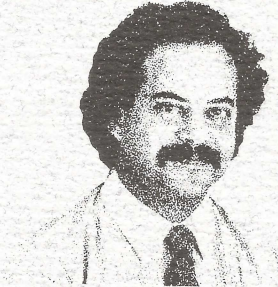


THE ATARI REPORT

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Vol. 1, No. 2

Winter 1988



Atari Update

by Sam Tramiel, President

Business is war.

A strong statement to be sure, but true.

This sometimes misconstrued saying was first publicly coined in 1983 by CEO Jack Tramiel during an interview on the McNeil/Lehrer News Hour. It reflects a business philosophy, not an endorsement of war and its atrocities. According to Jack, "I compare business to war because each must be approached in the same manner. It takes strategic planning, good organization, and total commitment to win. It's not a sport or a game. Every minute, every hour, you face competition...there are always others much smarter than you. You have to work harder and serve the customer better to get your share of the business." Lately, the "Business is War" slogan has been adopted by other companies in their advertising campaigns. It's no surprise. A disciplined, militaristic approach couldn't be more applicable as business faces the tough competition of today's market.

Business is war, and Atari is armed with the latest in technology and compelling new products to be a major factor in both the computer and video game markets. Our weapons are the skill and experience of our designers, engineers and developers. Our ammunition is the increasing ability to keep a market fully supplied and well served. We are aware that highly developed and well executed marketing strategies are vital to secure Atari's position in the minds of the ultimate target--the consumers.

Having just recently returned from COMDEX, the largest domestic computer conference and trade show, I believe we are well positioned for the year-end push, as well as next year. Atari commanded an imposing presence by solely occupying a 6,600 square foot display hall for presentation of new products and software. Among the show's highlights were the new Atari PC4 MS-DOS

compatible personal computer; the PC5 OS/2 compatible, the Atari Transputer Workstation (ATW), and an ST laptop computer to be released in summer, 1989.

Third quarter results. The growth of the computer segment continued to be constrained by the continuing shortage and high price of DRAMs. Our margins were negatively impacted by adverse movements in exchange rates and high component costs. A recently signed contract with a major DRAM supplier will assure an expanded, stable supply of components which will allow us to expand our computer business in 1989.

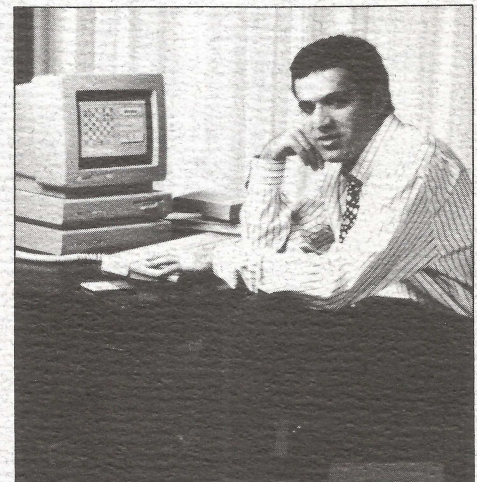
The overall results at Federated are disappointing. We have improved our gross margins significantly from 24 percent to 28 percent since the beginning of the year. Also, we have reduced our variable operating costs, including head office overheads, by approximately 40 percent since the beginning of the year. However, while these trends are favorable, the tradeoff for establishing control in this newly acquired enterprise has been an

Continued on page 5

Atari Computers Are Perfect Match for Chess Champ

Three-time and current world chess champion Garry Kasparov uses his MEGA system with ChessBase, a technical chess database, to work through strategies and study his opponents' moves. Now 24 years old, the Soviet-born Kasparov has been playing exhibition games throughout the United States and enthusiastically supports the ChessBase program.

Developed in Germany, ChessBase is distributed in the U.S. by Saitek of Torrance, CA.



Garry Kasparov

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Atari Corporation was featured on the Larry King Show, a national radio program, on the day after Thanksgiving, traditionally the busiest shopping day of the year. Mike Katz, president of Atari's Entertainment Electronics Division was interviewed by Jim Bohannon, who was sitting in for King.

Video Game Update

Atari Opens Chicago Office

Atari has opened an office of the Entertainment Electronics Division in Chicago, headed by Larry Siegel, Atari's new vice president of software development.

Siegel is working with software development directors Frank Cosentino and Steve Harris, outside developers, and the division staff at Atari's Sunnyvale office, which includes John Skruch, Juli Wade, and the software test group. The Chicago office will be licensing new titles and working with developers to produce new games.

Said Mike Katz, president of the Entertainment Electronics Division, "We are developing state-of-the-art games in popular categories for production in spring and summer of 1989." He continued, "We will support any new game systems Atari might come out with."

"We'll be developing sports games, and shoot-'em-ups," said Siegel. "Atari will introduce a broad range of great software in the coming year. We want to build an exciting game library from the finest developers. I anticipate that next year you'll see some really exciting new developments."

Siegel has over twenty years of experience in the video game industry, with a strong background in coin-operated and arcade games. He has worked for Sega, Stern, and Williams Electronics in the past.

Promotions for Christmas Sales

Atari's Entertainment Electronics Division plans a great holiday season. Atari is

running a number of new sales promotions, backed by TV commercials in major markets, designed to take Atari video games sales to the top of the charts.

Atari is offering a \$50 rebate on its top-of-the-line video game system--the Atari XE. Atari is offering cash back on the system--regularly priced at \$149.95--through Decem-

ber 31. Atari is the only company to offer three video game systems: the 2600 (\$49.95), the arcade-quality 7800 (\$79.95), and the powerful XE.

Equally exciting is the Atari Advantage Collector Promotion, which offers a variety of prizes to consumers based on the number of Atari video games they collect.

Consumers win a free Atari Advantage T-shirt for collecting five games -- and major discounts on hardware for collecting 25 games. The discounts offer the Atari 7800 or XE video game systems for sale at half price, or an XE disk drive for only \$50. The disk drive turns the XE video game system into a fully functioning personal computer.

Consumers who collect 25 game cartridges also become eligible to enter a creative essay contest for the grand prize: a seven-day, expense-paid trip for two to California and Atari headquarters.

The Atari Holiday Bonus Software Program offers free game cartridges to consumers who purchase video game systems before the end of the year. Anyone who buys a 2600 or 7800 game system before December 31 will receive two game cartridges, free, direct from Atari. Consumers purchasing two game cartridges will receive one cartridge free.

Atari Releases New Titles

Atari plans to release more than 45 new titles in 1989. Following the announcement that Atari has sold its 26 millionth video game system--an unprecedented sales milestone--is news that eagerly-awaited hit titles will be available for all Atari game systems early next year.

7800. First quarter releases include Crossbow, Tower Toppler, Fight Night, Touchdown Football, Dark Chambers, Barnyard Blaster, Super Huey, Ace of Aces, Crack'ed, and Jinks.

XE. First quarter releases include Into the Eagles Nest, Summer Games, Crime Buster, Commando, Tower Toppler, Jinks, Super Soccer, Mean 18, and California Games.

2600. First quarter releases include: Double Dunk, Crack'ed, and Secret Quest.

The first of a series of 2600 games to be developed by Nolan Bushnell, Atari's founder, has been released, including Secret Quest, Double Dunk, and Road Runner.



Doug Williams of the Washington Redskins promotes Atari nationwide in a recent TV spot.

Federated Opens Compu-Centers

Soon all Federated customers will know that not only is this the place to buy their consumer electronic products, but it is also the best place to purchase their computer business systems.

A new concept for Federated stores, called Compu-Centers, was started this past summer. The "store-within-a-store" concept consists of about 1500 square feet of retail space. The small office center offers computers, disk drives, printers, modems, FAX machines, copiers, business phones and related supplies. In addition to computer hardware, the Compu-Center carries a full line of Atari ST and 8-bit

software, MS-DOS software, and peripherals.

Five vertical markets are being targeted with this new program: Desktop Publishing, Graphics, Music, Education, and the Home Office (specifically small businesses in the home or homes that are used as an extension of the regular workplace). These markets will be reached through onsite seminars and outside sales.

There are now 16 Compu-Centers operating in California, Arizona and Texas. Eventually all 60 stores will adopt this concept.

- Main goals:**
- *Make consumers aware of the Compu-Center concept.*
 - *Let the technology customer know Federated offers competitively priced solutions.*
 - *Establish the Compu-Center as the place to go for expert service.*

Calendar

JANUARY 1989

20-22: California. Winter NAMM International Music Market, Anaheim Convention Center, Anaheim, CA. Call National Association of Music Merchants, (619) 438-8001 for more information.

APRIL

22-23: California. World of Atari show, sponsored ST World, Game machines, 8-bit computers, MEGA and STs, seminars, workshops, exhibits. Disneyland Hotel, Anaheim, CA. Call (503) 623-2259 for more information.

MAY

6-7: Michigan. MACE Atarifest, Detroit. Call Patty Rahl at (313) 973-8825 for more information.

13-14: Massachusetts. Atarifest, Boston. Call Jerry Feldman at (603) 881-1135.

JUNE

3-6: Illinois. Summer CES, McCormick Place, Chicago. Atari's Entertainment Electronics Division will be exhibiting. Call (202) 457-8700 for more information.

17-20: Illinois. Summer NAMM show, McCormick Place, Chicago. Call National Association of Music Merchants, (619) 438-8001, for more information.

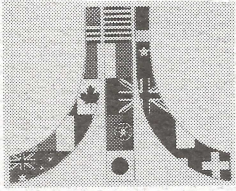
MEGA 2 Compares to Mac SE

"But even a cursory examination of the system we received from Atari shows that the MEGA is no toy in terms of technology or price. The MEGA compares very favorably with the Macintosh SE in terms of technology, having the edge in several areas including standard RAM (four megabytes versus one megabyte, display size (12 inches versus 9 inches), resolution (640 X 400 versus 512 X 1342 pixels), and its low-cost color option. As seen in the product specification...it provides a potentially powerful hardware platform for professional computing."

-- *Andrew Seybold's Outlook on Professional Computing,*
September 30, 1988

The MEGA 2 has numerous features that make it a winner against any computer. Recent advertisements running in newspapers across the country pit the MEGA 2 computer against the Macintosh SE. As you can see, the Atari is the obvious choice--more computer for your money!

	MEGA 2	Macintosh SE
Processor	68000	68000
Clock Speed	8.0 MHz	7.16 MHz
Graphics Accelerator Chip	Yes	No
Standard RAM	2 MB	1 MB
Monochrome Monitor Size	12 inch	9 inch
Max Resolution	640 X 400	512 X 342
Color Palette	512	N/A
Max Colors on Screen	16	N/A
Centronics Parallel Port	Yes	No
RS232 Serial Port	Yes	Yes
Mouse Port	Yes	Yes
Mouse Included	Yes	Yes
Number of Buttons	2	1
Joystick Port	Yes	No
Hard Disk Port	Yes	Yes
Built-in MIDI ports	Yes	No
Keyboard Included	Yes	No
Price	\$1899.95	\$2648.00



Millions of Atari systems are at work today throughout the world. Our equipment is helping to publish French newspapers, design West German automobiles, control Swiss francs, solve particle physics problems and find solutions to worldwide water shortages. They are used to create Gold Record audio tracks. They're in courtrooms, classrooms, and homes on almost every continent.

--advertisement, Comdex Daily

Success in the Gold Room!

Atari was a hit at Comdex this year, with crowds visiting the Gold Room exhibit every day of the show. Atari proved to everyone that it is serious about selling to the U.S. marketplace. Comdex also proved that Atari's MEGA and ST computers have now matured, with a depth of software support for business applications from developers worldwide.

Quality software means hardware sales. Atari's president of software, Sig Hartmann, said "We are now seeing the results of efforts the company put out early in the development of the ST. We are now seeing many high-end products for the MEGA and ST, products which have taken several years to develop." Hartmann emphasized that Atari intends to make a major effort in the U.S. this year, and will soon be recognized as a major force in the computer industry around the world. "Computer sales are driven by software," said Hartmann. "And we now have at least 5,000 titles worldwide. In addition to the work of American developers, we are beginning to see European products, such as DynaCadd and the Calamus desktop publishing software."

Said Mike Dendo, Atari vice president of sales, "We showed dealers we have done everything we said we would. We feel we've shown that people can make money with Atari. We intend to take the good work that dealers did in the fourth quarter and carry that forward for a strong first quarter in 1989."

Atari signed a significant number of dealers at the show, and received hundreds of inquiries from retailers interested in carrying the Atari product line.

We've got DRAMs. At the show, Sam Tramiel stated that Atari is shipping 50,000 to 70,000 STs to the world per month, depending on DRAM supplies. Over 90 percent of these currently go to the European market. Said Tramiel, "Atari is a major player in the European computer market, and we plan to make it the same way in the U.S. We won't be able to turn on the supply overnight to the U.S., until we reestablish the dealer base and distribution system." The DRAM shortage is easing. By adding further dealer coverage and continuing dealer promotions, Atari should become even

Atari Shines

stronger in the U.S. marketplace.

Atari follows industry trends. Over 110,000 computer retailers and industry professionals attended the 1988 Comdex show, held November 14-18 in Las Vegas. Atari filled the 6,000-square foot Gold Room in the Las Vegas Convention Center with more than fifty developers and satisfied dealers and users from around the world.

Laptop computers and 80386-based PCs were big news throughout the industry at the Comdex show, and Atari demonstrated both. Atari's PC5 personal computer is OS/2 compatible, with two megabytes of RAM, two internal drives, and many other standard features. It drew rave reviews, as it ran Microsoft Windows, providing a multi-tasking, windowing environment. A preproduction laptop unit was displayed to dealers and developers, featuring a built-in track-ball mouse controller, built-in floppy drive, hard drive, and blue LCD screen. The Atari laptop is scheduled to be available in summer 1989. No pricing information was announced.

New Atari Products. In addition to the PC5, Atari showed two PC4 MS-DOS compatible personal computers, and three Atari Transputer Workstations (ATW, formerly the Abaq). The PC4 and PC5 computers will begin shipping in the United States in the first quarter of 1989.

MEGA systems throughout the exhibit were equipped with Atari's new MEGAFILE 30, a high-capacity hard drive containing 30 megabytes of memory. The MEGAFILE 30 is now shipping as part of Atari's MEGA 4 desktop publishing package. Atari plans to introduce a 60 megabyte hard drive as well.

Atari also showed UltraScript, a Postscript emulator for the SLM804 printer, and DeskSet II, a high-end desktop typesetting program. Solid applications software such as PageStream, BeckerCad, DynaCadd, Fleet Street Publisher, and Calamus, was shown by Atari's third-party developers. These desktop publishing packages were shown to their best advan-

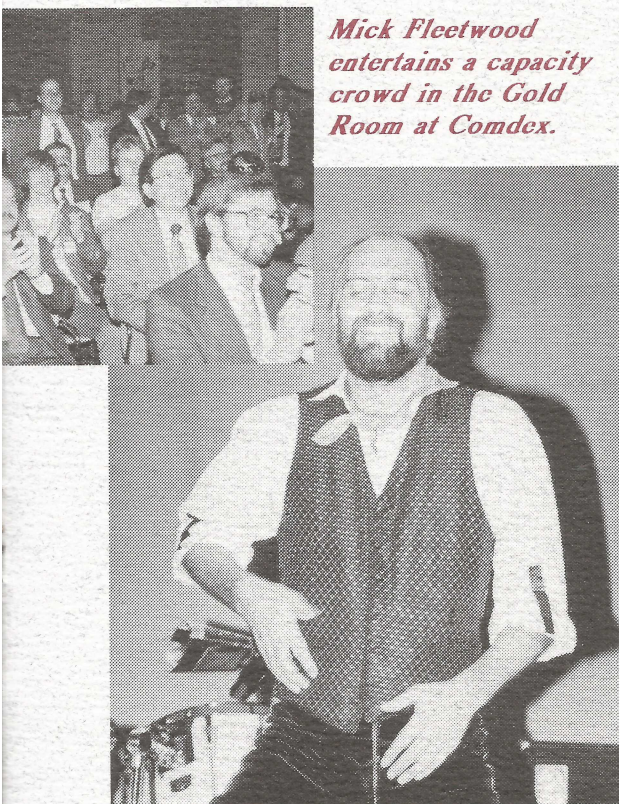


at Comdex

tage on the new Viking 1 large-screen high-resolution monitor from Moniterm. The Viking 1 provides new technology for the Atari ST with a 66 Hz refresh rate and non-interlaced screen design. The 19-inch diagonal screen allows two full facing pages of text and graphics, a B-size engineering drawing, or a 13-month spreadsheet with 68 rows and 138 columns to be displayed.

MIDI leader. Several of Atari's music software developers exhibited at the show, and Atari continues to do well in the music industry. Mick Fleetwood and his band were featured at the show, when they performed for 45 minutes one afternoon in the Gold Room. Fleetwood Mac uses Atari computers in the production of their albums, working with record producer and Atari enthusiast Jimmy Hotz. About 500 attendees enjoyed the concert, which featured a drum solo by Fleetwood using his "MIDI vest." This vest is covered with electronic sensors, which trigger various drum sounds and sound effects when hit by Fleetwood. Fleetwood danced about the stage, hitting himself with his hands, in a musical (and often funny) performance.

Mick Fleetwood entertains a capacity crowd in the Gold Room at Comdex.



Atari Update

Continued from page 1

erosion of sales volume. Except for its severity, this decline was anticipated. During the fourth quarter, Federated, with the assistance of DDB Needham Retail, our recently appointed advertising agency, is launching an aggressive marketing campaign. We anticipate a much improved fourth quarter in our retail segment.

Computers and Video Games

Atari's computer and video game division reported net sales for the quarter of \$97.0 million compared to \$80.4 million for the same quarter last year, an increase of 21 percent. Operating income was \$11.9 million compared to \$15.0 million, a decrease of 20 percent. Net sales for the nine months were \$296.3 million compared to \$216.2 million for the same period last year, an increase of 37 percent. Operating income was \$44.3 million for the nine months compared to \$40.7 million, an increase of 9 percent.

Federated (Retail Division)

Net sales of the Federated Group for the quarter ended October 1, 1988 were \$56.9 million. The operating loss was \$6.7 million. Net sales for the nine months ended October 1, 1988 were \$191.5 million. The operating loss for the nine months was \$20.1 million.

Atari (Consolidated)

Atari Corporation net sales for the quarter were \$153.9 million compared to \$80.4 million for the same quarter last year, an increase of 91 percent. Operating income was \$5.2 million compared to \$15.0 million, a decrease of 65 percent, while net income was \$.9 million compared to \$9.9 million. Net sales for the nine months ended October 1, 1988 were \$487.8 million compared to \$216.2 million for the same period last year, an increase of 126 percent. Operating income was \$24.2 million compared to \$40.7 million, a decrease of 40 percent. Net income was \$12.1 million compared to \$38.7 million, a decrease of \$26.6 million.

Reflecting on the past nine months and the status of the company as we enter the fourth quarter, we are extremely confident about prospects for the coming year. From all of us at Atari, we send best wishes to everyone for a healthy and successful New Year!

"Business is war, and Atari is armed with the latest in technology and compelling new products to be a major factor in both the computer and video game markets."

Atari Contributes to "SuperQuest" for Programming Excellence in Schools

Jefferson High School for Science and Technology, in Alexandria, VA has become the first high school to have its own super-computer. A team of four computer science students from the high school were brought to national attention in a competition designed to identify and encourage excellence in computational science at the secondary school level.

This year's "SuperQuest -- The High School Supercomputing Challenge," was sponsored by ETA Systems Inc. (St. Paul, MN), a subsidiary of Control Data Corporation and the world's second largest supercomputer company. Atari Corporation contributed over \$25,000 in equipment to the program.

Jefferson High won a million-dollar ETA-10-P class VI supercomputer, complete with staffing and maintenance for two years. The ETA-10 uses Atari computers as intelligent terminals.

Four high school teams were selected as finalists in the SuperQuest competition, winning an Atari 1040ST for each team member and a CYBER 910 workstation for their school. These students attended a seven-week supercomputer programming course in residence at ETA's SuperQuest Summer Institute

in St. Paul. In addition to the Jefferson team were representatives from Montgomery Blair High School (Silver Spring, MD); North Florida Christian School (Tallahassee, FL); and James Logan High School (Union City, CA).

Every participant in the competition had to submit a supercomputer research proposal. "We received many interesting and well-conceptualized program entries," said ETA president Dr. Carl Ledbetter. "For example, projects ranged from using differential equations to analyze the strategy of Lord Nelson in the Battle of Trafalgar, to analyzing the planar circular restricted three-body problem in celestial mechanics; from using finite element analysis to analyze the acoustic properties of the cello, to simulating the formation of mesocyclonic tornadoes."

In addition to the students' systems, Atari is also supplying each team teacher/coach with a MEGA 2 computer, and each finalist high school with a complete desktop publishing system, including laser printers. A fifth desktop publishing system is being presented to the judging organization, the Illinois Mathematics and Science Academy.

Atari recently sponsored Tangerine Dream's North American "Optical Race" tour. The popular German synthesizer band used six MEGAs in concert and credits Atari Computers on the cover of their latest album.



Frank Foster Joins Atari Computer

Atari's new manager of specialty markets is no stranger to the MIDI industry. Frank Foster is probably best-known as one of the founders of the music software company, Hybrid Arts, where he helped build the initial Atari 8-bit market back in 1983. Foster has been one of the most vocal proponents of the ST since its introduction. He worked closely with Sam Tramiel to run Atari's first music industry ad in 1986 and in expanding Atari's dealer network to music retailers.

Foster notes that users can look for continued high visibility by Atari in music stores and publications. "Atari plans to continue sponsorship of concert tours and other events, such as the Tangerine Dream North American tour," he said.

Atari Targets Home Office Market

Recent articles in industry publications indicate that retailers stand to benefit from the multi-billion dollar home office market, the fastest-growing segment of the U.S. personal computer market. Home computing has become much more than entertainment and education. Home computing now means business, with business-oriented applications such as word processing and finance.

Atari finds its economical, high-performance computers creating strong inroads into the explosive home office marketplace. The Atari MEGA and ST computers are naturals for the home office, due to their low prices, performance, and versatility. Software is available for any application, and PC and Mac emulation capabilities offer compatibility with any system. Whether the home office is used for a busy household, small business, or an extension of the workplace, Atari computers are the best choice.

The Federated Group, Atari's chain of electronics stores has targeted the home office as one of five vertical markets for Federated's Compu-Centers. In addition to Atari computers, IBM PC clones, and the Amiga, Federated's Compu-Centers carry copiers, FAX machines, business phones, and typewriters to meet the needs of the small business person.

Research has shown that one out of three new businesses is being run from the home. In fact, in 1987, one-third of all personal computers were shipped into homes. Also, approximately one-third of the U.S. labor force works full- or part-time in their homes. The number of people working in the home has doubled since 1978 and is expected to double again by 1992 (*Computer Reseller News*, 11/21/88). The personal computer itself is largely responsible for these changes, by bringing productivity to an affordable level, accessible to the average person.

According to a Dataquest study conducted early this year, word processing is the software application most often used in the home, by nearly half of those surveyed. Databases, file management, spreadsheets, and games are also very popular. Increased usage is found for database managers, spreadsheets, and business accounting packages, due to the increasing number of

computers being used for a home office. Dataquest has found that the traditional game/education system is yielding to serious business machines in the home.

Other applications for the home office include graphics programs, household finance, education, programming languages, and bookkeeping packages. Software from Atari and its third-party developers is available for all of these needs. And the price for Atari software always fits the home office budget.

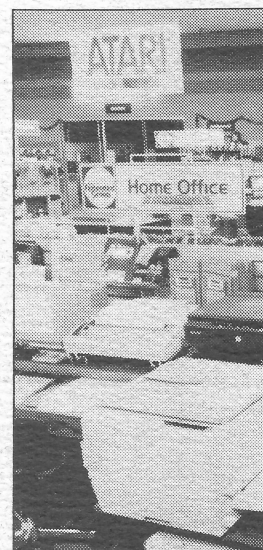
Atari offers additional benefits because of its unique emulation capabilities. Using Spectre 128 from Gadgets by Small, the Atari MEGA or ST can run most Apple Macintosh software—twenty percent faster than the Macintosh itself! The Atari also offers a monitor screen that is thirty percent larger than the Macintosh display. Users can use Spectre 128 to run such programs as Hypercard, PageMaker, and Adobe Illustrator, and still switch back to Atari's TOS system to run the wide variety of software written for Atari.

Avante Garde Systems offers IBM PC emulation with their software-only package, PC-Ditto. PC-Ditto enables the Atari to run a number of packages from the MS-DOS environment. PC-Ditto is a software-only utility which taps the power of the Atari ST to imitate an IBM PC XT. No extra hardware is required, although a 5.25-inch drive is required for programs on 5.25-inch disks. Programs such as Lotus 1-2-3, Framework, Symphony, dBase II and III+, Sidekick, TurboPascal, and hundreds more, will work "out of the box." PC-Ditto sells for \$89.95.

Atari software also excels at file portability. Word processors and desktop publishing packages for the Atari accept ASCII text files transferred from any personal computer. Spreadsheets like LDW Power, from Logical Design Works, and VIP Professional, from ISD Marketing, both accept files from the popular MS-DOS program Lotus 1-2-3.

A number of word processors are available for the Atari MEGA and ST computers. WordPerfect is a popular choice among users seeking a powerful package.

*At the
Federated
Group's
Westminster,
CA store*



Atari "Messe" in Germany

Atari's strong position in Europe was well demonstrated by 26,000 users in attendance at the annual Atari Messe (Fair) held in Dusseldorf, West Germany, last September. Sponsored by Atari's German subsidiary, the Atari-only show featured the products of 111 exhibitors, workshops, and a users' forum.

Most visitors to the show were professional

or semi-professional Atari users.

Exhibitors included PAM Software, Computer Finke, Sybex-Verlag GmbH, Bavaria Soft, Computer Technik Kieckbusch, Silver-Reed International, Witt-Datentechnik, Horten, C-Lab, and Hybrid Arts.

Atari Deutschland plans another Atari Fair for 1989.



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