

# ELECTRIC ESCAPE

Atari

## From Boom to Bust and Back Again

The oldest videogame company of them all once held an entire industry in its grasp. And then it threw it all away. So why is Atari now back in the running?

From [Next Generation](#), April 1995

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The dominant position of Japanese consoles in today's videogame market makes it easy to forget that the original market leader in home video consoles was an American company.

Atari arrived on the scene 23 years ago. Given that at the beginning it had a clear field, you would have thought that it would still be a major force. Not so. Many gamers fail to realize that in business terms, Atari is a minnow swimming with the sharks of Nintendo, Sega, and Sony. Atari is a company that has managed to exist almost despite itself.

During the 1970s it was the equivalent of Nintendo, conquering the world with its VCS 2600 console. Somewhere along the line, though, it lost the plot. Thanks to some disastrous marketing decisions, the company changed hands, moved from console to computer development, made plenty of money off the back of the ST range and then lost millions fighting Commodore. Now it has reentered the console market with its 64bit Jaguar machine, has been involved in a very interesting court case with Sega, and has decided to settle some old scores.

The entire list of Atari alumni is like a who's who of the computer and console industry. Many current leading industry figures have been involved, at one period of time or another, in the firm that reads like a strange history of videogames themselves.

Atari was founded in 1972 by a University of California engineering graduate named Nolan Bushnell. He had become interested in computer games during his time at college, where he played one of the very first, a primitive creation called *Space War*. So taken was he by this game that he decided to produce a version for himself in 1971, and so the very first arcade game, *Computer War*, was born. He took the design to a pinball company, which manufactured it. It bombed, big time.

Unperturbed, Bushnell decided to produce a much simpler product. After some thought, he designed a very uncomplicated tennis game which he called *Pong*. He built a prototype and, in 1972, after a successful trial of the machine, set up his own production line. Having scraped some cash together from friends, relatives, and the bank, Bushnell employed a group of technohippies (Steve Jobs and Steve Wozniak of Apple fame among them), who fought to keep up with hoped-for and somewhat surprising demand.

In those early days, Atari was breaking new ground. It released the first car racing game, called *Gran Trak*, and the first tank game, named (somewhat obscurely) *Tank*, which was also the first arcade game to store its graphics data on ROM. Shortly after the success of these machines, Atari released *Breakout*, a game that still gets released on new formats today.

By 1973, the company had 80 employees and Bushnell was looking for ways to find new growth. He'd seen the potential that videogames had, but the company lacked the finances to exploit it. As a result, he sold the rights to *Pong* to Bally, the pinball company, which went on to sell thousands more units all across the world. With this cash injection, the Atari engineers created *Sprint*, the first arcade machine to use a CPU to control the game.

What Bushnell really wanted, though, was a machine that could be used at home. He realized that although arcade games would always be popular, there was a massive domestic market just waiting to be tapped. It was with this in mind that he created the Atari VCS 2600 console. Its compact design, custom chips, and sophisticated sound and graphics made it an instant hit when it was released in 1976 -- the same people who played Atari games in the arcades could, for the first time, play them at home as well.

Around 1976, however, things started going wrong at Atari. The company had overstretched itself, particularly with the development of the Atari 800 computer, and so Bushnell sold Atari to the media conglomerate Time Warner for more than \$20 million. He couldn't let go completely and remained with the firm as chairman.

At that time Atari adopted an attitude which was to be copied in the late '80s by the Japanese console companies. The primary competitor of the Atari 800 was the Apple II that Jobs and Wozniak had created in their garage. While the Apple was an open system, Atari threatened to sue anyone who developed software for its machine, figuring correctly that revenue came from software and not hardware. So while groundbreaking products like *VisiCalc* (the first spreadsheet) were being created for the Apple, the Atari 800 suffered from a complete dearth of software.

In 1978, after an acrimonious dispute with Time Warner, Bushnell left Atari with a healthy golden parachute. After the dust settled, the company forged ahead with sales of its VCS and (for a while) it was unbeatable. By 1981 more than 20 million consoles had been sold and the arcade market had grown in just eight years to a value of \$6 billion.

Anyone with a stake in such a lucrative market could be forgiven for becoming complacent.

In those early days, everyone believed that the console market was untouchable. The industry had emerged from absolutely nowhere to become the single largest component of the toy sector. All the traditional toy companies had scrambled to jump onboard, providing plenty of rivals for Atari. But what happened next had more to do with poor planning than the amount of competition in the field.

In 1983, the console market had reached saturation point. Everyone who wanted a home videogame system had bought one, and yet companies like Atari carried on churning out units. At one point, it was even producing more game cartridges than there were machines. It assumed that all it had to do was release games and the public would snap them up. But as many companies have discovered, public taste can't be taken for granted.

Every market has to keep the customer interested. Car companies release a range of models at a variety of prices. The music industry constantly offers up new talent for public consumption to keep the market moving. In its naivete and arrogance, the American videogame industry ignored these hard-learned lessons, and in late 1983 the videogame market suffered a disastrous slump.

It was at this time in 1983 that Atari made a judgement which probably still gives executives nightmares. It was approached by a Japanese designer from a then little-known company called Nintendo and offered the worldwide rights to the Famicom console. Hiroshi Yamauchi figured that because Atari already had a worldwide distribution network, it would be the perfect company to set up a global release for his machine. In its wisdom, Atari blew the Japanese company out, and so Nintendo set about the task of worldwide domination on its own.

In that year Atari suffered a loss of \$536 million. Time Warner couldn't cope with such a massive drain on its funds and scrambled to sell as quickly as it could. The computer and videogame divisions were sold to Jack Tramiel, the man who had been ousted from Commodore, the company he founded. The coin-op division, Atari Games, was sold to Masaya Nakamura at Namco. Time Warner was reluctant to burn its bridges, though, and cleverly hung on to a 25% stake in Atari and a 40% stake in Atari Games. While Tramiel plotted to beat Apple and Commodore at their own game, Nintendo hatched plans to rekindle the console market with the help of a plumber.

The 2600 was still the only console that counted when the Tramiels bought Atari. All they had to do was come up with a replacement for the aging machine and some decent software to play on it. At this stage they must have known that the 800 stood no chance against the Apple and the IBM PC. This is undoubtedly the point at which Sam Tramiel (the newly-appointed president) told his engineers to come up with a completely new machine.

Atari released follow-ups to the 2600 in the form of the 7800 series, but these bombed in the face of the new Nintendo machine. Atari was by no means happy with the bold success of the Nintendo; it didn't like the way that Nintendo had a stranglehold on what company produced cartridges or its system and launched a lawsuit against the company alleging that the practice violated American antitrust laws.

By 1986 Atari had designed its first 16-bit computer, the ST. Everyone immediately thought that "ST" stood for Sam Tramiel, but he insisted that it's an acronym for Sixteen/Thirty-Two, the system's internal architecture. The first machine featured 256K of RAM, an external 3.5" drive and a brand new 'desktop' navigated using a mouse. It was released about a year before the Commodore Amiga, the machine that proved to be the ST's bitter rival. The irony was that Atari invested startup capital in the Amiga when it was still a pipe dream, but when it was offered the machine it turned it down in favor of its own ST.

Lots of publishers released products for the ST initially. Atari authorized conversions of its popular arcade games, and with titles like *Sprint* and *Gauntlet* behind it, sales were buoyant. At this stage, Atari must have figured that the Amiga would never touch it. Although it was technically superior, it was much more expensive and was being marketed as a business machine. In 1989 Atari launched the 520 ST, with an internal 3.5" floppy disk drive, 520K of RAM and a MIDI port. STs walked off the shelves.

By 1989, thanks mainly to the release of the A500 for the home market, the public was becoming aware that the Amiga was an exceptionally powerful machine. Games like *Defender of the Crown* were left running in shops, and consumers were amazed at the sampled sounds. But still the ST kept the lead. Its head start meant that it had the largest range of software, and it still cost less than the Amiga. But by 1990 the remodeled Amiga 500 rather than the ST was becoming the 'must have' machine.

Atari's power base now shifted to Europe, where home computers had become the most popular games medium. Although consoles were strong in the US (the Famicom that Atari could have owned became the NES and launched worldwide, while Sega introduced the Master System), the Europeans bought more and more home computers, particularly Atari's ST. In 1990 the British market was split down the middle between the Amiga and the Atari ST -- not a single player wanted a console.

In 1991 the Amiga started outselling the ST. The software houses were quick to switch allegiance. Games started appear on the Amiga first and the ST second. This was despite the release of the STe, an upgraded Atari machine featuring a 4096-color palette. The extra 'e' didn't fool anyone, though. The ST range still couldn't touch the Amiga's technical specifications.

It was in early 1992 that rumors of a new system, the Falcon, emerged. By this time the Amiga was way ahead of the ST range in terms of both software and value for money, so loyal Atari owners hoped that the new machine would give Commodore a bloody nose. It wasn't to be. The Falcon was launched in autumn '92 but wasn't released in any

volume until '93. After taking a deep breath, the computer-buying public decided to stick with the Amiga. The Falcon sold, but in relatively paltry numbers and mainly to 'hobbyists.' Meanwhile, the well-oiled Atari rumor factory churned out a singularly unbelievable nugget: there was a 64bit console on the way. That year Atari Corporation posted losses of \$76.3 million.

But where the US goes, Europe tends to follow. The first Nintendo and Sega consoles had been doing exceptionally brisk business in the US during the late '80s, and by 1991 the Super Famicom and Master System were big news. The 16bit console market exploded in 1991, and the shock waves reverberated throughout the whole of Europe -- Atari's stronghold.

At this point Atari started developing its own console. It had been beaten by Commodore in the home computer market and so it made sense for it to return to a marketplace it knew well. In 1992 the new 16bit consoles went global, turning Nintendo and Sega into fabulously profitable companies with the financial clout to crush anyone who threatened their dominance. Although the Falcon continued to sell in minimal amounts (through specialist computer shops), Atari's handheld Lynx bombed, despite being the most powerful machine on the market.

By 1993, the popularity of the ST and Falcon had crumbled almost completely. Atari was now on the ropes. Its machines had zero credibility and it was losing money hand over fist. Things could only get better.

Atari unveiled the Jaguar in August 1993 at the Chicago Consumer Entertainment Show to general acclaim. More than 150 developers were sufficiently impressed to sign up for production rights by the end of 1993. Richard Miller, Atari's technical wizard, had invented a brilliant chipset that was capable of chucking polygons around a screen quicker than anything else. The press also thought the machine was great, but was skeptical about its future. In 1993 Atari's losses were \$48.9 million.

Jeff Minter has always been a fan of Atari hardware. Ever since the days of the Atari 800 he has been churning out psychedelic games full of llamas, sheeps, and toilets. In June 1994 he unveiled his *Tempest 2000* Jaguar cartridge to universal acclaim. This single game probably did more for Atari's reputation than anything the company's marketing team had managed in the last five years. Admittedly, Atari gave Minter a great deal of creative freedom, but the fact remains that *Tempest 2000* forced everyone to start considering Jaguar as a contender.

Whether by accident or design, the Jaguar was released at the perfect moment. During 1994, sales of SNES and Genesis cartridges were falling. The console kids wanted something new, something better, something quicker. Sega released its Genesis add-on, the 32X, and announced the Saturn. Nintendo revealed plans for the Ultra 64 and Sony unveiled the PlayStation project. But the Jaguar was there in the shops and there

were even a few good games available for it. Although the machine sold steadily in the States, it failed to cause a revolution. Atari's position was still precarious.

Then Sega entered the picture. In 1990, in one of the most momentous events in its history, Atari took Sega to court in America for infringement of some of its patents. This was all down to Nolan Bushnell. Bushnell was a very canny businessman who, during the five years he was at the helm of Atari, had paid very good lawyers very good money to patent everything that the hardware and software teams invented, in order to prevent anyone from ripping off any of Atari's innovations (a practice that was continued by Time Warner). when the Tramiels bought Atari, they were obviously more concerned with getting the company running smoothly than pursuing numerous patent infringements, but, sometime in 1988, they decided to unleash the lawyers.

In late 1994, Sega settled out of court for \$50 million cash and \$40 million stock in Atari. Why did it cave in? Sega ostensibly stepped over the boundary of Atari's nine-pin joystick patent, but this alone wouldn't account for the amount of money received. Many people in the game industry believe that Atari's patents are so all-encompassing that they effectively give it a copyright on a whole range of videogames. It's possible, for example, that Atari owns the concept of sprites that move off the left of the screen and appear on the right -- in other words, scrolling backdrops. And this is just one of more than 70 Atari patents, all of which are thought to be quite airtight. So it's no wonder that Sega opted to avoid a potentially disastrous judgement against it and throw in its lot with Atari.

A press release issued by Sega after the negotiations revealed the ramifications of the case: "The two companies have entered into a software license agreement for a specified number of games that would be made available on each company's present and future platforms." So Atari has the option to release Sega games, and vice versa -- Jaguar owners should soon see titles like the *Virtua* series and *Daytona* on their machines (but, as Bob Gleadow, vice president of Atari Europe, told **Next Generation**, "The line stops at *Sonic*").

And it doesn't end with Sega. Atari is now gunning for other big hardware and software manufacturers -- or, as an Atari source puts it, "Everyone who can afford to pay us" -- and will be looking to companies like Sony and 3DO for compensation. It has already gone the distance with one Japanese giant, so it's not unfeasible that it will do it again. If other companies do settle in the same way as Sega has and invest money in Atari, then by the year 2000 there will be a large number of hardware and software outfits with a vested interest in seeing the Jaguar succeed. Atari had better get its skates on, though, because some of the patents only have another seven years to run.

Atari's fighting hard to regain credibility. It has cast off its lackluster computers and is focusing on the Jaguar. Its future looks rosier than it has for some years. It recently announced that its console would be distributed in the heart of the game industry, Japan. it's tied up a VR headset deal. It has a Jaguar CD all-in-one for release in 1995, and work has already begun on Jaguar 3 for release in 1996/7.

And, of course, there are those handy patents knocking around. More impressively, there's finally some decent software coming out for the machine. Whether it will be enough to fend off PlayStation and Saturn is doubtful, but Atari always puts up a good fight. And people have written them off before -- Atari might just surprise us all yet.

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## Sam Tramiel

As Atari plans for a brighter future, Next Generation talks to its president

**NG:** Is it fair to say that Atari produces excellent products which suffer a poor public image?

**Sam:** We do make excellent products. We have made mistakes in the market, and some of the circumstances in the computer market just made it impossible to compete. The Jaguar will get proper marketing support and we and others are working hard to deliver great software. Whatever poor image exists will change.

**NG:** Atari's shifted its emphasis from computers to consoles. Is this a permanent shift or not?

**Sam:** Around the end of 1989, Atari decided that the computer hardware business was too cut-throat, and a proprietary system could not succeed in the long run against the IBM/Intel juggernaut. We decided to focus on the interactive entertainment market. If the business opportunities exist for us to get back into the computer business, we will. We feel that the Jaguar has a great future and is a very exciting platform at a great price.

**NG:** But why launch a console now, when everyone else seems to be moving into multimedia hardware?

**Sam:** The console approach enables us to have a low price starting platform and gives the user the chance to add peripherals as he or she can afford them. The future peripherals will be a CD player, a voice modem, a VR headset and something else I can't reveal. The other new platforms are just too expensive for the consumer and this has been proven by the failure of Commodore's CDTV and the CD players. We are focusing much energy now on the multimedia software that will make Jaguar a success.

**NG:** Is it true that the Jaguar is a make-or-break product for Atari?

**Sam:** The Jaguar is not a make-or-break product but it is what we are focusing on. We are also going into the publishing business for PC CD-ROM and perhaps others as well, with another brand name.

**NG:** Do you think Atari can compete with the giants of the console market, like Sega, Nintendo, 3DO, and Sony?

**Sam:** Atari invented the videogame business and during the late '70s and early '80s was the dominant company. The industry has been through a number of cycles and we are now entering the fourth cycle. Cycle two was dominated by the NES, cycle three has been shared by Sega and Nintendo and we, at Atari, have put a lot of effort into assuring the success of the Jaguar in cycle four. The Saturn is too expensive and Nintendo doesn't even have a product yet. All Nintendo is doing is trying to confuse the market with disinformation. The 3DO group has doubled the royalty to the software community and the hardware manufacturers aren't happy. The Sony product is just too expensive to be taken seriously, and I can't see Sony focusing on a product that won't have the quantities due to the high price. It will not be a big player.

**NG:** But the Jaguar is going to be in direct competition with a lot of heavily-backed machines. Does Atari really stand a chance?

**Sam:** We have some very compelling advantages in terms of power, low price, and lots of good software, with more on the way. We have a very experienced team. We also have the financing. Also important is our strategic investor, Time Warner, and our new partner, Sega, which gives us another source of good software.

**NG:** How much input does Time Warner have with Atari? Does it provide monetary help beyond its obligations as a large shareholder?

**Sam:** Time Warner has no official input into Atari. But we do talk to many of the Time Warner divisions and we value our relationship with them. For example, we were chosen to be scheduled in the Time Warner Cable Full Service Network test in Orlando, FL. We got a license from Warner Brothers for the big Batman Forever movie. We also work closely with Time Warner Interactive and you'll see it publishing many titles on Jaguar in the near future. We have no need for more money at this time, but if we did have a good reason to raise more, Time Warner could be an option.

**NG:** Why has it taken Atari so long to pursue patent infringement? Why didn't you go after Sega and Nintendo when you bought Atari from Time Warner?

**Sam:** The issue of patents is very complex and we pursued the issues as soon as it was prudent to do so.

**NG:** Are you going to pursue Nintendo, 3DO, Sony, and the other console manufacturers in a similar manner?

**Sam:** I can only say that we will maximize our patents' value and will pursue whatever means necessary to ensure that they aren't infringed upon. We have some precedents and we look forward to more favorable outcomes.

**NG:** The Sega deal means that you can release any of its titles (excluding *Sonic*) on the Jaguar. What Sega titles are going to appear on the machine?

**Sam:** We haven't decided yet.

**NG:** What steps are you taking to sell Jaguar in the US and Japan?

**Sam:** We have chosen to make the US the first important market for the Jaguar. It is starting to work. We just introduced the Jaguar into Japan and met more than 60 third party developers in Tokyo. It will not be easy selling a US-made machine in Japan, but we are going to try.

**NG:** Many industry insiders believe Jack Tramiel imagined revenge on Commodore for the way in which he was ousted from the company. If this is true, is he happy?

**Sam:** We did not buy Atari as a rode to exact revenge on Commodore. it was a good opportunity to acquire the best-known name in videogames.

**NG:** Is it true that Atari is considering buying its old-time rival, the shattered Commodore company?

**Sam:** We aren't happy about the demise of Commodore and have no plans to acquire the leftovers.

**NG:** Finally, what do you think the future holds for Atari?

**Sam:** Success.