eight players at a time. With Lynx and our supply of exciting new game cartridges for all our systems, we expect to remain a serious contender in the video game market.

Although not exactly a handheld, but quite portable, is the Stacy Laptop. This fully

functional laptop or desktop system provides users with all the processing capabilities of our ST computer line and weighs only fifteen pounds including the LCD display subsystem, keyboard, trackball for mouse control, drive and battery pack—a truly lightweight laptop.

Atari is ready and positioned with some of the most exciting, versatile new products ever to hit the industry in a big way! And, true to Atarian philosophy—with all the technology, capabilities and convenience at an affordable price!

Second Quarter and Year to Date

As you may know, as of the fourth quarter of 1988, we began treating The Federated Group as a discontinued operation. We are still reviewing the various options available relating to the ultimate disposition of Federated. Since we have already provided for anticipated financial obligations arising from the disposition, there has been no impact from Federated in the second quarter and year to date results.

Net sales for the quarter were \$82.7 million compared to \$102.5 million for the *cont., page 2*

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Atari Portfolio





Annual Meeting

Pictured, from left to right: Bob Gleadow, general manager, Atari U.K.; Alwin Stumpf, general manager, Atari Germany; Elie Kenan, general manager, Atari France; Greg Pratt, chief financial officer; Ian Kennedy, general manager, Atari Canada; Sam Chin, vice president; Marco Guerra, general manager, Atari Italy; Garry Tramiel, vice president; Leonard Tramiel, vice president; Sam Tramiel, president and CEO; Jack Tramiel, chairman.

Atari executives from around the world gathered at Atari's annual shareholder's meeting, held May 18.

Calendar

September

9. **Illinois.** Central Illinois Computerfest, Decatur Civic Center, Decatur, IL. Participation by the Central Illinois Atari Club. Over 5,000 attendees expected; features demonstrations and sale. For more information call Jim Hawks at (312) 963-2607 or Tim Rapson at (312) 877-4594.

October

7-8. **Washington D.C.** WAACE Atari Fest, Fairfax High School, Fairfax, Virginia. For more information, contact Georgia Weatherhead, (703) 938-4829.

16-20. **Germany.** "Systems" computer and communications trade show, Munich. For more information, contact Thomas Huber, Atari Germany, (011)-49-6142-2090.

28-29. **Iowa.** Quad Cities Computer Expo, Davenport Holiday Inn Convention Center, Davenport, Iowa. For more information, contact William P. Schaefer, (309) 788-7532.

November

13-17. **Nevada.** Comdex Fall Computer Dealers Exposition, Las Vegas. Atari Computer will exhibit. For more information, call The Interface Group, (617) 449-6600.

Atari Update

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same quarter last year. Operating income was \$5.4 million compared to \$17.1 million; net income was \$.3 million compared to \$5.6 million.

Net sales for the six months were \$171.5 million compared to \$200.8 million for the same period last year. Operating income was \$11.6 million compared to \$32.4 million; net income was \$3.6 million compared to \$11.2 million.

The decline in revenue and profits compared to last year can be attributed to two principal factors: exchange rate fluctuation and depressed video games sales in the U.S. Our computer sales in Europe continued to grow during the quarter despite a 10 percent price erosion due to adverse currency fluctuations. Video game sales, primarily in the U.S. market, remained depressed as a result of the alleged unfair monopolistic practices of an international competitor which are now the subject of litigation.

We have shipped several thousand units of the Atari Portfolio since the end of the second quarter and initial feedback from the marketplace is very encouraging. Our production of Portfolio is ramping up at present and we will be at targeted production levels in our fourth quarter. In addition, we will be shipping Lynx in volume during the fourth quarter.

The New Handhelds

A PC in Your Pocket: the Atari Portfolio

The Atari Portfolio is the world's first handheld personal computer. Announced at the Sicob show in Paris this spring, the Portfolio is the size of a VCR tape, weighing only one pound, but functions just like a real PC.

The Portfolio features a windowing interface and adapted MS-DOS system software, which uses MS-DOS 2.11 commands. Integrated programs include a text editor, Lotus 1-2-3-compatible worksheet, address book and phone directory, calculator, and diary. This software is stored in 256K ROM, with the expanded BIOS and operating system.

The Portfolio is based on an energy-saving Intel 80C88 chip running at 4.9 MHz. The 63-key keyboard conforms to the

QWERTY layout and features audible key clicks. The liquid-crystal display uses supertwist technology to offer 8 lines of 40 characters, which can be "windowed" to view a full-size PC screen.

The Portfolio comes with 128K RAM standard. The Portfolio features an internal "card drive." Data is stored on 32K or 128K RAM cards, which are about the size of credit cards.

Optional parallel and serial interface modules for printers, modems, and other equipment, will be available. The Portfolio runs on three AA-size batteries, or an optional power adapter.

The Portfolio begins shipping to U.S. markets in September, retailing for \$399.

Atari Unveils Handheld Game System

Atari's Entertainment Electronics Division took the industry by surprise last month when the firm introduced its new color handheld game system. Announced at the Spring Consumer Electronics Show (CES) in Chicago, the Atari Lynx is the world's first portable video entertainment system to have a built-in color liquid crystal display.

The 3.5-inch diagonal screen can display sixteen colors at a time, selected from a palette of 4,096. A system clock that operates at 4 MHz means fast action, and the four channel sound chip means realistic music and sound. Up to eight systems can be connected in multi-player games. And the image on screen can be flipped upside-down so the system can be easily played by left-handers. The unit weighs only one pound.

Games are available on credit-card sized game cards that slip into the unit. To develop software for the Lynx, Atari has

entered into a strategic alliance with Epyx, Inc., one of the leading game developers in the world. The system will come with one game card, "California Games." Five additional games have already been developed by Epyx, and will be marketed this year.

"Dealers and consumers who have seen and tested the Lynx say it can't be compared to anything they've seen or tried before," said Sam Tramiel, president of Atari Corporation. "It's definitely a quantum leap forward in innovation and establishes a totally new category of video game playing for people of all ages."



Even the New York Times admits there is no contest: "Atari's Portable Entertainment System has more high-technology features with a slightly larger screen, full-color graphics (the Game Boy is black and white), and a sleeker design that fits the grip of the hands. The on-screen images move faster than Nintendo's Game Boy..."

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The Atari exhibit was the first seen upon entering the North Hall at Spring Comdex, held in Chicago, April 10-13. The Portfolio, Stacy, and MEGAFILE 44 removable hard drive were previewed, and the PC4 was introduced to U.S. audiences.

Atari Offers PostScript-Compatible DTP System

Atari has announced a new PostScript-compatible desktop publishing system, available to consumers for only \$3995—a complete system for less than the cost of a single PostScript printer from other manufacturers. The system is based on the MEGA 4 computer, with four megabytes of RAM, and the SLM804 laser printer running Atari's new PostScript emulator, UltraScript, with 50 fonts. The Atari system also includes a 30-megabyte hard drive and Timework's Desktop Publisher ST. A printer driver is included with UltraScript, which allows Publisher ST to write PostScript files. A color or monochrome monitor should be purchased separately.

PostScript is the page description language adopted by Apple and other desktop publishing vendors as a de facto standard. Atari's UltraScript product allows the SLM804 laser printer to emulate PostScript, and includes all of the Apple LaserWriter II NT fonts originally designed by ITC and Linotype for Adobe, makers of PostScript. UltraScript can process any PostScript file created on any system.

Atari's complete PostScript-compatible system lists for \$3995 suggested retail, less than the suggested retail price of any single PostScript laser printer. A single Apple LaserWriter NT II, including only 35 fonts, sells for \$4999. The IBM Personal PagePrinter, with 43 fonts, is also \$4999.

Atari demonstrated the PostScript-compatible system alongside its other desktop publishing solutions at a series of trade shows this year. Atari's own DeskSet II, Soft-Logik's PageStream, and ISD Marketing's Calamus software each offers a complete professional solution to meet any corporation's desktop publishing needs. The apparent speed of Atari's laser printer was of particular interest to audiences, as were the high-resolution, large-screen Moniterm monitors.



Atari Computers Featured on Nationwide TV

Atari computers were featured on a recent episode of the Computer Chronicles, a weekly television program on PBS stations.

Aired initially in late April, the program looked at the use of the Atari MEGA in music, animation, drafting, and desktop publishing. A Northern California Atari

dealer showed the Spectre 128 Macintosh emulation cartridge, and Nathan Potechin, president of ISD Marketing, demonstrated DynaCADD and Calamus, two professional level programs. Another segment showed the use of the Atari ST in the study of marine mammal communications at the Steinhart Aquarium in San Francisco.

MIDI Update

Atari Sells More to Musicians

This year, Atari has captured 30 percent of the MIDI market for computers, according to an article that appeared in *MacUser* magazine. Apple has fallen to 17 percent, and IBM PCs and compatibles hold 22 percent of the marketplace.

Atari's hardware, with its reliable timing ability and built-in MIDI ports, is the source of this success. Atari's upcoming Stacy portable will open up the MIDI market even further. Stacy is a fully compatible, low-cost laptop, that can run Macintosh and MS-DOS software through the use of emulators. Every touring MIDI musician—even those with a PC or Mac back home in the studio—can use Stacy.

Of course, Atari's hardware is fully supported with software. More than 200 MIDI software packages are now available from over fifty developers, providing a better selection than any other platform. There are four broad groups of MIDI applications, including sequencing, notation and printing, patch editing and archiving, and educational. For each application there are various levels of software sophistication to meet the user's specific needs.

Atari's Hotz Box: the Latest in Music Technology

Atari unveiled the Hotz MIDI Keyboard Controller at the NAMM show in Chicago last June. The "Hotz Box," created by record producer and ST fanatic Jimmy Hotz, is a revolutionary electronic instrument. It is so simple to play that even untrained musicians can instantly compose music or play familiar tunes. At the same time, it is so sophisticated that professional musicians can compose and perform music in ways they never thought possible.

"The Hotz Box will permanently change the way musicians compose and perform music," said Sam Tramiel, president of Atari. "There's nothing like it on the market."

Atari computers also have a devoted user base of professional musicians. More and more celebrity artists use the Atari ST to compose, record, and perform their work. Atari has received three gold records through Mark Wolfson, a record producer and sound engineer from Los Angeles. The best-selling albums offer a range of musical styles: the Colors movie soundtrack; Natalie Cole's LP, *Everlasting*; and Ice-T's *Raw Power*. With the help of his programmer, Ron Jeffrey, in the studio, Wolfson has produced many movie soundtracks and popular records using the Atari MEGA and Hybrid Arts MIDI packages.

Donny Osmond also used the ST to produce his new album—in fact, he credits Atari Computer on the record cover. The single, *Soldier of Love*, has been #1 in single sales and #3 in airplay, according to *Billboard Magazine*. Frank Foster, Atari's director of specialty markets, said, "Donny was technical enough to recognize the capabilities of the ST and utilize them in his new album. It's been a real come-back for him, and he's shared his publicity and good fortune with Atari."

Jazz musician Dave Grusin recently won an Academy Award for his work on the soundtrack for the movie, "The Milagro Beanfield War." Grusin used the Atari ST in his work.

Mick Fleetwood and Jimmy Hotz, with a prototype Hotz Box and the Stacy Laptop.

With the Hotz Box, musicians can play individual notes or chords in any key or combination of keys. Used in combination with MIDI sound modules, it can reproduce the sound of any instrument. The master unit contains 106 force-sensitive pads.

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Entertainment Electronics

Hit Arcade Titles Announced for Atari Video Game Systems

Atari's Entertainment Electronics Division has announced that it will be shipping more than 15 new game cartridges between June and December for the 2600, 7800 and XE video game systems.

The graphic capabilities of the 7800 system, and the exciting array of new titles available should make it a popular gift during the holiday season.

Titles already released include the best-selling Mario Bros., the Super Huey helicopter flight simulator, and the arcade hits Commando and Xenophobe. Late December arrivals may include Ikari Warrior, White Water Madness, Ninja Golf, Mat Mania, and Planet Smasher.

New titles for the 2600 system include Radar Lock, Road Runner, and Off the Wall. New titles for the XE game system will include such arcade hits as Commando.

Ron Stringari, president of the Entertainment Electronics Division, feels that Atari systems—especially with their new, more aggressive pricing—offer consumers the best value in the video game industry today. In addition, players can choose from over 125 game cartridges, with prices starting as low as \$10.

"I was most impressed to see how Atari is responding to the onslaught of Nintendo. It is breathing new life into the aging VCS machine by producing some remarkable software for it and the 7800 machine is equal if not superior to the Nintendo..."

—Computer Trade Weekly

Atari Launches Game Magazine

Atari launched the *Atarian Video Game Magazine* this summer, and circulation has already surpassed 100,000 copies. The magazine is sent by subscription to Atarian Video Game Club members as well as being sold in bookstores, convenience stores, toy stores, and newsstands throughout the U.S. and Canada.

For a \$15 membership fee, Atarian Video Game Club members get a three-color T-shirt, membership card, and the new magazine.

The magazine contains a blend of feature articles, game reviews and previews, puzzles, and columns offering strategies and tips for achieving high scores on specific games. Each magazine will also contain an interview with notable people from the video game industry. Nolan Bushnell, founder of Atari, was interviewed for the premiere issue of the Atarian magazine.



Atari Announces Handheld Game System

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To support the market introduction, the company will initially roll out a key market media advertising campaign. A complete dealer support program has also been developed that includes in-store demonstration displays and other point-of-sales materials.

The Lynx will be initially marketed this Christmas in the New York and Los Angeles markets, with nationwide distribution next year as production quantities increase. The system will sell at a suggested retail price of under \$150.

International News

Tramiel Opens Aussie Show

Atari Chairman Jack Tramiel opened Australia's largest computer exhibit earlier this year. Tramiel traveled to the land "Down Under" for the first time in March to open the PC 89 and Office Technology exhibition at Darling Harbour in Sydney. Approximately 30,000 people attended the four day event, which included the launch of new products such as Atari's handheld Portfolio PC.

Atari France Shows DTP

Professional use of Atari Computers in desktop publishing is becoming more widely accepted in France. In June, Atari France exhibited at the DTP Forum in Paris, showing complete publishing solutions that met with wide approval.

At the show, Atari France demonstrated a MEGA 4 running Timework's Desktop Publisher ST, and Redacteur. UltraScript, Atari's PostScript emulator, was introduced to the French marketplace. The Calamus package was shown with a MEGA interfaced to Linotronic Imagesetter, providing phototypeset-quality output.

Professional publishers are beginning to use Atari system solutions for the production of magazines. *Coup de Coeur*, a French fashion publication, is prepared entirely on an Atari desktop publishing system.

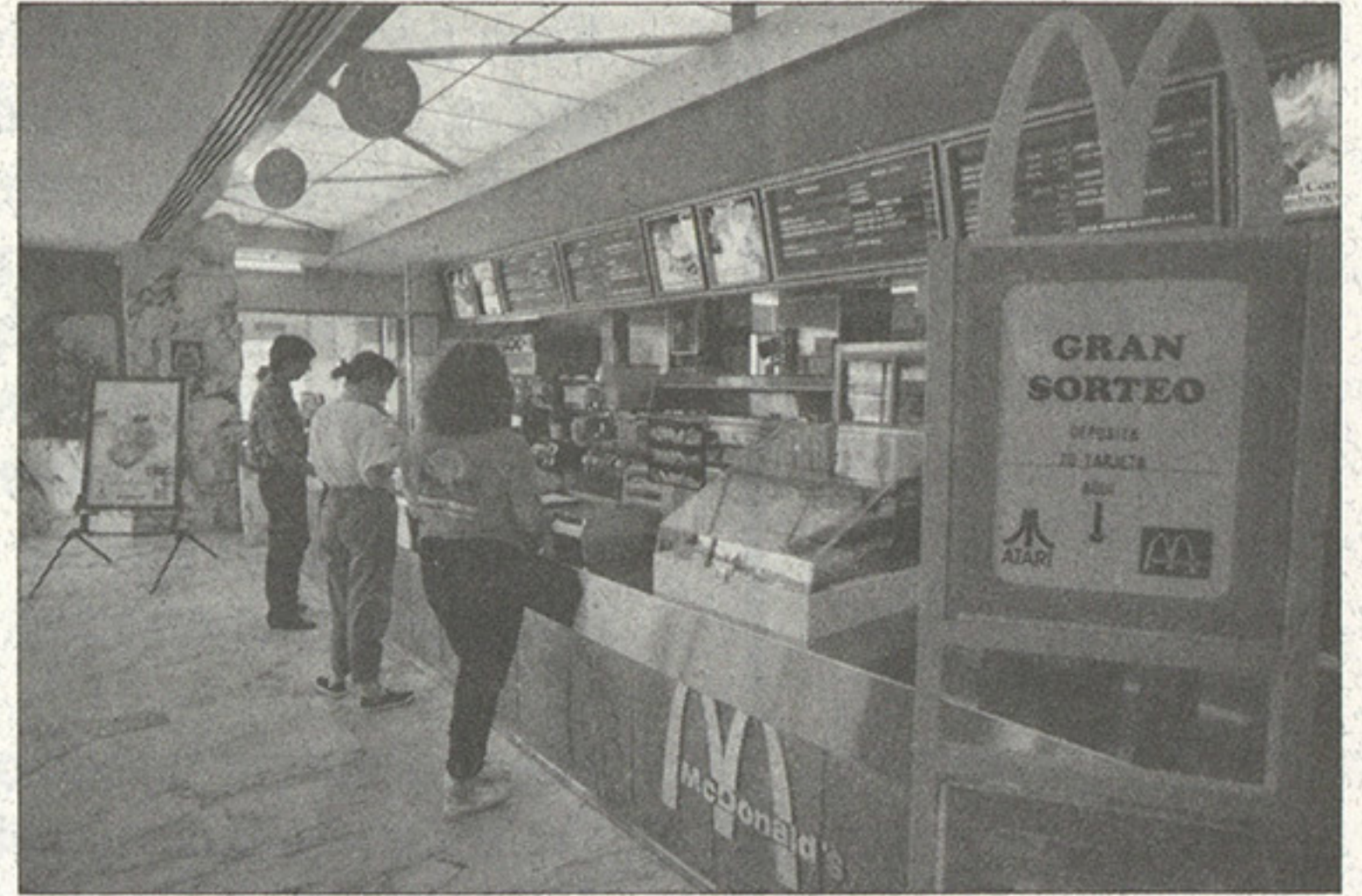
Spain Launches Promotions

Atari's Spanish subsidiary is looking at a successful year. PC mania is sweeping the country, with good sales

of the Atari PC3 and PC4 models. Freddy Vicioso, Atari Spain product manager, also has high expectations for the launch of the Portfolio at the Sonimag show in Barcelona in September. Atari Spain's sales

department plans to continue the success with a series of imaginative promotions.

In June and July, all McDonald's restaurants in Madrid and Barcelona will be distributing entry coupons for a drawing to win a 520STFM computer, XE game system, and assorted game packages. Tray mats and posters inside the eatery advertise Atari products and list local dealers. As part of another summer promotion, every buyer of a 520STFM at El Corte Ingles, the largest department store chain in the country, gets a chance to enter a contest. Grand prize is a trip to see a performance of the Spanish pop groups Alaska and Dinarama, including dinner with the musicians.



All McDonald's restaurants in Madrid and Barcelona will be distributing entry coupons for a drawing to win an Atari computer or game system. Tray mats and posters inside the eatery advertise Atari products and list local dealers.



Linotronic output from Calamus page makeup software was featured at the DTP Forum in Paris.

Hobbyists may also be able to read key data off compact disks to match their favorite songs. The user could play along and actually contribute to the piece, without ever being out of key.

Hotz Box Will Revolutionize Music Market

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Each pad plays a different note or chord and is formatted according to the user's needs. Anyone can create professional sounding works on the Hotz Box, because the computer will ensure that every note and chord is in key and in sync. Musicians can spontaneously compose or improvise without fear of hitting a "wrong" note and disrupting the creative flow.

The innovative layout of the system, and the touch-sensitivity of the keypads decreases the importance of finger dexterity in playing the instrument. This will encourage people who may have tremendous inherent musical ability that they have never been able to express. For example, handicapped users can easily master composition and performance techniques with the Hotz Box.

Any number of Hotz systems can be linked together. One will serve as the master unit and "conduct" the others, setting the tempo and key.

Atari executives and Hotz feel that this technology will revolutionize music education, as well as music composition and performance. Children will no longer be discouraged by the fact they cannot quickly master an instrument. Children will become more interested in learning about music, because every key they touch on a Hotz Box sounds good.

Hotz was able to develop and launch his system with the help of Mick Fleetwood of Fleetwood Mac and Atari Computer. Atari will market and distribute the product. The machine is designed to be configured with the Atari ST, MEGA or Stacy. A professional model Hotz Box will retail for under \$10,000.

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*This issue of The Atari Report was produced with an Atari Desktop Publishing System, including a MEGA4 computer, Megafle 30 hard drive, SLM804 laser printer, Moniterm Viking 2 monitor, Atari DeskSet II, Migraph's Touch-Up, Microsoft Write, and WordFlair.
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