

Video game death could put supplier on ice

THE EXPLODING video games industry could get its first major fatality: privately held Astrocade [formerly Astrovision] of Columbus, Ohio.

That could mean a potential bloodbath for investors in a hot over-the-counter number, Nitron Inc. of Cupertino, Calif.

It could also prove to be a major embarrassment to Quaker Oats Co.

Astrocade in August of '80 acquired the rights to the home video game business of Bally Mfg. Co. for \$2.3 million; its most vital corporate tie is to Nitron, which has a \$108 million contract to supply video game products to Astrocade in '82 and '83; \$76 million of that amount is for next year.

A robust market performer brought public by defunct John Muir & Co. at \$5 a share in '80, Nitron is a semiconductor manufacturing spinoff from McDonnell Douglas, which in turn owns 22 percent of Nitron. The lion's share of Nitron's growth, plus a significant degree of its financial stability, strongly hinges on its ties to Astrocade.

Nitron's stock, after a run to \$17.75, was trading at press time at around \$13.50 in the over-the-counter market.

THAT'S QUITE a fancy price tag, considering that the company has lost more than \$1 million a year three years running [including a fiscal '81 loss of \$3.4 million on sales of \$7.8 million] and has managed to eke out earnings of just 6 cents a share in the first nine months of fiscal '82. In addition, the semiconductor industry is in the throes of a semi-depression.

Obviously, then, Wall Street is expecting big bucks from Nitron from the video game craze.

Quaker Oats got into the act last May when it coughed up \$3 million for a 13 percent interest in Astrocade [possibly with an eye toward acquiring it later]. The food company had an option to change its mind, which it subsequently did, and now it's waiting for the return of the \$3 million.

Alas, that's easier said than done. Astrocade used the money to retire part of its debt. More importantly, sources very close to the management of Astrocade.



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which is in hock for about \$11 million, tell me that the nearly 2½-year-old company could be forced into bankruptcy in the next 45 days if it fails to get a fresh and sizable injection of new capital to finance the business.

In response, Astrocade chief Roger Greenman tells me he just returned from London where he negotiated and hopes to conclude an agreement by mid-November for a \$6 million investment in the company.

QUESTIONS ARE raised about the viability of the company even if he does get the money. Already, there are widespread fears of industry saturation. Competition is stiff, and inroads into video game hardware by personal computers are likely. Then, too, there's the need for advertising dollars to retain market share.

The current Astrocade crisis is a far cry from the bullish talk the company was spouting about a year ago. At the time, its cocky management talked of '81 sales of upward of \$15 million; they were actually around \$9 million. Further, '82 sales were projected to be at least \$100 million, with net profit running around \$10 million. Again, the estimates are high. One source figures Astrocade sales will be about \$22 million this year, and he says profits, maybe, could reach \$250,000.

The immediate question, though, is not the vigor of Astrocade's business, but its ability to survive. As one source intimately involved in the company's affairs put it: "There's now a major question of whether Astrocade will be able to refinance... and if it doesn't, it's almost certainly goodbye."

THE WORD I GET is that Astrocade, basically insolvent with a negative net worth of about \$1 million, is unable to meet its payments to Nitron. As of Sept. 30, it owed Nitron about \$2 million. On top of this, Nitron, which is now estimated to do roughly half of its business with Astrocade, could be billing the ailing company for another \$15 million for the products it will have produced for the balance of this year.

All of this raises an obviously critical question: Does Nitron, which has a negative net worth after factoring in the possible redemption of its preferred shares, have the necessary cash flow to carry Astrocade on a sustained basis?

Sources close to Astrocade say no.

What does Nitron have to say about its financial health?

Nothing! Nitron chairman Sam Nissim, viewed by several Wall Streeters as a promoter and stock tout, and usually eager to talk up his company, refused to respond to several calls.

HOWEVER, A CLUE to Nitron's financial stability may be found in an unsettling statement issued by its auditor, Arthur Young & Co. After examining the fiscal '81 and '82 balance sheets, the accounting firm cautioned that Nitron's ability to continue as a going concern was dependent on a number of future developments, including its ability to obtain sufficient working capital to finance continued operations.

Despite the ominous clouds, Nitron's stock boasts a super 40-plus price-earnings multiple, based on Street fiscal '82 earnings estimates of around 30 cents a share. Considering that two giants in the video game field, Warner Communications and Mattel, sport respective multiples of only about 8 and 5, one has to marvel at tiny Nitron's investment magic. If accorded the 8 multiple of a super earnings grower like Warner's, Nitron's stock would be selling at \$2.40 a share.

It may well be, as one knowledgeable source on Nitron put it, that "sanity has never been a qualification of Wall Street investing, but where insanity is involved, it never lasts forever."