

Catalyst Technologies

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Innovate!

January 13, 1995

Sam Tramiel
Atari Corp.
Via Fax: 408-745-8861

Dear Sam,

The below proposal is just one structure that is possible. The company is ready to go forward as quickly as possible. I attempted to see you before and after CES. I would like to present the financials next week after you have a chance to review the following proposal.

I agree that the joint venture approach is interesting. The only question is, three years out, would you rather take your profits in merging the company or in taking it public separately? Of course it makes it much easier to price if the company is taken public, but it may be better for you to consolidate all the earnings and give the Newco group liquidity through Atari stock.

Below I have laid out a basic structure.

The preliminary work in the marketing of this project has been accomplished in the last year, thereby requiring moderate initial funding. I think that if the product can be shipped early enough, limited funding will be necessary for marketing and advertising during the trade show season this fall.

Enclosed are three financial plans. The only cash flow that is meaningful is the 'expected' case; I have concerns that it

looks too good, but I see no real competition that would affect it from external factors. At the very least there is enough cushion for expected/unexpected screw-ups.

Time is our only enemy. I believe that time to ship and 'technical functionality' is the only limit to sales for the next 18 months. We believe that orders of over 1,000,000 units for the fourth quarter can be had if we can get technical approval early enough; it is the first time since the introduction of the 2600 that I have seen a market that looks as if it is going to explode like this one. Why does it appear that Sega and Nintendo are unaware of this market?

By the way, several very capable ex-Atarians have agreed to join the group and the team just keeps getting stronger and stronger.

ATARI - NEWCO JOINT VENTURE

Whereas:

Newco has unique knowledge of the settop market, including certain medical users, banking, and IVDS markets.

Newco has preliminary orders for large quantities of a product that fits a certain set of specifications.

Atari has told Newco that the Jaguar product can be modified to match most of those specifications in a relatively short time.

Newco believes that there is a large on-line game market that can be addressed with a proper set top platform.

Atari has indicated that they wish to support the activities of Newco and participate in the on-line game revenue.

Atari desires to sell as many game machines as possible to facilitate software sales.

Therefore:

Newco will provide to Atari the specifications that are necessary for the transaction and on-line market place.

Atari will build to Newco specifications and sell the specified product to Newco exclusively, provided Newco reaches the minimum quantities of orders or 150,000 units in 1995 (provided the product is ready for shipment by July 1, 1995), 350,000 units in 1996, and 550,000 units in 1997.

Atari will quote firm pricing to Newco and accept orders for that price and give Newco 60 days notice of any change. The one exception being that if prices for memory move more than 20% the companies will negotiate in good faith to adjust the price.

Newco will provide orders to Atari. Newco will be compensated by Atari within 30 days of shipment for the amount of difference between the price quoted by Atari and the price quoted by Newco.

Newco will be obligated to pass on all price decreases to their customers.

Newco will provide all marketing and sales support for its marketplace.

Newco will quote prices that are not more than 125% of the prices quoted by Atari to Newco.

Newco shall have the right to purchase game programs from Atari at the most favorable price.

In the instance that the total Jaguar sales by Newco exceed the number of Jaguar sales sold in all other channels, Atari shall pay a software royalty on all software game cartridges of \$1.00 to Newco starting the quarter following the quarter in which the sales volume was exceeded.

Atari agrees to purchase 2,500,000 shares of Newco Preferred stock for \$750,000. The preference is in liquidation. The shares can convert after one year to Newco common and must convert upon completion of a successful public offering.

Atari agrees to loan to Newco 5 workstations capable of software creation for the Jaguar and one station capable of creating CD rom software.

Newco will be newly formed with 10,000,000 authorized common shares and 5,000,000 preferred shares, of which 4,000,000 common shares will be issued to Nolan Bushnell, Debbie Nason, and other team members in return for the orders, and not less than \$50,000 of assets consisting of technology, computers, office equipment, telephone PBX, furniture and other assets.

Atari also agrees to lend Newco an additional \$500,000 for two years, providing Atari is unable to ship a minimum of 10,000 of the Newco specified units by July 1, 1995.

The board of directors shall consist of five members, two of whom Atari has the right to elect. The other directors will be Nolan Bushnell, Debbie Nason, and a third who will be mutually agreed upon.

An additional option plan of 500,000 shares of common stock shall be created for the purpose of recruitment of additional technical and marketing staff.

Upon customer test and acceptance of the "Newco ONE" (Jaguar with Newco modifications) an additional 1,000,000 shares of preferred stock shall be offered at \$7.00 per share to the private financial markets.

Atari shall have the documents legally drafted and Nolan Bushnell shall have the new venture incorporated as a C corporation. The closing date shall be set at January 20, 1995.

A joint press announcement shall be issued that is mutually agreed upon. It is understood that the "Pro-net-Sports," national competitions, and transaction markets may be disclosed to others. That dynamic chat will only be disclosed when the system is actually operational.

I will call you Monday and perhaps we can move even faster.

Best regards,

Nolan Bushnell

www.atarimuseum.com

Vent One Specifications:

Functionality of the Set top box for the Banking and Transaction Market

Basic "Jaguar" computer with at least 2 MB of Ram.

Less the Game controllers.

Less the Game cartridge.

(A game enabling pack can be sold at a later time)

IR Send receive from the main unit.

IR Remote control with Cursor control and ten Key keypad. Full specification to follow. "Others tooling may be available."

14,400 baud Vodem. (perhaps with Caller ID or ANI)

One Megabyte of Additional ROM Storage. Certain basic banking screens may be smaller with Jaguar tools.

GenLock of computed images over live NTSC broadcasts

Video Input by RCA separates Video and Audio.

Ability to read information in the VBI such as closed captions for the hearing impaired. (on demand can video be digitized and read into RAM for software analysis.)

One Megabyte of Flash Rom Storage configurable over the phone line.

Game control ports.

High Speed RS 232 port using a "D" connector.

Microphone or Telephone loop through for voice input.

Ability to connect a QWERTY keyboard to one of the controller ports.

System must be able to operate in the Modem mode without a cartridge inserted.

Modulated output on either channel 3 or 4

Separate RCA out video and audio.

300K of Vent Supplied Code to be resident in the On board ROM.

Operation: Product should be able to call out automatically in the evening for updates to bills and credit balances.

Buttons on top of a video picture that will allow purchases and queries as well as polling are the main uses of the gen lock feature.

Voice must be able to be digitized and sent and received over small amounts of data.

Phase II product: To be sold for a premium into the market may have additional markup.

The above specifications.

Cable Ready, 181 Channel Selection with Computer control.

40 MB hard Drive.

Credit card magnetic stripe reader.

Full duplex speaker phone through Television.

2x minimum CD-rom Drive.

Real time clock.

“Stereo equipment styling”

Parallel Printer port.

Cost Estimates for the Vent version of Jaguar.

Basic Jaguar	190
Less 15%	
Advertising	29
Less Cartridge	15
Less Controllers	10
Basic Jaguar	137
Gen Lock	
Phase lock loop	5
Video Inputs	2
Glue parts	4
Remote Control	
Hand held Remote	12
Box send receive	
Chip	6
other parts and labor	2
Vodem 14,400	
Vodem Chip set with	
Glue	27
Relay and Isolation	
Trans.	6

Other parts and Labor	3
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Flash Rom	6
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Additional Rom	4
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A/D VBI with buffer	10
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Total Approx. Cost	224
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Extraordinary Handling	10
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NRE Amortization	10
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Base	\$ 244
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Important Price Points

Important Price Points to Stay ahead of Competition

Several companies have quotes lower than these in the market (slightly different feature set. Most based on Intel processors)

Quarter 1, 1995

450

Q-2, 1995

350

Q-3, 1995

299

Q-4, 1995

269

Q-1 1996

225

Volume increases with more functionality or lower prices in the selected time frames.

OEM Sales Agreement

This is an agreement between Vent Corporation at 2755 Campus Drive San Mateo, CA 94403 (Vent) and Atari Inc. (Atari). It is entered into on the _____ day of _____ 1995 and the agreement is as follows:

1. Atari agrees to manufacture set top boxes for the interconnect market per Vent's specifications and distribute these boxes according to the schedule below.
2. Vent agrees to supply to Atari customers for our set top boxes in the manner and quantity shown below.
3. Vent agrees to offer these boxes to our customers at an agreed to price of \$318 per box. These prices are subject to change with prior approval of both parties. Our customers will receive discounted pricing per the total number of boxes ordered. Vent will pass along quantity discounts and cost reductions with the modems and chip memory as they become available.
4. Vent will make available to our customers leasing agreements as they are available to Vent. Vent will participate in placing these leasing agreements upon financial disclosure and market niche profitability. Leasing will only be made available to customers who agree to resell a minimum number of Vent services. In this case Vent will act as a customer to Atari instead of an agent.
5. Vent shall abide by Atari payment terms when it purchases units for it's own leasing operations and all payments, LC's or lines of credit for purchase of Vent boxes by Vent's customers will be negotiated between the "customer" and Atari.
6. Atari agrees to remit the difference between the prices quoted Vent and the prices quoted to the customers within thirty days of shipment. This payment is independent of the actual payment or payment terms that Atari has with the Vent customer.
7. Vent agrees to develop and supply all software that allows the customer the minimum capabilities of polling, on line shopping, on

line video gaming said software shall be supplied a minimum of two weeks prior to shipment for incorporation into the Atari ROMS.

8. Vent will be responsible for marketing and selling the Vent Box to our customer list. Vent agrees to give Atari 90 days lead time on all orders unless otherwise agreed to by both parties.

9. Atari agrees to work directly with customers to coordinate distribution and delivery of the Vent Box. All customers are considered Vent customers for a period of 24 months from this contract and Vent will be paid the greater of its quoted price or 10% of any sales to the entity for that period.

10. Atari agrees to supply 4 development stations to Vent at no charge. These stations will be delivered to Vent no later than February 10, 1995. Atari also agrees to deliver "necessary marketing information and materials", (see attachment) by said date.

11. This agreement may be canceled at any time with 180 day notice. However, any customer that has been brought to Atari through Vent will continue to be subject to the 24 month rule.

12. Atari agrees to sell to Vent software at its most favorable prices.

11. This agreement will constitute the entire agreement between these two parties.

Vent, Inc.
Nolan Bushnell
Chairman

Atari Communications
Sam Tramiel
President

Date

Date