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"Say Zilog Cuts Off Coleco As Adam Woes Pinch Profits":

WEST HARTFORD, Conn. -- Zilog has reportedly put Coleco on credit hold and stopped shipments of the Z80 to the producer of the Adam home computer system.

Reportedly, suppliers of ancilliary circuits for the Adam system, including Motorola and National Semiconductor, have also curtailed shipments of parts to the home computer makers.

Coleco's credit status is said to have developed amid rising costs it has incurred in producing and launching the Adam. Coleco is reported to have pushed its payables to semiconductor suppliers beyond 120 days in a market where other manufacturers are paying premium price for hard-to-get parts.

In cost reduction efforts over the last 8 weeks, Coleco laid off close to 2,000 workers at Adam manufacturing facilities in Amsterdam, New York, and cut daily production shifts from three to one.

The company last week reported a 75 per cent first-quarter earnings decline to \$4.4 million. The profit reportedly came entirely from non-electronic operations, including the Cabbage Patch Doll line. It followed a fourth quarter in which Coleco lost \$35 million. Coleco's bankers recently severed \$33 million of its \$200 million credit line.

It could not be learned how many Z80s Coleco ordered from Zilog, and, of those, how many were actually shipped. The size of Coleco's Z80 inventory could not be determined.

Fell Short

Coleco last year project sales of 500,000 Adam systems and reportedly ordered parts accordingly. It fell over 400,000 machines short of its sales target, at 95,000 units.

The firm had no comment on its credit relations with its suppliers last week. Calls to Marvin Belsky, vice-president of purchasing, were referred to Ron Hassey, director of accounts payable, who did not return them. Coleco is reportedly looking for other Z80 sources.

Zilog also had no comment.

In addition to Zilog's Z80, the Adam home computer uses four Motorola MC6801 controllers for system, storage, printer and keyboard functions, as well as National's LM 339, which is used as a port decoder.

Both Motorola and National are reportedly accepting no more orders from Coleco until payments are received. Credit officials with both those firms would neither confirm nor deny measures taken against Coleco, but commented about the difficulties facing the firm.

"The people they don't need right now they're not paying," noted Leonard Lee, corporate credit manager at National. Asked if he has imposed credit sanctions against Coleco, he said "that's neither here nor there because they're not ordering right now." He said Coleco has no backlog of orders, and that it still has payments out that are 90 days due.

The amount of money owed by Coleco to the three processor suppliers could not be learned.

Woes

Coleco's financial woes are tied in with what the company has called the "extremely high costs" of launching the Adam system (EN, March 12). Those costs played a key role in suppressing corporate profits last quarter.

Coleco is currently wrestling with implementing a price increase on Adam to try to recover its expenses, a move that is being received coolly by retailers. The system that Coleco billed upon its introduction last June as an all-in-one-box computer/word processor/video game for \$600 now has a price closer to \$800.

In addition, a floppy disk drive option that the company says it will soon offer will put the Adam's storage capabilities on a par with other home computer systems, but would also raise the price of the Adam into the \$1,000 range.

In its quarterly report last week, the company stated that it is "firmly committed" to the Adam system.

It said that about half of the firm's \$186.1 million in sales were of Colecovision video games and Adam home computer systems, but the company did not break down the two. Reportedly, it shipped about 100,000 Adam systems in the first quarter.

Second half shipments are planned for a 5-1/4 inch disk drive, a modem and additional memory.