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Analysis

The performance of vending, coffee service, mobile catering and contract foodservice management operations traditionally has been tied to employment, but the relationship differs among these segments. People at work have been the primary market for vending for more than half a century, and the "marginalization" of small workplaces as vending locations gave rise to office coffee service in the early 1960s. When unemployment rises, those businesses simply have fewer customers, and volume shrinks. By the same token, consumer spending on recreation declines with discretionary income. People who are out of work and worried about making the next mortgage payment are less likely to frequent locations offering coin-operated amusement and music equipment.

For these reasons, the almost across-the-board contraction of sales volume in 2009 was not surprising. From one viewpoint, the vending (6%) and amusement (10%) declines marked the nadirs of downward trajectories that began before the century turned. Demand for vending remained strong through 2007, but profitability fell sharply as the old millennium ended. Competition increased for the dwindling base of manufacturing locations, alternative sources for on-the-go refreshments proliferated, and operators found their pricing flexibility increasingly constricted. The challenge was identified in the wake of the 2001 terrorist attacks. Solutions have been identified, but were just starting to roll out when the contraction struck.

In 2009, total vended dollar volume declined to $42.9 billion from $45.6 billion a year earlier. All vendible product categories experienced erosion:

Bulk vending, down 2.8%
Packaged cold drinks, down 3.3%
Ice cream, down 3.4%
Milk, down 5%
Snacks and confections, down 8.5%
Food, down 14.2%
Cigarettes, down 16.1%
Hot beverages, down 17.1%
Cup cold drinks, down 33.4%

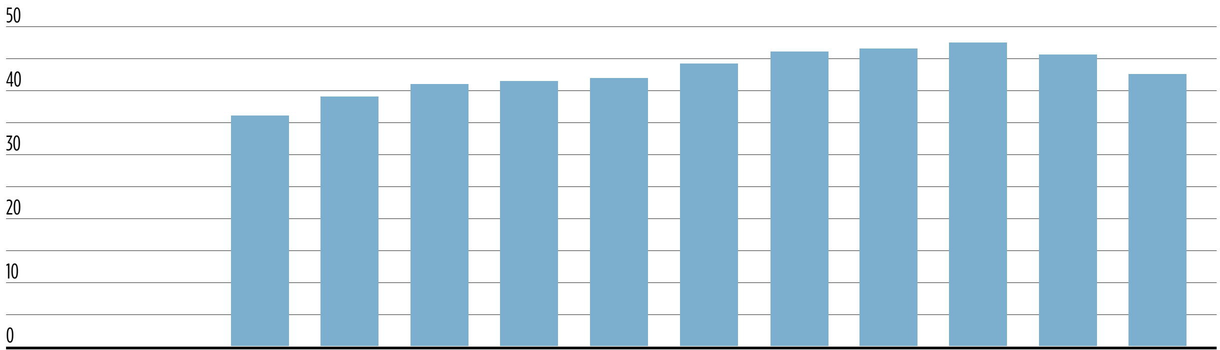
Few of these require much discussion. Of those that do, bulk vending's performance strongly reflects the impact of price adjustments necessitated by higher costs: Bulk vending prices go up in 25¢ increments. The drop in vended hot beverage sales is an indicator of workplace decentralization and downsizing. A decrease in average workforce population impels operators to replace full-size hot drink machines with countertop models which, even if they are miniature vending machines, often are regarded as coffee service equipment. Similarly, there is a population level below which food vending becomes too costly to provide. Postmix cold cup sales increasingly are confined to larger factories, and there are fewer of those all the time.

Nevertheless, it is worth asking why this economic downturn has had so severe an impact. The workplace service industries have survived a number of economic catastrophes over the past four decades. The "Black Monday" crash on Oct. 19, 1987, was the largest one-day percentage decline in the history of the U.S. stock market. Its impact was immediate and dramatic, but the economy rebounded quickly. The recession of the mid-1970s, worsened by two oil embargoes, endured for years; unemployment exceeded 7.5% in 1976 – and topped 10% in 1983 and 1984. Vending sales rose throughout that period, although operators were not having a good time.

One thing that has been different in 2008 and 2009 is that they were marked by pervasive, persistent anxiety. Anxious people spend more cautiously; anxious businesses hoard cash and defer hiring. But anxious operators find ways to increase route efficiency by rationalizing machine service schedules, streamlining inventory throughput, widening payment options for their customers and developing new ways to serve a broader base of clients. From one viewpoint, the modern workplace service industries came into existence in response to economic difficulty – the crumbling of America's postwar economic dominance – and their major advances in technique correlate closely with painful restructurings of the economy. Vending and coffee service are essential catalysts of workplace productivity, and will emerge stronger as recovery sets in.

2009 Total Vended $ Volume

SALES (BILLIONS)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total $ vol. (in billions)	$36.6	$38.7	$41.0	$41.1	$42.2	$44.2	$46.0	$46.8	$47.5	$45.6	$42.9

2009 Vended Product Volume

PRODUCT	PERCENT SHARE 2009	DOLLAR VOLUME 2009
Packaged Cold Beverages[1]	54.2%	$23,300,000,000
Snacks, Confections, Pastry[2]	22.5%	$9,700,000,000
Hot Drinks	8.4%	$3,600,000,000
Vended Food[3]	6.7%	$2,900,000,000
Ice Cream	2.0%	$887,000,000
Milk	1.9%	$817,000,000
Bulk Vending	1.0%	$398,000,000
Cold Drinks (Cup)	1.0%	$333,000,000
Cigarettes & Cigars	0.7%	$298,000,000
All Other	1.6%	$700,000,000
Total	**100.0%**	**$42,933,000,000**

1. Includes nonperishable cold beverages (soft drinks, juice, water, tea, energy, isotonic, etc.) in cans and bottles.
2. Includes shelf-stable packaged single-serve snack and candy items, both "wide" and "narrow," and pastry sold through nonrefrigerated venders.
3. Includes refrigerated, frozen, can/bowl pack and other shelf-stable main meal items.

Vending and Manual Locations

The market for vending, office refreshments and manual foodservice reflects the overall economy, and so between 2008 and 2009 the number of locations served by operators dropped about 5%. Manufacturing facilities (plants and factories) again declined in numbers, as they have done for more than a decade, along with all other location types. Office locations in particular witnessed its biggest drop. Manual foodservice sales continued to slide downward last year, decreasing more than 6% from $9.8 billion in 2008 to $9.2 billion in 2009.

	NUMBER OF LOCATIONS			LOCATION DOLLAR SALES	
	2007	**2008**	**2009**	**Vending 2009**	**Manual 2009**
Plants, Factories	156,000	150,000	139,500	$3,855,000,000	$1,365,000,000
Primary & Secondary Schools	21,000	19,000	18,000	930,000,000	199,000,000
Colleges & Universities	34,000	34,000	33,000	4,070,000,000	1,740,000,000
Public Locations	481,000	459,000	456,000	15,233,000,000	613,000,000
Government & Military	12,000	11,000	9,500	1,399,000,000	242,000,000
Offices, Office Complexes	509,000	499,000	462,000	11,000,000,000	4,278,000,000
Hospitals, Nursing Homes	50,000	50,000	48,000	3,800,000,000	397,000,000
Other Locations	174,000	170,000	156,000	2,646,000,000	347,000,000
Total	**1,437,000**	**1,392,000**	**1,322,000**	**$42,933,000,000**	**$9,181,000,000**

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Patterns in Operating

The composition of the vending and amusement industries has witnessed little change in recent years. The total number of operating entities increased slightly in 2009, as entrepreneurs continued to launch startup firms, a task made easier by the unprecedented availability of professional-quality equipment and the increased ease of troubleshooting and maintaining it. This outpaced the trend of existing midsize operations merging into larger ones. The fluctuation of emerging new companies and consolidation of mature operations has recurred for half a century, at least, in the vending industry. Most vending operations are small, and this always has been true. Last year, 72% employed three or fewer people full-time.

OPERATING COMPANIES: (Independent & branch operations)	**1999**	**2006**	**2007**	**2008**	**2009**
	10,800	10,550	10,300	10,400	10,450
OPERATING COMPANY EMPLOYEES:					
Owner *only*	28%	32%	34%	35%	35%
1 employee *part-time*	18%	16%	17%	18%	18%
1-3 employees *full-time*	22%	21%	19%	18%	19%
3.5-5 employees	9%	8%	8%	8%	8%
5.5-10.5 employees	5%	4%	2%	2%	3%
11-19.5 employees	6%	4%	3%	3%	3%
20 or more employees	12%	15%	17%	16%	14%

Industry NAICS Codes

The classifications for coin machine operators by the North American Industry Classification System (NAICS) include, but are not limited to:

NAICS 454210 (SIC 5962), vending machine operators; NAICS 713120 (SIC 7993), providers of coin-operated services such as music and amusements (NAICS 713990, pool halls, parlors or rooms); NAICS 454390 (SIC 5963), coffee break service providers. *(These service categories are mutually exclusive.)*

The ***Census of the Industry*** questionnaire asks respondents to indicate the kinds of business they conduct. The industry presents a diverse picture. **75%** of operators were involved in vending more than one product type in 2009. This group includes "full-line" operators, a description that may or may not imply providing food; **42%** of them do. And **25%** concentrated on *specialized* vending segments (candy, cigarette, dairy, bulk, etc.).

Recent data show that **47%** of vending firms market **coffee service** (a larger percentage would result from including vendors that limit their OCS to existing vending accounts); at least **18%** operate **music and games** equipment as well as vending machines; **11%** of all vendors are involved in **manual foodservice**; **2%** combine vending and **mobile catering** and **20%** are engaged in other activities.

NOTE: % totals to more than 100, since many firms are active in several fields.

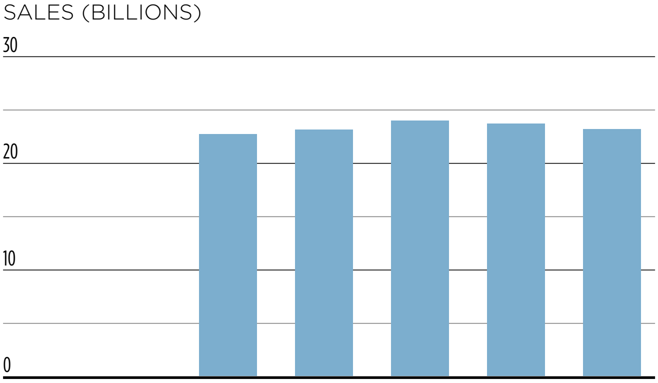
Truck and Van Use

Vending, office refreshment, and coin-op amusement and music providers are sales and route distribution businesses that rely on fleets to conduct business. In 2009, the number of vehicles run by operating companies dipped by almost 3% as operators consolidated routes and improved scheduling efficiency to offset rising fuel costs. In general, the composition of operator fleets remained the same compared with the year prior. Vans represented 54% of vehicles in use by operators, and non-modified vehicles, principally automobiles used by sales, technical and supervisory personnel, again ticked up marginally. Operators continue to become more sophisticated vehicle purchasers, as the pressing need for improved route productivity puts a premium on vocational vehicles that allow drivers to make the most efficient use of their time. Vending delivery vehicles must be able to haul ever-larger payloads of packaged cold drinks; coffee service route trucks need different organization if they are delivering prewritten orders than if they are run as "rolling stores"; and in amusement and music fleets, the need to carry cigarettes has been supplanted by the need to haul redemption merchandise.

	2006		**2007**		**2008**		**2009**	
TOTAL VEHICLES	**205,300**	**100%**	**203,600**	**100%**	**198,500**	**100%**	**193,000**	**100%**
Vans *(route delivery vehicles)*	113,450	55%	112,500	55%	108,500	55%	104,000	54%
Maintenance vehicles *(specialized)*	28,250	14%	27,500	14%	26,400	13%	26,000	14%
Medium-duty trucks	14,700	7%	14,600	7%	14,500	7%	14,000	7%
Non-modified vehicles*	48,900	24%	49,000	24%	49,100	25%	49,000	25%

*Non-vending-modified types of vehicle are acquired and used by all types of operation. They include not only passenger automobiles, but also route delivery vehicles employed exclusively for amusement and music operations, coffee service and event catering — to mention only the most prevalent. Pickup trucks, for example, are widely (but not universally) used for moving equipment. Companies active in these service areas, in addition to vending, generally (but not always) maintain separate organizations and vehicle fleets for each.

Vended Packaged Cold Drinks

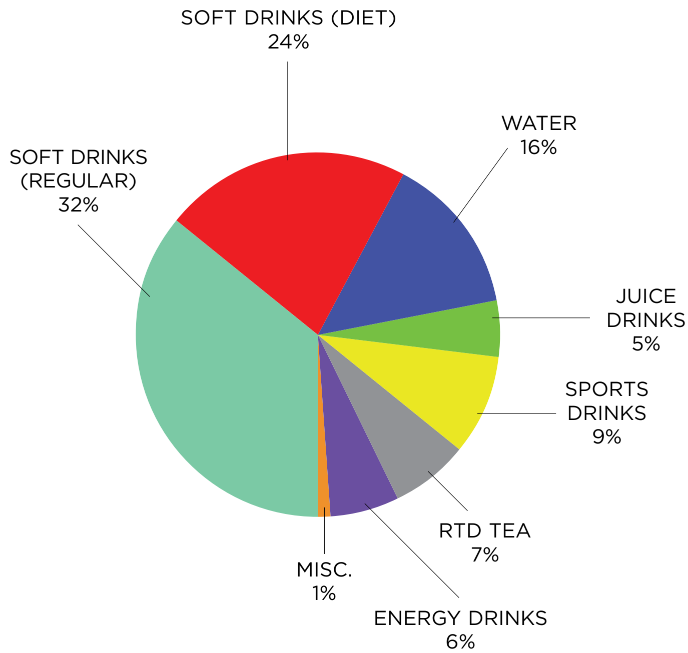


	2005	2006	2007	2008	2009
Total $ vol. (in billions)	**$23.5**	**$23.9**	**$24.8**	**$24.1**	**$23.3**
Total unit vol. (in billions)	30.5	30.6	30.2	28.4	25.9
Weekly unit vol.	174	175	173	168	162
Machines on site	3,372,000	3,364,000	3,360,000	3,250,000	3,080,000

Packaged cold drinks increased their predominance among vendible product categories last year, generating 54.2% of revenue. Dollar volume slipped 3.3% on a unit sales decline of 8.6% as the number of machines in the field contracted by 5.2%. This shrinkage reflected the economic difficulties occasioned by the 2008 crash. There were fewer large locations and smaller client populations. While demand for vending services remained strong, there were fewer customers to enjoy them. Enhanced cold beverages – energy drinks, fortified waters and other functional formulations – braked the decline in dollar volume, since consumers will pay a premium for these items. While many of today's popular alternative beverages have been offered for vending in 11.5-fl.oz. or 12-fl.oz. cans, operators increasingly provide the same packaging that patrons have learned to expect, including larger glass and PET bottles associated with ready-to-drink teas, juices, water and sports drinks, along with smaller cans characteristic of energy and ready-to-drink coffee beverages. Even so, soft drinks in 12-fl.oz. cans continued to represent the lion's share of unit vending sales by operators, if not by bottlers who run vending equipment, in 2009.

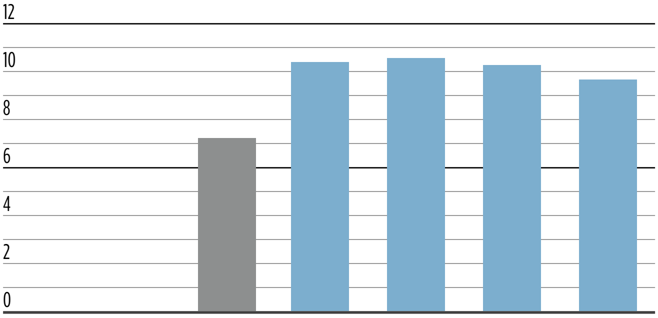
Cold Drink Categories

Cold beverages have been a part of the historic shift from mass to niche markets, which also has had a profound effect on the snack, confection, food and hot beverage categories. In the past two years, the growth of subcategories was small, but significant to vending operators. New products designed for very specific sensibilities continued to appear, and had a place in vending machines. Carbonated soft drinks (regular and diet) retained their stronghold on first place among vended cold drink categories last year, at 56% of sales, and water held its second-place position with a 16% share. Juices, sports drinks, energy drinks and ready-to-drink teas were grouped in the 5% to 9% range, the same as the year prior.



Vended Confections and Snacks

SALES (BILLIONS)



	1999	2006	2007	2008	2009
Total $ vol. (in billions)	**$7.2**	**$10.4**	**$10.6**	**$10.2**	**$9.7**
Total unit vol. (in billions)	10.8	12.2	12.1	11.7	11.1
Weekly unit vol.	182	179	178	176	172
Machines on site	1,140,000	1,314,000	1,312,000	1,280,000	1,240,000

Packaged confections and snacks, usually sold through multiproduct glassfront machines, again constituted the second-largest vendible products category in 2009; these items produced 22.5% of vended dollar volume. Dollar sales shrank 8.5% on a unit-volume decline of 5.3%; machines on location decreased by 3.1%. This reflected an increase in popularity of lower-priced items during a time of financial anxiety. The variety of products suitable for sale through snack machines continued to grow through extensions of existing lines and new entries. Today's glassfront machines are offered in designs ranging from simple to sophisticated, and this helps operators address the demands of smaller workplaces. Combination snack/cold drink and snack/fresh food venders (which also can vend milk) provide tools for meeting the needs of nontraditional markets, while adding to the complexity of defining just what products are being sold through which kinds of vending machine. Always a dynamic category, vendible snacks and confections continue to give operators the means to satisfy increasingly diverse clientele.

Vending Times

Census of the Industry 2010
a supplement

the Newsmonthly of Vending, Coffee Service, Foodservice and Coin-Op Recreational Services

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ABOUT THIS STUDY: The VENDING TIMES *Census of the Industry* provides performance results for major product categories in the automatic vending and coin-operated amusement industries. The objectives of this report have been met through mail survey techniques using VT's current circulation as the measured universe.

 VENDING TIMES is published 12 times a year, monthly by VENDING TIMES INC., 55 Maple Ave., Ste. 102, Rockville Centre, NY 11570. **Subscription rates in the United States and possessions, Canada, and Mexico: $40 one year, $50 two years; overseas, $115 one year.** Periodicals postage paid at Rockville Centre, NY and additional entry points. **POSTMASTER:** Send address changes to Vending Times, 55 Maple Ave., Ste. 102, Rockville Centre, NY 11570. Printed in U.S.A. **(ISSN 0042-3327)**

Letters to the editor should be emailed to editor@vendingtimes.net, faxed to (516) 442-1849 or mailed to VENDING TIMES's publishing office at 55 Maple Ave., Ste. 102, Rockville Centre, NY 11570. They must include name, address and daytime phone number. **ONLINE:** VENDING TIMES maintains a website at vendingtimes.com.

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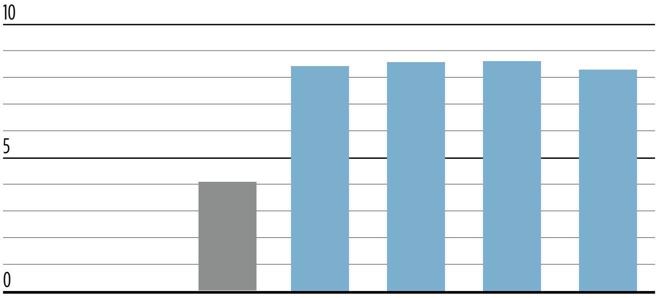
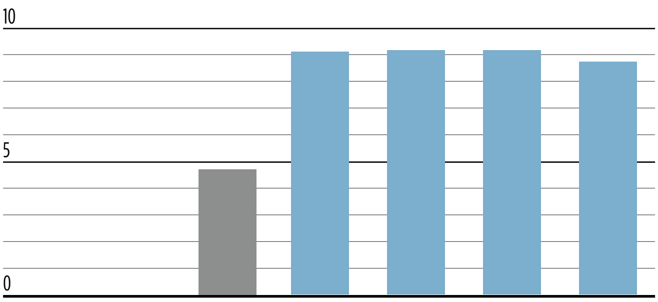
Vended Milk



	1999	2006	2007	2008	2009
Total $ vol. (in millions)	**$408.0**	**$840.0**	**$860.0**	**$861.0**	**$818.0**
Total unit vol. (in millions)	852.0	954.5	957.5	967.8	908.5
Weekly unit vol.	195	198	198	198	192
Machines on site	84,000	92,710	93,000	94,000	91,000

Milk and milk beverage sales through vending machines shared the overall decline in vended volume caused by the contraction of the economy. Milk also was affected adversely by the proliferation of state and local restrictions on the types and package sizes of milk allowed in school vending. The beverage remained popular in workplaces, but sales in that segment were curtailed by the decline in employment. Dollar sales thus dipped 6.1% from $861,000,000 in 2008 to $817,650,000 last year, as unit volume (including both the new widemouth plastic bottles and traditional cartons primarily sold through refrigerated food venders) edged down 6% to 908.5 million containers from a volume of 967.8 million the year before. The availability of shelf-stable flavored milk in modern grab-and-go packaging may have mitigated the falloff in sales to some extent, but its higher price-point worked against widespread acceptance in a period of intense price sensitivity. As the location base shrank, machines on location were reduced by 3.2%, from 94,000 in 2008 to 91,000 in 2009. That figure should be regarded with some caution, since more milk was sold through glassfront cold beverage machines not regarded by their operators as “milk venders.”

Vended Ice Cream



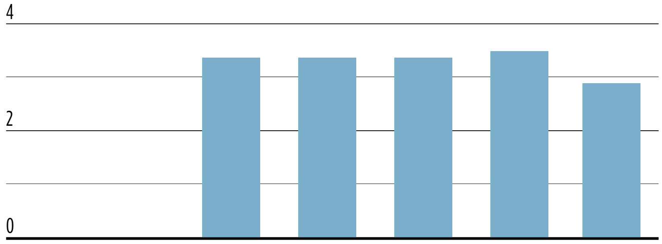
	1999	2006	2007	2008	2009
Total $ vol. (in millions)	**$470.0**	**$915.0**	**$916.0**	**$918.0**	**$886.7**
Total unit vol. (in millions)	546.0	978.6	957.9	928.0	886.7
Weekly unit vol.	140	153	151	150	147
Machines on site	75,000	123,000	122,000	119,000	116,000

The popularity of ice cream as a vended product helped brake its volume decline in a very difficult year for vending. Dollar sales fell 3.4% from $918 million in 2008 to $886.7 million in 2009, as units vended decreased 4.5% from 928 million to 887.7 million. The increasing deployment of modern frozen vending machines in workplaces, stocked with a mix of ice cream novelties and main-meal selections, involved the category in the shrinkage of the workforce last year, but ice cream’s popularity in public locations helped cushion the blow. Machines in the field diminished from 119,000 in 2008 to 116,000 last year, almost entirely as a result of the decreased number of viable workplace locations. Operators continued to encounter the effects of the “price ceiling” – consumer reluctance to insert what they regard as a lot of cash into a vending machine – and this made ice cream one of the catalysts for experimentation with debit and credit card payment systems, a trend that still is gathering force. With a few scattered exceptions, vending has not yet benefited from the public enthusiasm for ice cream brands regarded as premium that has been building for a quarter of a century. Operators are well aware of this potential, and are assembling the tools that will enable them to pursue the opportunity.

Food Vending

The number of food machines on location contracted again in 2009, as workplace populations and the number of suitable locations shrank. Dollar sales fell 14.2% on a unit sales decline of 15.8%. Sales through machines realize their maximum potential during a strong 24/7 economy that demands round-the-clock access, which we have not seen for quite a while. Traditional food machines must be serviced frequently because they sell perishable products with short shelf lives. And they are always in demand by locations, especially those that can't justify the service requirements. Improvements in machine technology, "menuing" and forecasting capabilities are helping operators to reduce waste and rationalize service frequency. And frozen venders, which are now a part of the mainstream, make it impossible to differentiate between the "refrigerated" and "frozen" categories; the same branded sandwiches, shipped and stored frozen, can be sold through both kinds of machine. Moreover, today's glassfront multiproduct machines are able to sell shelf-stable entrées in trays, cans and microwaveable bowls, as well as freeze-dried mainmeal items, so it is not difficult to meet many of a small location's food demands by adjusting the menu in a snack machine. In the U.S., "food" as a vendible product category is regarded as something consumed as a meal, not a snack; "meal replacement" items like energy bars increasingly make this distinction academic. "Food" machines do not sell all the food purchased by vending patrons.

SALES (BILLIONS)



	2005	2006	2007	2008	2009
Total $ vol. (in billions)	**$3.3**	**$3.3**	**$3.3**	**$3.4**	**$2.9**
Total unit vol. (in billions)	2.4	2.4	2.3	2.0	1.7
Weekly unit vol.	189 (85)*	189 (85)*	268	245	220
Machines on site	166,800	166,750	166,000	160,000	150

*(Restated to include canned food.)

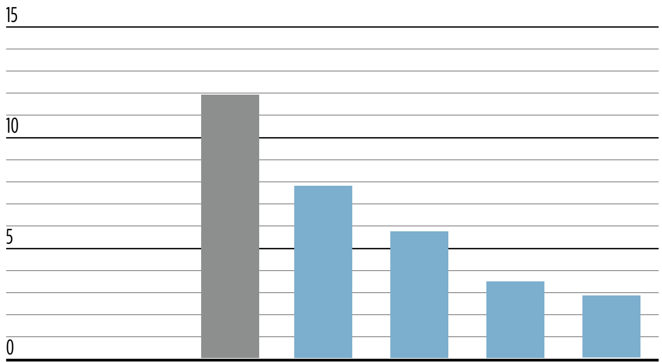
2009 PRODUCT SALES SHARE

Sandwiches & other "finger foods"	61%
Dairy snacks/desserts (yogurt, cottage cheese, etc.)	5%
Salads	19%
Fresh fruit & vegetables	4%
Packaged cold beverages (juice, milk, water, etc.)	3%
Platters, entrees, soups (including cans)	5%
Pastries	1%
Packaged fruit, gelatin, puddings	2%

Vended Cigarettes

Cigarette vending's decades-long decline was accelerated by the proliferation of smoking bans, reducing demand in the segment's core market. The ever-growing burden of taxes levied by all echelons of government on tobacco products imposed price increases on cigarettes sold through all retail channels, but vending operators were unable to treat cigarettes as a loss leader, and cigarette manufacturers did not offer sales incentives to vendors commensurate with those available to other channels. Confined to sites with liquor licenses (when, indeed, allowed at all), cigarette vending machines continued to solve problems for location owners and patrons. With public smoking restricted to adult establishments, the need for controlled delivery of cigarettes in such facilities remains substantial. Tavern owners are no more eager to undertake the task of purchasing and controlling inventories of extremely valuable items than they ever were; in fact, they are less so, in view of the growing legal hazards that attend tobacco retailing. Nevertheless, sales in bar and tavern locations have been diminished by comprehensive indoor smoking bans that are now common nationally. At this writing, only 11 states have not enacted indoor smoking bans. The potential of vending technology for controlling access to cigarettes has not been widely recognized, which has led many observers to suspect that antismoking advocates are less interested in solutions to the problem of underage smoking than they are in over-regulating tobacco retailers and purchasers of legal products.

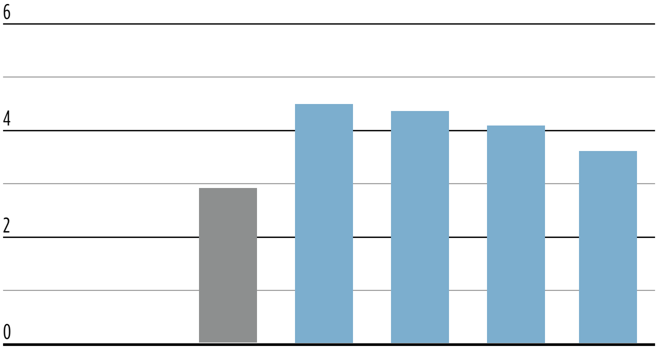
SALES (MILLIONS)



	1999	2006	2007	2008	2009
Total $ vol. (in millions)	**$1,2.0**	**$790.0**	**$588.1**	**$355.0**	**$298**
Total unit vol. (in millions)	343.0	137.2	90.5	53.3	44.2
Weekly unit vol.	30	29	29	25	25
Machines on site	220,000	91,000	60,000	41,000	34,000

Hot Beverage Vending

SALES (BILLIONS)

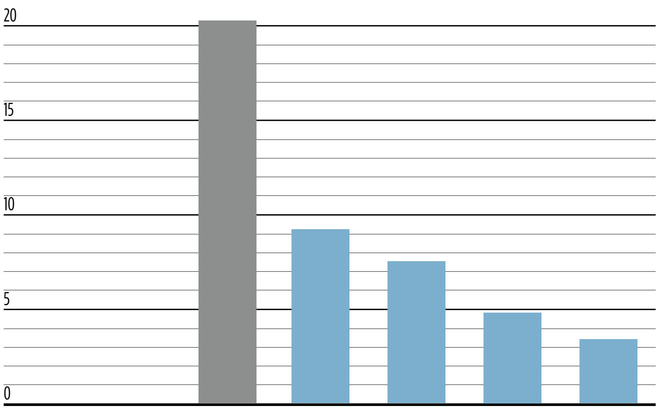


	1999	2006	2007	2008	2009
Total $ vol. (in billions)	**$2.9**	**$4.4**	**$4.3**	**$4.1**	**$3.6**
Total unit vol. (in billions)	6.3	7.1	7.0	6.4	5.6
Weekly unit vol.	380	388	384	374	359
Machines on site	320,000	354,000	350,000	330,000	300,000

Hot drink sales through equipment our operator respondents identified as "vending machines" dropped dramatically in 2009, with dollar volume down 17.1% on a unit-volume decline of 12.7%. The full-line hot drink market traditionally was closely tied to industrial employment, but has been widening far beyond its old factory base in recent years. Losses of industrial locations and shrinking workplace populations are driving the decline in full-line hot beverages. At the same time, the increased deployment of countertop fresh-brew equipment, which has given operators additional options for dealing with a larger number of smaller locations, has supplanted full-size hot drink venders in many locations. The bulk-loading countertop fresh-brew machines, essentially miniature venders, are operated more and more on a full-service basis in locations that formerly might have received a soluble-product vender. The newer portion-pack brewers, accepting coffee pods or proprietary cartridges, continued their rapid penetration of the workplace market last year.

Vended Cup Cold Drinks

SALES (MILLIONS)



	1999	2006	2007	2008	2009
Total $ vol. (in millions)	**$2,075.0**	**$939.0**	**$788.1**	**$500.0**	**$333.0**
Total unit vol. (in millions)	3,090.0	1,500.0	1,200.0	800.0	520.0
Weekly unit vol.	340	341	320	250	250
Machines on site	175,000	82,600	74,000	60,000	40,000

Postmix cold cup vending equipment is one of only two traditional vending machine types that "finishes" the product before delivering it to the patron. The other type, of course, is hot beverage vending equipment, covered above, and these two working together once represented the high-margin foundation for full-line vending in the heavy industrial environment that characterized its formative years. This "wet mix" continues to be used in locations with traditional workforces and enough traffic to justify the equipment and maintenance cost, but these locations have been dwindling, and took a violent hit as the economic downturn continued through 2009. Dollar sales thus fell 33.4% on a unit-sales decrease of 33.3% last year; the number of machines on location contracted by a third. The logistical and profit benefits of a machine that adds the water as it prepares the drink remain compelling, and several soluble-powder and liquid-concentrate cold drink machines entered the market last year.

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Coffee Service

The financial crisis that gathered force during the second half of 2008 continued through 2009. This reduced the number of locations and the average populations at surviving sites. Office coffee service came into being to address smaller sites, so OCS operators know how to deal with this kind of marketplace. In 2009, the falloff in demand was offset by the continuing growth in popularity of portion-pack fresh-brew systems and of pure-water service. Operators active in both vending and office refreshment service were well positioned to adapt to the changing needs of their clients. During past economic downturns, it was observed that frugality at home often is balanced by indulgence in office beverages, and this helped buffer the demand contraction of 2009.

PRODUCT PURCHASES *(Average purchase, in pounds, by category)*	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Roast coffee	86,500	86,650	86,650	87,000	87,000	85,000
Creaming agent	7,300	7,150	7,100	6,900	6,800	6,500
Soups	345	350	350	345	345	343
Freeze-dried coffee	215	215	213	199	201	200
Decaffeinated coffee	12,200	12,000	12,000	11,600	11,500	11,200
Tea	1,350	1,420	1,520	1,600	1,650	1,700
Sugar and sugar substitutes	26,100	26,000	26,300	25,900	26,000	25,800
Chocolate	4,475	4,525	4,600	4,500	4,450	4,350
Novelty hot drink flavors	147	145	142	140	141	142

CUP PURCHASES *(Average unit purchase, by company)*	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Paper cups	626,000	626,000	626,000	625,000	624,000	613,000
Plastic cups	634,000	632,000	631,000	629,000	629,000	620,000

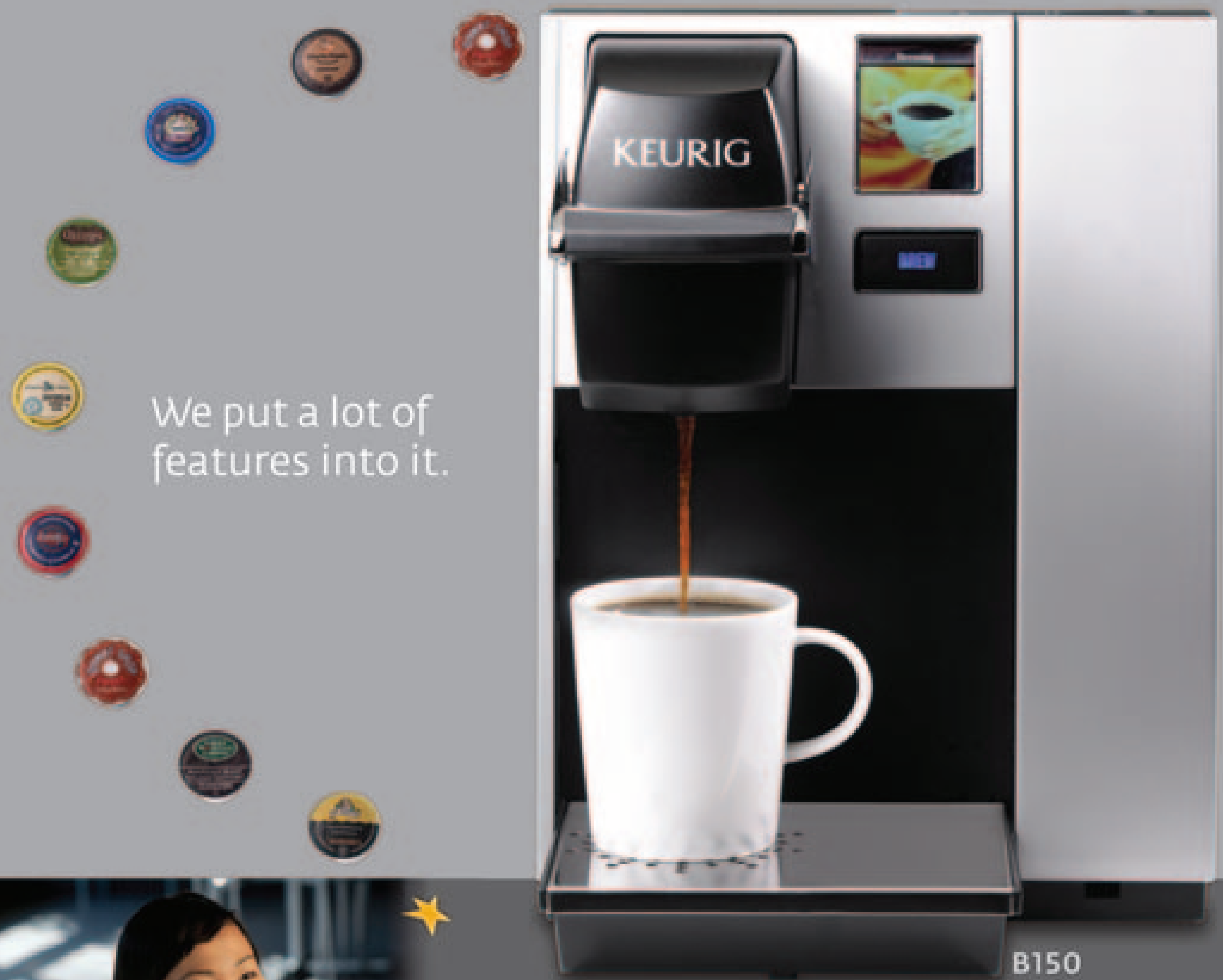
SALES VOLUME *(Average dollar volume, by company)*	$1,824,500	$1,875,000	$1,890,000	$1,895,000	$1,891,000	$1,839,000

DISTRIBUTION of COMPANIES by VOLUME *(Annual dollar volume)*	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
$1,000-$100,000	4%	3%	3%	3%	4%	6%
$101,000-$500,000	38%	40%	39%	38%	40%	42%
$501,000-$1,000,000	24%	22%	23%	23%	22%	21%
$1,001,000-$2,000,000 *("Over $1 million" before 1995)*	20%	21%	20%	20%	19%	18%
Over $2,000,000	14%	14%	15%	16%	15%	13%

COFFEE SERVICE EQUIPMENT	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Average number of accounts	572	572	575	578	576	571
Average brewing equipment purchases	73	74	73	71	68	65
Average non-brewer equipment purchases	35	34	34	34	31	30

BREWING EQUIPMENT USAGE *(Percentage of firms using each type of equipment)*	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Pour-through	95%	95%	93%	91%	92%	90%
Noncoin freeze dried	2%	2%	1%	—	—	—
Coin-op freeze dried	3%	2%	2%	2%	3%	2%
Coin-op batch brew	2%	—	—	—	—	—
Single-cup fresh brew	53%	55%	58%	61%	65%	67%
Plumbed-in	97%	98%	99%	99%	99%	99%
Special gourmet equipment	54%	54%	55%	57%	56%	55%

NON-COFFEE BREWING EQUIPMENT *(Percentage of firms using each type)*	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Full-size coffee vender	47%	47%	46%	44%	42%	40%
Candy/snack vender	75%	74%	75%	75%	75%	72%
Microwave oven	76%	74%	75%	74%	73%	72%
Postmix soft drink unit	12%	10%	6%	4%	2%	1%
Ice-maker	2%	1%	2%	3%	5%	6%
Noncoin snack box	1%	1%	1%	2%	2%	3%
Refrigerator or freezer	62%	60%	58%	55%	53%	53%
Canned cold drink vender	84%	84%	85%	86%	87%	85%
Water purifier/dispenser	90%	92%	93%	93%	95%	95%
Other	10%	10%	12%	11%	12%	12%



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Bulk Vending

The number of bulk vending machines in the field declined in 2009, while flat merchandise machines maintained their strength on location. Price improvements helped offset revenue losses, but total dollar sales dipped from $409.7 million in 2008 to $398.4 million last year. Today's bulk and flat merchandise patrons are willing to insert multiple coins to make a purchase, and this trend has compensated for higher product costs caused by higher prices for everything from petroleum feedstock to sugar. Sales at 50¢ and above rose to 70% of total dollar volume in 2009. Higher commodity costs continued to affect vended nuts and candy; innovations in flat merchandise kept consumer interest high. Operators reported that tighter credit impaired their ability to finance new equipment. While traffic in the core public-location market was depressed, enthusiasm for bulk- and flat-vended merchandise remained high.

CAPSULE VENDERS	2005	2006	2007	2008	2009
Total machines	695,000	692,000	691,000	664,000	648,000
Annual average volume per machine	$257	$258	$263	$265	$265
TOTAL DOLLAR VOLUME	**$178,615,000**	**$178,536,000**	**$181,733,000**	**$175,960,000**	**$171,720,000**

NOVELTY CAPSULE VENDERS (Animated high-capacity units)					
Total machines	14,000	13,000	10,500	10,300	9,100
Annual average volume per machine	$395	$395	$380	$370	$365
TOTAL DOLLAR VOLUME	**$5,530,000**	**$5,135,000**	**$3,990,000**	**$3,811,000**	**$3,321,500**

NUT/PAN CANDY VENDERS					
Total machines	417,000	413,000	400,000	370,000	355,000
Annual average volume per machine	$206	$206	$200	$220	$220
TOTAL DOLLAR VOLUME	**$85,902,000**	**$85,078,000**	**$80,000,000**	**$81,400,000**	**$78,100,000**

BALL GUM VENDERS (Includes "chicle" and wrapped tab gum)					
Total machines*	910,000	911,000	913,000	890,000	864,000
Annual average volume per machine	$120	$121	$124	$125	$125
TOTAL DOLLAR VOLUME	**$109,200,000**	**$110,231,000**	**$113,212,000**	**$111,250,000**	**$108,000,000**

(*Includes charitable/civic organization placements)

FLAT VENDING (Primarily stickers and temporary tattoos)					
Total machines	201,000	210,000	215,000	213,000	213,000
Annual average volume per machine	$170	$176	$176	$175	$175
TOTAL DOLLAR VOLUME	**$34,170,000**	**$36,960,000**	**$37,840,000**	**$37,275,000**	**$37,275,000**

	2005	2006	2007	2008	2009
TOTAL DOLLAR VOLUME — ALL TYPES	**$413,417,000**	**$415,940,000**	**$416,775,000**	**$409,696,000**	**$398,417,000**

VENDED PRICES/SHARE OF SALES (DOLLARS)	2005	2006	2007	2008	2009
Less than 25¢	–	–	–	–	–
25¢	42%	38%	36%	32%	30%
50¢	38%	40%	41%	44%	45%
75¢ and $1	20%	22%	23%	24%	25%

Music and Games Analysis

This decade has not been kind to the coin-operated amusement and music business, and the past two years have been especially harsh. Consumer spending on entertainment always dwindles when the economy contracts, especially when people fear that the contraction is not simply an effect of the familiar business cycle, but rather is something new, intractable and frightening. The effect of this contraction in patronage was felt more acutely by an industry whose traditional location types – local bars and taverns – have been eroding for years as the result of pervasive bans on smoking and increasingly rigorous efforts to suppress public intoxication. The U.S. Bureau of Labor Statistics reports that spending on entertainment dropped 5% in 2009. VT's *Census of the Industry* shows spending on coin-op amusements down almost 10% in 2009.

Perhaps more perplexing, on the long view, is the proliferation of alternatives to traditional out-of-home recreational options. The jukebox, which celebrated its 120th anniversary last year, enjoyed its golden age when everyone knew what high-fidelity sound was, but relatively few had the resources and skill to install the necessary equipment in their living rooms. Coin-op games offered experiences that were difficult or impossible to duplicate at home. While today's best videogames continue to offer more impressive displays and effects, their competitors in the consumer electronics arena have narrowed the gap – and even home and personal games suffered marked sales downturns last year.

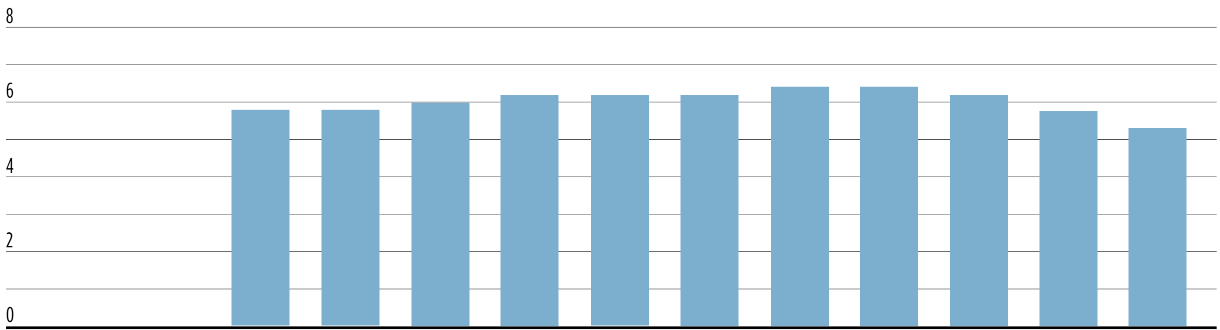
The effects of all this on the coin-op amusement business are not astonishing. Shuffle alleys, one of the smallest categories, experienced the least decline. They are traditional favorites in the relatively few locations that can support them, and the people who play them do not do so on impulse, but by habitual fondness. Games that offer patrons the opportunity to win something also held up better than their entertainment-only stablemates, but that disparity in appeal was evident before the 2008 convulsion. Soccer tables benefit from a strong core of very loyal players, but they are found in a greater variety of locations that are suffering through the present slump. Videogames, which have been subjected to periodic predictions of imminent demise since the great decline of 1982-'83, held up relatively well, buoyed by the popularity of countertop games and the present generation of long-lived, popular simulators, but their location base has fallen on evil times. Soft-tipped darts and pool tables also have been hurt by the contraction of the bar-and-tavern segment. Pinball, all but extinct a quarter of a century ago, continues to occupy a durable niche, but suffered from the same ills as the other popular "street" types. And kiddie rides were severely impacted by the decline in retail shopping that decimated the numbers of children seeking to enjoy them.

Pool tables down 13% represented 33% of total dollar volume
Prize venders down 2% represented 18.5% of total dollar volume
Ticket redemption down 5% represented 16% of total dollar volume
Videogames down 9% represented 15% of total dollar volume
Electronic dartboards down 11% represented 10.5% of total dollar volume
Pin games down 15% represented 5% of total dollar volume
Soccer tables down 8.5% represented 1% of total dollar volume
Kiddie rides down 16% represented less than 1% of total dollar volume
Shuffle alleys down 1.3% represented less than 0.5% of total dollar volume

The appeal of the coin-op amusements business is demonstrated by the growth in state government plans to co-opt it as an extension of state lotteries; it is impossible to predict how this will work out. But the popularity of playing skill-based games in congenial social settings always has persisted through onslaughts by new forces that many thought would extinguish it: urban renewal in the 1960s and '70s, the first wave of home videogames in the 1980s and the ensuing "cocooning" trend in the next decade. But the attraction remains, and usage is likely to revive with the economy.

2009 Total Amusement $ Volume

SALES (BILLIONS)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total $ vol. (in billions)	$5.8	$5.8	$6.0	$6.1	$6.1	$6.1	$6.2	$6.2	$6.1	$5.8	$5.3

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Coin Phonographs (Jukeboxes)

The emergence of the Internet-enabled, touchscreen jukebox in 1999 has reshaped the industry, allowing coin machine operators to provide scalable multimedia products to their clientele. By the end of 2009, there were an estimated 63,000 digital jukeboxes online, compared with 58,000 by the prior year's end. Last year's 9% gain was the digital jukebox's slowest advance since its introduction 11 years ago. The average weekly income generated by a digital phonograph, according to survey respondents, was $205, compared with $215 in 2008. Last year, CD boxes generated $65 each week, whereas legacy vinyl boxes produced $25 or less. The diffusion of digital jukebox connections into "C," "D" and "E" locations might explain the decline in weekly earnings experienced by digital systems, as well as the severe economy and slower traffic in tavern locations.

Like other coin-operated equipment, jukeboxes have declined in absolute numbers, while average per-machine revenues have increased. This reflects attrition of traditional street locations that form the core jukebox market, as well as the music operator's recognition that fewer pieces set at higher play prices, and placed in higher-traffic locations, offer a real advantage over a larger but less profitable installed base. This contraction is apparent in the middle of the market: legacy CD and 45-RPM machines, fully paid for, still gratify long-lived mixed-use locations off the beaten path, while competition is fierce for prime locations, now fewer, in more populous markets. In 2009, the Jukebox Licensing Office reported issuing licenses for 26,100 pieces, compared with 33,500 the prior year. Last year's 22% drop in documented CD and vinyl boxes was less than the period between 2007 and 2008, which saw a 28% decline, and more than the 2006-2007 period, which had an 18% drop. (The JLO does not cover digital downloading machines, whose networking software records actual plays and computes royalty payments.)

The modern jukebox surfaced in the late 1940s and enjoyed explosive growth in the following decade, as the high-fidelity vinyl microgroove 45-RPM record became the dominant recorded-music format. Valued by artists and music producers as an effective medium for catching the ears of the music-buying public, jukeboxes were rivaled only by radio during the 1950s and '60s. All this began to change when a new generation, experiencing unprecedented prosperity and falling prices of high-end electronics, turned to the LP album as its music format of choice. Using the power of its networks, today's jukebox industry – primarily comprised of three music providers (AMI Entertainment Network Inc., Ecast Inc. and TouchTunes Interactive Networks) and some 2,000 vendors – is trying to reposition the jukebox as a promotional vehicle for the recording industry. Last year, dozens of new albums were released first on digital jukeboxes, which play more than a billion songs annually.

JUKEBOX EQUIPMENT in USE	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Compact disc	78%	75%	70%	58%	45%	33%	28%
45-RPM	8%	7%	6%	4%	3%	3%	3%
Digital downloading	14%	18%	24%	38%	52%	64%	69%
JUKEBOX REVENUE							
Average weekly income	$113	$116	$148	$144	$145	$140	$138
Average commission rate	46%	44%	45%	43%	43%	45%	45%
JUKEBOX PRICING							
5/$1 or 25¢	9%	9%	6%	4%	3%	3%	3%
3/$1 or 50¢	41%	40%	38%	39%	40%	41%	42%
5/$2	7%	9%	13%	13%	13%	14%	14%
18/$5	21%	21%	22%	22%	22%	21%	21%
15/$5	11%	12%	12%	13%	13%	12%	11%
Other	11%	9%	7%	7%	7%	9%	9%
AVG. GROSS REVENUE VOL. CHANGE							
Increase	20%	21%	22%	23%	38%	28%	18%
Decrease	2%	5%	8%	9%	12%	32%	52%
No change	78%	74%	70%	68%	50%	40%	30%
ALLIED MUSIC SERVICES (offered by operators)							
Karaoke	4%	4%	3%	3%	2%	3%	3%
Background music systems	5%	3%	2%	3%	3%	5%	6%

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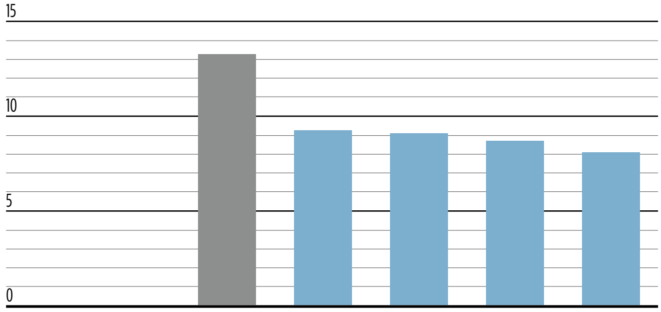
Videogames

SALES (MILLIONS)



	1999	2006	2007	2008	2009
Total $ vol. (in millions)	**$1,330.0**	**$935.2**	**$904.0**	**$882.0**	**$800.8**
Weekly average	$50	$55	$53	$53	$50
Machines on site	510,000	327,000	328,000	320,000	308,000

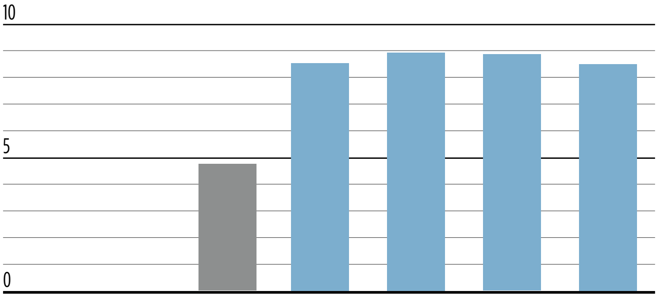
The number of coin-operated videogames in the field declined in 2009, as the base of bar and "street" locations continued to shrink. An estimated 302,000 units on location, compared with 320,000 in 2008, posted $800.8 million, compared with $882 million in 2008, a 10% drop. Appearing in the early 1970s, arcade videogames dominated and reshaped the amusement trade by the end of that decade. Videogames peaked in 1982, representing 60% of total amusement revenue, or $4.4 billion. In 2009, videogames represented 15% of total amusement revenue. The videogame performed best when it was regarded as one component of a balanced mix of equipment, deployed in reasonably limited quantities and rotated frequently to keep player interest up. By some analyses, the industry's inability to employ this strategy – which had worked very well for pinball machines in the preceding two decades – led to "overexposure" and an inevitable decline, which began in the early 1980s and has continued ever since. There have been temporary remissions from the great videogame crash of 1982. In 1991, for instance, a resurgence took place with the introduction of two-player combat games like Street Fighter II, Mortal Kombat and Killer Instinct, but this genre narrowed the target on teenage boys. And by 1996, arcade games lost their technological edge to home videogame systems, which were advanced even further by Internet-enabled networked play. Successful arcade videogames, such as Dance Dance Revolution, typically use special controllers not easily replicated on home systems, and are often placed in limited numbers.

Appealing to a more mature audience was long discussed and sometimes attempted. This approach was successfully demonstrated by the Golden Tee family of golf-themed videogames. Online sports-themed games pointed to a change in the demographic profile of people who play videogames in public sites, which has altered the economics of the business. Like the activities they recreate, these games reward experience, but some cannot quite be learned. Their interactivity enables tournament play, encourages the formation of leagues, publicizes high scorers, opens the door to ongoing promotions and establishes citizenship in a now global community. Golden Tee first went online in 1995. Today, most coin-op videogames support online play and administration, but a majority is operated offline.

The touchscreen terminal is a subcategory of the larger coin-op videogame group, which includes conventional uprights, sitdown simulators and cocktail tables. Touchscreen games are small and flexible. They are usually bundled in countertop cabinetry, installed almost anywhere and their broad programmability can easily provide an entertainment menu well matched to a wide range of audiences. Historically, they can be viewed as the successful descendent of the late-'60s "trivia game," a concept whose perfection was made possible by the microprocessor, the nonvolatile memory device and the flat-panel LCD video screen. Earlier versions were well suited to offering games based largely on text or static images, but steady improvements in hardware have given recent generations full video and audio capability. Since they are operated differently in so many venues, it's difficult to collect accurate earnings estimates in the touchscreen entertainment category.

Ticket Redemption (Arcade Games)

SALES (MILLIONS)



	1999	2006	2007	2008	2009
Total $ vol. (in millions)	**$484.0**	**$868.6**	**$895.9**	**$891.1**	**$844.5**
Weekly average	$95	$116	$118	$119	$116
Machines on site	98,000	144,000	146,000	144,000	140,000

Ticket redemption devices consist of a continually expanding array of skill-based amusements. These "specialized" arcade games, which recognize skill by dispensing tickets, are prevalent in site-based entertainment facilities, particularly FECs (family entertainment centers). In 2009, the redemption category experienced its first decline, reflecting the general economic malaise, following a growth trend of more than two decades. Total revenue dropped from $891.1 million in 2008 to $844.5 in 2009, or 5%. Weekly per-machine earnings and number of machines on location both dropped almost 3%. Unlike the closely related prize dispensers that award merchandise at points of sale, redemption games are usually operated alongside attended product centers that showcase a wide selection of prize merchandise. Redemption centers also act as exchange points for accumulated tickets. Redemption centers are sometimes sited in high-traffic locations, known as anchors in industry parlance, whose primary business is something other than coin-op amusements; redemption offerings in the gamerooms of bowling centers illustrate this application. The coin-op amusement industry borrowed the redemption concept from traveling carnivals, which had always offered table games and other challenges for prizes. Automated ticket dispensing technology was first added to coin-operated redemption in the late 1960s.

Kiddie Rides

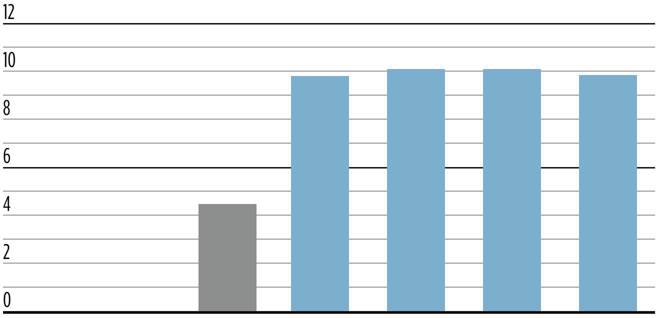
	1999	2006	2007	2008	2009
Total $ vol. (in millions)	**$20.6**	**$40.7**	**$40.6**	**$38.9**	**$32.8**
Weekly average	$66	$68	$65	$65	$60
Machines on site	6,000	11,500	12,000	11,500	10,500

Kiddie ride revenue dropped more than 15% in 2009. The number of machines on location decreased 9% and weekly average earnings dropped 8%. Restricted to a narrow audience of children between ages three and seven, kiddie rides never held a formal presence in the music and games industry. However, they have been longstanding fixtures placed on the sidewalks in front of, or inside, grocery and retail stores since the mid-20th century – and nowadays they are common adjuncts to bulk venders and cranes serving the same retail spaces. Most kiddie rides are placed by specialized operations that can maintain equipment for service periods as long as 30 years, during which they are put back into circulation many times over.

NOTE: This survey, which represents kiddie rides operated by music and games companies, does not include operations that specialize in coin-operated kiddie rides or location-owned equipment, but does reveal developments and emerging trends. The number of kiddie rides placed by specialized operations, music and games businesses and location owners is estimated to be 65,000 (similar to 2008 and down from 100,000, or 35%, in 1999).

Prize Merchandisers

SALES (MILLIONS)



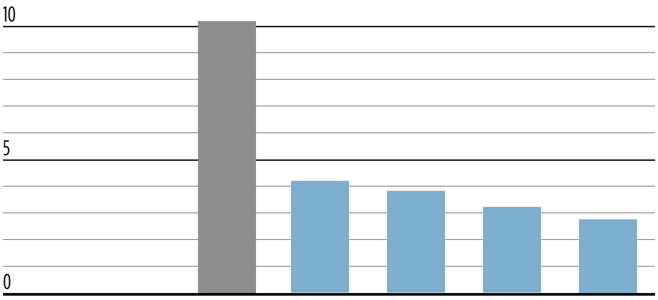
	1999	2006	2007	2008	2009
Total $ vol. (in millions)	**$517.0**	**$989.7**	**$1,005.9**	**$1,001.0**	**$980.1**
Weekly average	$138	$156	$156	$154	$152
Machines on site	72,000	122,000	124,000	125,000	124,000

Prize merchandisers are among the games most dramatically affected by shifts in the coin-operated amusement industry once dominated by pinball machines and videogames. With revenue close to $1 billion, this equipment category ranked No. 2 last year, representing about 19% of all amusement revenue. Merchandisers, which include the omnipresent skill cranes, enjoyed strong annual growth between 1996 and 2007. In 2008, the growth trend leveled off, and in 2009 revenue generated by merchandisers declined 2%. Coin-operated amusement devices that award prizes robotically benefit from the availability of affordable equipment that provides stronger merchandising appeal. For more than a decade, prize dispensers were put into service as "other" income sources for the nation's retail space, occupied by national and regional mass merchandise chains, restaurants, movie theaters and grocery stores. This, in part, is due to restrictions on the placement of videogames, which oftentimes are not considered "family friendly" enough. Last year, slower foot traffic and coin drop at retail locations contributed to the revenue decline.

Kinetic art aspects of merchandisers and cranes provide "retro" appeal. The skill crane, which makes use of a claw with adjustable tension strength to retrieve prizes, is the most common type of amusement merchandiser. The origin of the skill crane is traced back to traveling carnivals of the early 20th century; early arcade versions, known as "claw" games, first appeared in penny arcades in the 1920s. Their universal application in typical street and location-based sites began around 1980 when they were added to the mix of equipment found in videogame arcades. The second machine type in this category, also known as "self-contained redemption," is commonly called an amusement vender, and usually combines a skill game and wider range of vendible selections that are awarded through a separate dispensing mechanism. The ability to instantly offer a patron a prize after playing a game of skill plays a central role in today's amusement industry.

Pinball Machines

SALES (MILLIONS)

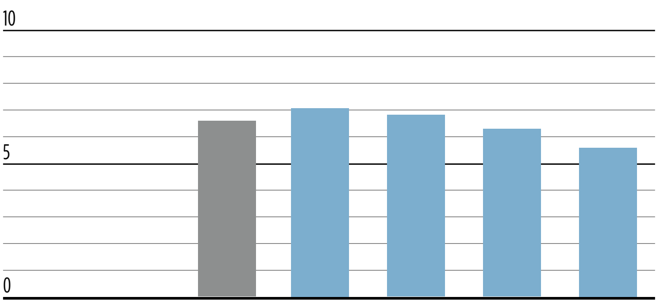


	1999	2006	2007	2008	2009
Total $ vol. (in millions)	**$1,086.0**	**$423.3**	**$381.9**	**$323.0**	**$275.2**
Weekly average	$58	$74	$72	$69	$67
Machines on site	360,000	110,000	102,000	90,000	79,000

The decades-long decline of pinball machines was accelerated, among other reasons, by operators' preferences for the simplicity of standardized computer-based equipment over more complex mechanical games. In 2009, the pinball category posted $275 million in revenue, compared with $323 million the year prior. The installed base dropped 12%, and weekly averages were down 3%. Natural adjuncts to jukeboxes, pinball machines, or flipper games, were among the first coin-operated amusement devices to be widely deployed by professional operating companies. They traditionally were associated with "street" locations, from neighborhood taverns and restaurants to candy stores and mom-and-pop groceries. Today, however, commercial pinball is regarded as a niche product, offered by fewer and fewer vending companies capable of handling rigid maintenance regimens, equipment rotations and electromechanical repairs. For these operators, the game remains an important part of the equipment mix and helps define their businesses as full-service coin-op amusement providers. Interest in the art of playing pinball still remains high for many in the 40-and-older crowd, as well as for the generations born after pinball's heyday. Outside the commercial sphere, pinball's status as a fashionable collectible or home accessory continues to climb. Sales to homeowners, collectors and hobbyists have contributed greatly to the game's survival.

Electronic Dart Games

SALES (MILLIONS)



	1999	2006	2007	2008	2009
Total $ vol. (in millions)	**$666.0**	**$702.0**	**$695.6**	**$632.3**	**$561.8**
Weekly average	$64	$75	$76	$76	$73
Machines on site	200,000	180,000	176,000	160,000	148,000

Ongoing traffic erosion in bars and taverns, itself a result of economic hardship and smoking bans, brought about declines in the dart category last year. Electronic dart machines, played with soft-tip darts and placed almost exclusively in bars, posted an 11% revenue loss as the installed base and weekly coin drop decreased 7% and 4%, respectively. Electronic dartboards are staple coin-op machines throughout the country, but are most prevalent in the Midwest, where the faltering economy has hit hard. Separately, a decades-long decline in blue-collar taverns nationwide has impacted darts, along with other barroom pieces like videogames, pool and foosball. Leagues and tournaments have always been the foundation of electronic darts and remained strong in 2009 despite the economic woes. Last year, the National Dart Association sanctioned about 60,000 players who were sponsored by vending companies that installed boards in more than 10,000 locations worldwide. In addition to organized promotion, electronic dart machines have been the beneficiaries of technology. They were among the first coin-op games to go online, as far back as 1991. They offer versatile payment systems, remote monitoring and software to run paperless leagues.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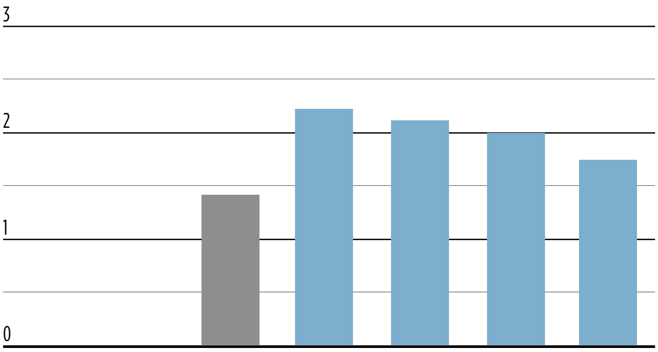
Pool Tables

SALES (BILLIONS)



	1999	2006	2007	2008	2009
Total $ vol. (in billions)	**$1.6**	**$2.2**	**$2.1**	**$2.0**	**$1.7**
Weekly average	$96	$124	$123	$120	$115
Machines on site	312,000	335,000	332,000	320,000	290,000

Pool tables were the No. 1 coin-op game in 2009, accounting for 33% of total amusement revenue and 25% of placements. However, pool was among the hardest hit coin-op games last year, dropping 13% in revenue with almost 10% fewer units in the field. Pool table income is directly tied to traffic in taverns and bars, and their continued decrease in earnings is primarily the result of fewer customer visits to those locations nationwide. Coin-op pool tables, which arrived in the 1950s, after the invention of cueball separation, are built to last a long time and engineered for easy maintenance. The success story for pool operators in recent years is the electronically controlled table, sometimes powered by a battery. Operators report an average 25% increase in earnings when replacing, or upgrading, conventional tables with electronic models. Until recently, pool, also known as "pocket billiards," was widely regarded as a corruptive influence, often targeted as immoral disruptors by politicians and severely regulated by local legislators. Today, pool is highly respected and enjoys a broad player base, consisting of men, women, teenagers and even children. In 2009, about 25% of amusement vending companies offering pool also conducted pool leagues.

Soccer Tables

	1999	2006	2007	2008	2009
Total $ vol. (in millions)	**$71.1**	**$80.8**	**$72.8**	**$57.3**	**$52.4**
Weekly average	$36	$37	$35	$29	$28
Machines on site	38,000	42,000	40,000	38,000	36,000

In 2009, total revenue generated by coin-operated soccer, or foosball, dropped almost 9%. Weekly game earnings shrank more than 3%. As the location base decreased, machines in the field dropped more than 5%. Foosball games deployed by specialized operations that serve leagues and professional players continued to outperform equipment run by multi-amusement route companies.

Shuffle Alleys and Bowlers

	1999	2006	2007	2008	2009
Total $ vol. (in millions)	**$19.9**	**$17.8**	**$17.8**	**$17.6**	**$17.4**
Weekly average	$45	$44	$44	$44	$44
Machines on site	8,500	7,800	7,800	7,700	7,600

Shuffleboard tables and puck bowlers were route staples during the 1950s and early '60s, when they enjoyed immense popularity in neighborhood taverns. Today, these classic coin machines have carved out a small and vibrant niche in the modern amusements industry. In 2009, shuffle game earnings and units on location dipped slightly and accordingly.

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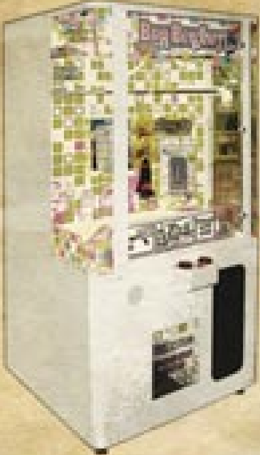

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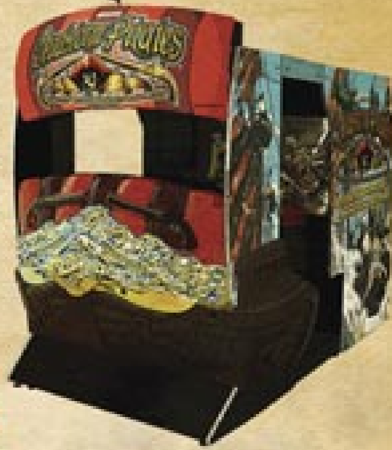

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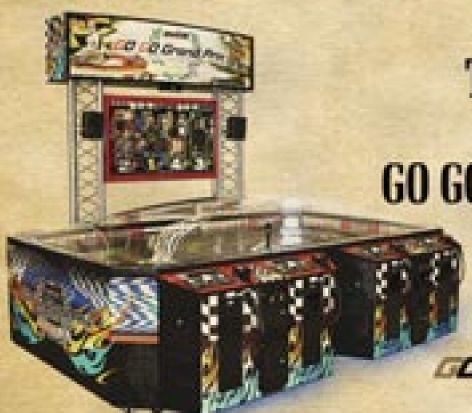

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