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VIDEO GAME'S FALL SURVIVED

BYLINE:

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When the Bally Manufacturing Corporation began diversifying in the late 1970's, spending the jackpot it had won selling pinball and Pac-Man machines, its aim was to expand into less cyclical businesses. The company was not seeking a life preserver in case the then-thriving video arcade games business collapsed.

But collapse it did. And today, Robert E. Mullane, Bally's chairman and chief executive, readily acknowledges that, were it not for the company's diversification into casinos, amusement parks and health clubs, Bally might have gone the way of the nickel pinball machine.

"I wish we could say we were farsighted in diversifying," Bally's chain-smoking, 52-year-old chairman said. "Even in our worst-case scenarios, we never dreamed the video game business would disappear the way it did."

The plunge in demand for arcade games was so severe - from about 100,000 video and pinball machines a year in 1982 to fewer than 15,000 last year - that it forced several other games manufacturers out of business. Bally, though still in business, has nonetheless had problems: Its profits plunged to \$5.2 million in 1983 and it lost \$100 million last year, largely because of an arcade games write-off and an operating loss in that division. The company earned a record \$91 million in 1982. Bally's common stock closed at \$14.25 a share today on the New York Stock Exchange, down from \$32 in 1982.

"It's not a strong company at this point," said Harold Vogel, an analyst with Merrill Lynch, Pierce, Fenner & Smith. "They have to get back on track. It will probably take six months or a year before they make significant progress." Mr. Vogel estimates that Bally will earn \$32 million this year - not significantly below the company's own \$35 million projection.

Bally executives are confident, however, that their company is on the mend, with its health clubs, its casino hotel and its lottery division all expected to provide growth. Mr. Mullane estimated that Bally's overall revenues would increase slightly to about \$1.4 billion this year. Last year's revenues rose 14.8 percent, principally because of Bally's \$72 million purchase of the Health and Tennis Corporation of America, a chain of 285 clubs and 1.5 million members that makes Bally the nation's largest health club operator.

"This year will certainly be a great improvement over the last two," Mr. Mullane said. "Every business will be profitable, except, perhaps, video games."

Pinball and other arcade games had been Bally's bread and butter ever since the Chicago-based company was founded in 1931. It was the late 1970's, however, when the company's games division suddenly took off, thanks to its introduction of slick, new electronic

pinball machines to replace the electromechanical machines of old.

Pac-Man Spurred Sales

In 1979, Bally began producing Space Invaders, a phenomenally successful machine licensed from Japan. And in 1980, it introduced the even more successful Pac-Man. Thanks principally to Pac-Man, sales of Bally's video and pinball games jumped to \$435 million in 1982 from \$229 million two years earlier.

Then, all of a sudden, arcade games sales, like the roller coasters at Bally's Six Flags amusement parks, began almost a free fall. The industry plunged, Mr. Mullane said, because young people tired of the fad and because manufacturers could not come up with a game that attracted youngsters the way Pac-Man did.

Bally's coin-operated video and pinball games sales plummeted to \$99 million in 1983, and to \$68 million last year. The company was forced to take a \$169 million pretax write-off last December as it shrank its arcade games division.

"Arcade games went from being our single largest business - the thing that drove us for the last 50 years - to our fifth-largest business," said Mr. Mullane, who is an imposing 6 feet 3 inches tall and has a bullfrog voice.

Bally, which is still the largest arcade games maker, has laid off 3,000 people from its arcade games division and slashed its break-even point from \$300 million to \$40 million, which is what Mr. Mullane estimates division sales will be in 1985.

In Mr. Mullane's view, Bally's fastest-growing division will be its chain of health clubs. They include the Vic Tanny chain and the Jack LaLanne clubs in the New York area. With \$350 million in revenues last year, the clubs have already become Bally's largest revenue producer. The Health and Tennis Corporation's revenues have jumped an average of more than 20 percent a year in the last decade.

Many analysts are not so exuberant as Mr. Mullane about the clubs' prospects. "Certainly, a lot of people go to these facilities," said Marvin B. Roffman, an analyst with Janney Montgomery Scott Inc. in Philadelphia. "But remember, fads can last two months, two years or a hundred years."

Mr. Mullane, however, believes that the fitness boom has a lot of stamina, asserting that "it's now a permanent part of our life style."

750-Room Tower Planned

Mr. Mullane also sees room for growth at Bally's Park Place casinohotel on Atlantic City's Boardwalk. "There will be modest growth, with very little downside potential," he said, noting that Bally was planning to build a 750-room tower to double the hotel's capacity.

Bally's six-year-old casino got off to a slow start, however. The New Jersey Casino Control Commission initially denied Bally a license because the commission said that William T. O'Donnell, then Bally's chairman, had links to organized crime. When Mr. O'Donnell resigned, Bally received a license. Mr. Mullane, who had been a Bally vice president and president of its distribution subsidiary, took the helm in 1979.

Bally, which owns 84 percent of the \$350 million casino, had \$273.4 million in casino revenues in 1984, up 3.5 percent from 1983. The casino's growth was slowed when the Trump Plaza casino opened last year. "It's 10 people sharing a nine-piece pie," Mr. Mullane groused.

"The casino is really a bright spot for Bally," said Mr. Vogel of Merrill Lynch, praising its cost controls and location. "They've done extremely well getting it up to speed after five years."

In 1982, Bally bought the Six Flags amusement park chain for \$147 million from the Penn Central Corporation. The chain, which had

revenues of \$331 million last year, has parks in seven states. "We didn't see dramatic growth in the business, but we saw it providing some stability of earnings we never had," Mr. Mullane said. "It was a business that could attract few competitors."

But the Six Flags business was not so stable last year. Attendance suffered because of a roller coaster death at its park near St. Louis and a fire at its Great Adventure park in New Jersey that killed eight youths. In addition, there was bad weather on key summer weekends - a recurring problem for amusement park owners.

"The amusement parks will probably be hurting this year until the trials over the deaths are over," said Lee S. Isgur, an analyst with Paine Webber Inc. "Eventually, the parks will do pretty well, too."

Mr. Mullane also sees much promise in Bally's lottery games division, which is the nation's leading producer of rub-off cards for state lottery games. And in its first effort to market on-line, computerized lottery machines, Bally, long known for its prowess in producing slot machines, won the contract for a three-state lottery involving Maine, Vermont and New Hampshire.

"If you ask anybody to pick five areas of the economy that are sure to grow," Mr. Mullane said, "lotteries have to be one of them."

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GRAPHIC: Photo of Robert E. Mullane; Chart of Bally Manufacturing financial data; Graphs of revenues and net income

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