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**NEW VIDEO GAMES FROM OLD****SECTION:** Section 1; Page 29, Column 3; Financial Desk**LENGTH:** 874 words

What happens when Pac-man loses his punch? To the nation's 14,000 video-game operators, that question - and what to do when a promising new game turns out to be a flop - has assumed vexing proportions.

First of all, the operators say, revenues are declining, even on perennial favorites like Pac-man and its spinoffs. Second, product cycles are shrinking, with new games peaking and fading faster than ever. And finally, because there is an industrywide oversupply of games, many distributors have either reduced their trade-in rates on used games, or stopped taking trade-ins entirely.

Enter the conversion kit, a do-it-yourself alteration package designed to jazz up old games and sagging revenues. In the last few months, participants on every level of the industry have begun offering conversion or enhancement devices in various levels of sophistication and price, from \$250 to \$1,200. Other companies have introduced arcade games that function like home video units, with cartridges that can be punched in to play new games.

'Groundswell Demand'

A converted game might simply be faster, and thus harder to play. Or, it might change the characters on the screen, or the action.

"What we're seeing is a new generation," said Art Warner, sales manager at Bettson Industries, a New Jersey game distributor. Mr. Warner said that about 20 percent to 25 percent of his sales to operators are now for kits.

Steven Hochman, president of Crown Vending Corporation, a New York area games operator who is also president of the New York State Coin Machine Association, called the sudden appearance of so many new conversion kits the result of a "groundswell demand on the part of the operators." He added that about 50 percent of his purchases are now for conversion kits, compared with about 10 percent a year ago.

"As long as you're not attempting to sell something that's not yours, it seems to be all right," said Patrick N. Reed, a vice president at Enter-tech Ltd., a Tempe, Ariz., company that began offering kits last month to convert the Bally Manufacturing Corporation's Galaxian game.

Mr. Reed's position appears to be supported by a decision in United States District Court in Chicago last spring. Judge Hubert Wills ruled then that a local game operator, Frederick K. Slayton, could install speedup devices in his Pac-man machines as long as all references to the original Pac-man, or any other protected characters, were obliterated. In other words, an altered Pac-man was not a Pac-man and could not be palmed off as one to the public.

Encouraged by the ruling, Mr. Slayton formed a company, Update Kits Inc., to sell the Pac-man conversions, which he called Cute-See. When the company's first advertisement appeared in Playmeter magazine in November, however, Bally filed suit again. That case is still pending, but legal experts say that, based on the judge's earlier supportive opinion, Update could well win again, thus providing additional legal support for other conversion companies.

## Some Made to Be Converted

While Bally, which controls about 45 percent of the arcade game market, also began offering its first enhancement kit in December - "Pac-man Plus," which sells for \$500 to \$600 - a spokesman for the company said the product "does not change our attitude toward kits" and that no other kits are planned.

Several smaller game manufacturers have skirted the sticky legal issues surrounding the kits by making conversions for their own games, or by offering arcade units that are designed to be converted.

Convertible Video Systems Ltd., for example, a New York-based subsidiary of Britain's Century Electronics, began producing a cartridge-loading arcade game in September. The system sells for about \$1,000, and comes with one game. Other cartridges in the 11-game library cost about \$275.

"It's the wave of the future," said Micky Greenman, the company's president, who said he has sold about 1,000 systems in four months. "This parallels what happened in home video."

Sega Enterprises Inc., a Los Angeles-based arcade game manufacturer, began offering convertible kits in June 1981. But according to Arvin Erickson, a company spokesman, the timing was off. "The industry was at an all-time high," Mr. Erickson said. "Operators could afford to buy anything then."

## 'Good Games' Are Key

While Mr. Erickson said that sales of the system, which sells for about \$2,000 for the machine itself and \$800 each for the conversions, have picked up, they still have not been as good as the company had hoped.

Analysts say that systems like Sega's have not succeeded in the past because often the games included as conversions were not the company's best. If a manufacturer got a hit, he was more likely to try to sell a full arcade unit, with its higher price and higher profit margin.

"The key to this business is and always will be having good games," said Steven Isenberg, a games analyst with Bear, Stearns. "The larger manufacturers have better research and development, and they have the money to buy the good licenses. The operators have to make the distinction of whether converting is really a bargain. If you make it another game, it had better be a good game."

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