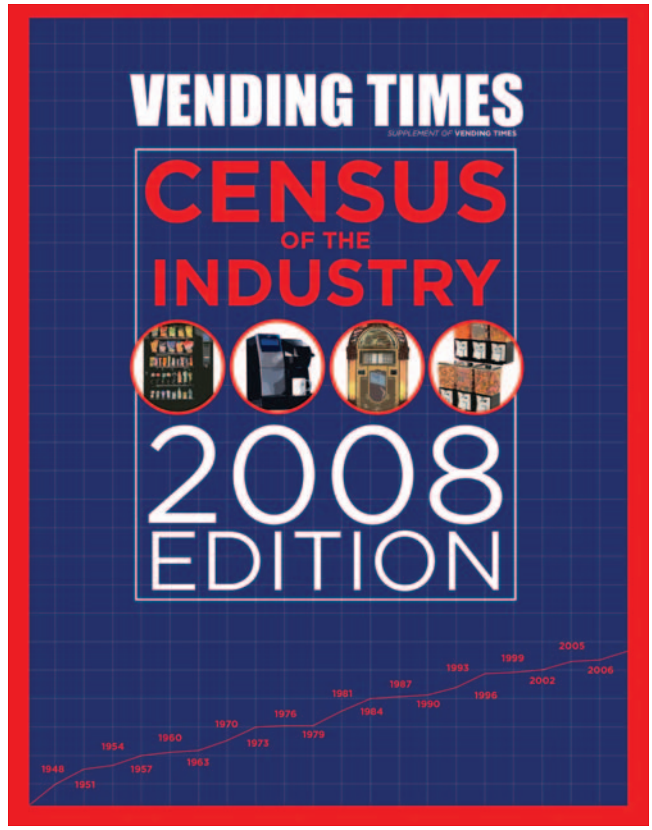
VENDING TIMES

CENSUS of the INDUSTRY 2008

ABOUT OUR RESEARCH: The 2008 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. Its research was conducted under the sole control of Harvey Research Inc. and was governed by accepted research methods. Harvey Research designed a random-interval, systematic-sampling procedure to develop a representative cross-section of readers. Three thousand (3,000) readers were sent a four-page questionnaire accompanied by a letter from the Publisher describing the nature of the survey and requesting the recipient's cooperation. The initial mailing was followed by a second request. The surveys were returned by postage-paid, business-reply envelopes pre-addressed to Harvey Research. Since 1953, Harvey Research Inc. has been providing quality research services to the publishing industry. By focusing solely on the publishing industry, it has forged a reputation as the preeminent supplier of research to publishers worldwide.



Call (212) 302-4700 to order a bound issue.

LETTERS TO THE EDITOR should be e-mailed to editor@vendingtimes.net, faxed to (212) 221-3311 or mailed to VENDING TIMES's publishing office at 1375 Broadway, 6th Fl., New York, NY 10018. They must include name, address and daytime phone number. **ONLINE:** VENDING TIMES maintains a website at www.vendingtimes.com.

REPRINT SALES and RIGHTS: To purchase reprints or obtain permission to reproduce VENDING TIMES material, call VT's publishing office at (212) 302-4700. **ADVERTISING** inquiries and circulation data can be had by contacting a sales official at (212) 302-4700 or visiting vendingtimes.com.

* *

PRESIDENT and PUBLISHER Alicia Lavay-Kertes
EDITOR-in-CHIEF Tim Sanford
VICE-PRESIDENT and EXECUTIVE EDITOR Nicholas Montano

INTRODUCTION

Recalling the economic outlook and overall industry situation last year requires some concentration of mind, to tune out the current alarms and recall how things seemed before those alarms began to attract public attention. Much of what is happening now was anticipated in the second half of 2007; industry pioneer and analyst Allan Z. Gilbert's detailed discussion of the August "credit crunch" (VT, September 2007) has proved uncannily accurate.

In fact, the workplace services and away-from-home music and amusements industries held their own last year, but there was a growing sense, especially in vending, that something needed to be done. Costs were going up, prime locations were getting harder to find and profitability continued to decline. All this was going on in an economy that seemed strong and resilient; 2007 was the fourth consecutive year of job growth, and unemployment remained below 5%. Exports of goods set a new record, totaling $1.15 trillion. Thus, retail sales remained strong, and that strength appeared to withstand the increasing inflation of commodity prices that began to attract notice in the spring. Fuel prices, already high, began to go higher.

In 2007, industry results were essentially unchanged from the previous year. Dollar volume edged up by 1.4% to $47.5 billion from $46.8 billion, almost entirely as a result of price improvement. Demand for vending services remained high – it may well have increased – but the great majority of locations that wanted those services was small by historical standards, and was tending to get even smaller. This continued a trend that had begun to cause concern in the early 1970s; since then, the industry has developed a variety of approaches to dealing with it.

The difficulty is that there is a certain cost incurred in sending a route driver to a location, whether large or small, but more money is collected when stopping at a large one. Possible solutions to this problem have been discussed for decades, and steady improvements in communications hardware, computer software and wide-area networking have brought them within reach of vending operators. In 2007, there was a good deal of experimentation with procedures based on these advances, all of which are designed to tailor menus to specific location tastes in order to maximize sales, while simultaneously decreasing the frequency of stops. Those trials bode well for the future, but the revolution is yet to occur.

In retrospect, 2007 probably will be seen to have marked the end of the post-9/11 economy. That era was characterized by great dynamism in many parts of the service sector, made possible by the extraordinary advances in communications and information technology that emerged from the last decade of the previous century. "Knowledge workers" in those fields, and in the financial services that have been transformed by them, have done very well. This was good news for the office refreshments industry, though it did not do much for traditional vending. And the music and amusements business continued its slow evolution in response to a changing market and the revolution in consumers' entertainment preferences.

Also in retrospect, it can be astonishing to consider how brief a Golden Age is, considering the effect it has on future expectations and practices. For full-line vending, that formative period lasted less than a decade in the late 1950s and early to mid-'60s, and its fading glow endured for another decade. What vending offered the postwar large industrial workplace was very fast access, on any shift, to a limited variety of products that could be sold at low prices, because hot and cold cup beverages were the core of the product mix and their high margins could offset lower net profit on other items.

In 2007, cold cup drinks had become a very small category, still profitable but confined to a steadily shrinking segment of the market. Hot drinks were undergoing a transformation as the growing number of small locations encouraged more and more operators to combine vending with office coffee service. Snacks remained strong sellers through machines that now offered about four times as many selections as the Golden Age drop-shelf models, and took much longer to load. Demand also was high for packaged cold drinks. Operators made increasing use of combination machines, able to sell snacks, cold drinks (including perishable ones like milk) and fresh food from a single unit. The need to increase average transaction value accelerated the movement of vending and OCS operators into pure-water service.

The component that was changing most slowly, however, was price. It is worth remembering that the traumatic "stagflation" of the mid- to late 1970s had changed consumer perceptions. At the beginning of the decade, people had a fairly clear idea of how much something should cost. Within 10 years, they recognized that their dollars would be worth less and everything would be more expensive next week, and they learned to judge the value of an item in order to decide whether it was worth the price. This helped vendors make the transition from 10¢ to 35¢ coffee.

Despite great progress in payment systems, vendors had learned by the turn of the century that patrons were carrying less cash, and were reluctant to spend more than $1 for anything from a vending machine. Again, technology is coming to the rescue with cashless systems of the same sort that consumers prefer in other retail channels. But the revolution had not yet truly begun in 2007.

The coffee service industry performed well in 2007, as it has done throughout this decade. The OCS service model meets the needs of today's locations, and operators have benefited from the recognition of the value of quality coffee that revived in the 1990s. This recognition accompanied and fostered the expansion of the specialty coffee business, and it is worth remembering that the coffee service industry played a leading role in that expansion through its 1981 alliance with the International Coffee Organization Promotion Fund to establish the Coffee Development Group. CDG launched a college coffeehouse taskforce that introduced future opinion-makers to the pleasures of gourmet coffee; as young adults, they were receptive to start-up enterprises like Starbucks. If OCS is in its Golden Age today, it is being rewarded for a heroic effort to correct an unfavorable long-term trend.

The music and amusements business had its own Golden Age, which really started around 1950 and lasted for a decade, or a bit longer. Most of the equipment (jukeboxes, pinball machines, cigarette venders) had been invented and refined before the outbreak of World War II. The immediate-postwar long-playing record gave rise to the 45-RPM high-fidelity "single" by 1955. The pinball machine had acquired most of its classic features before the war, and was perfected around 1950. Cigarette vending machines of recognizably modern form date back to the roaring '20s, but were novelties before the Second World War. The flourishing of the neighborhood tavern in the postwar American economy created a great demand for all these things, and prompted the invention of the coin-op pool table.

The strategic challenge for today's amusement and music business is that street locations are evolving away from those neighborhood taverns, whose decline already was being lamented by 1970. Moreover, today's consumer has access to recorded music and high-tech entertainment that would have been unimaginable in 1950, or even 1970. While digital downloading jukeboxes and wide-area game networks have kept "street" operators competitive in a shrinking market, many believe that "site-based" operations of the family fun center variety plus expert services to a robust home market will come to dominate the music and games sector.

The PUBLISHER and the EDITORS

ANALYSIS

The vending industry grappled with persistently high fuel prices last year, as well as commodity costs that were heading up by midyear. These challenges worsened the chronic profit crunch occasioned by the dispersion of the American workforce into smaller locations not well-suited to traditional full-line vending methods. While new operational tools and doctrines have been developed to enable operators to serve a wider market efficiently with a more varied array of popular products, many of these advances were still in the trial stage last year. As a result, the industry essentially held its own in 2007, with total dollar sales rising slightly. Demand for vending remained strong, but was more decentralized than vending operators would have preferred. On the plus side, increasing inflation did not discourage consumers from paying a fair price for the products they wanted.

Providing those products in away-from-home settings proved successful in maintaining overall volume for five of our nine new product categories. Packaged cold beverages gained strongly in dollar volume, as new subcategories proliferated to address the demands of a fragmented audience with very diverse interests, ranging from increased energy to supposed reinforcement of the immune system. Milk also posted a substantial gain, driven by growing demand for "healthier" products that also taste good, alert marketing, product enhancements and more widespread adoption of versatile new equipment types. In general, milk beverages became a vended cold-drink category in recent years.

Snacks, including candy and pastry, always are in demand and remained strong sellers in 2007. While unit volume dipped, dollar sales increased as operators offered an increasing variety of larger packages at prices that remained very competitive with other retailers. They also continued to deal with concern over the role of items eaten for pleasure in a balanced diet, which seems to arise every decade or so.

Vended food also demonstrated its popularity, as it usually does when workplace populations decrease. The difficulty operators have had in the past has been in finding a way to meet that demand profitably. This always has required careful menu planning, sales analysis and forecasting. Not only are tools now available for doing these things with unprecedented speed and accuracy, but frozen venders have proven their ability to minimize costly food waste and to rationalize labor requirements. Vendors were able to offer a patron-pleasing mix of refrigerated, frozen and shelf-stable foods in 2007. Ice cream more than held its own as well, benefiting from its almost universal popularity, its ability to increase per-machine sales when intermixed with main-meal items in frozen machines, and the increasing prevalence of premium brands in modern frozen vending machines.

Bulk vending experienced a small uptick. Its lack of upward movement largely reflects a shift toward higher-profit equipment types – principally prize cranes – by companies active not only in bulk, but also in street amusement operations. High operating costs caused operators to drop their lowest-volume locations. As always, it must be remembered that a great deal of bulk vending is done by very small entities, often as a sideline to another activity, and nothing is known about this very populous but low-volume segment.

Packaged cold beverages, up 3.8% in dollar volume.
Milk, up 2.4% in dollar volume.
Snacks, confections and pastry, up 1.9% in dollar volume.
Vended Food (all kinds), up 0.6% in dollar volume.
Ice Cream, up 0.1% in dollar volume.
Bulk vending, up 0.24% in dollar volume.

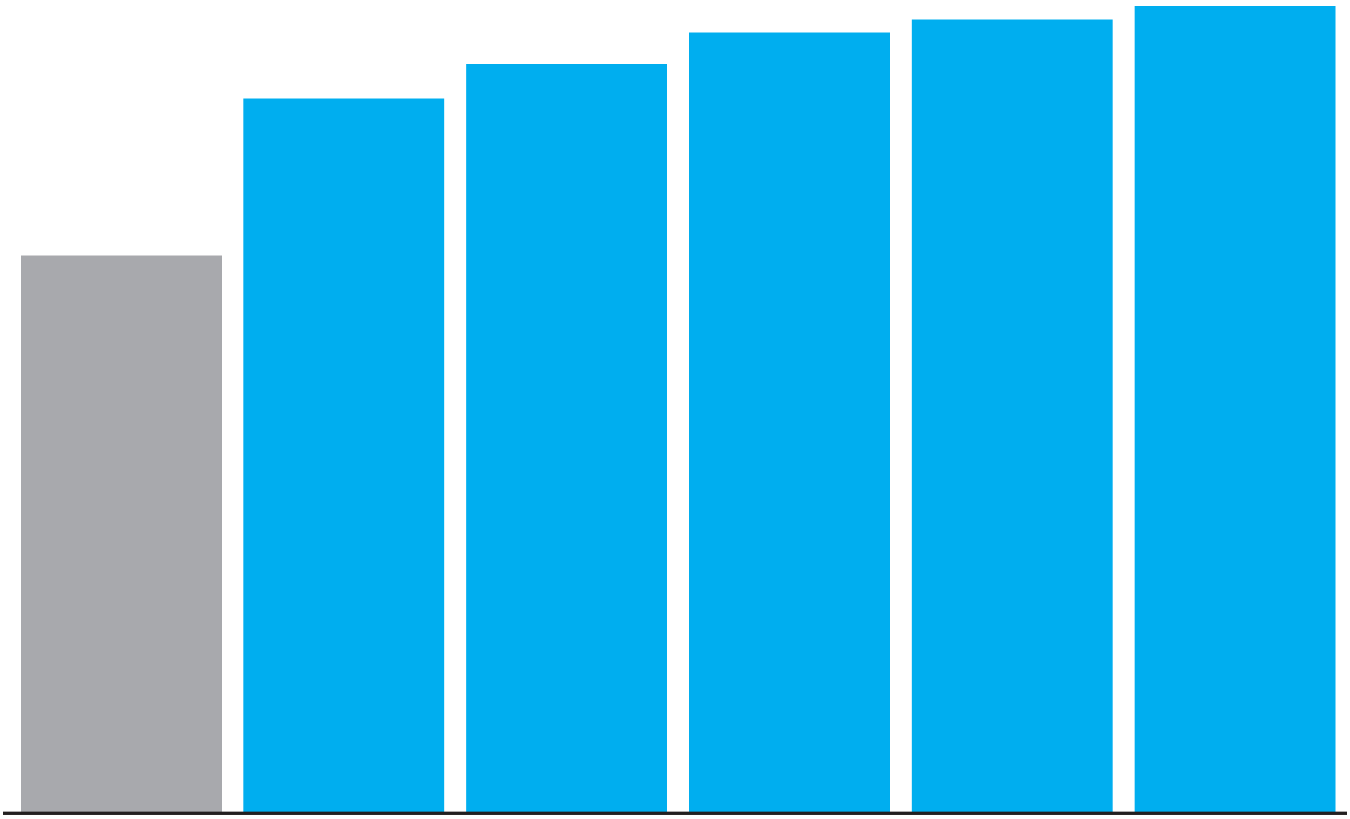
Hot beverages, down 2% in dollar volume.
Postmix cold beverages, down 16.1% in dollar volume.
Cigarettes & cigars, down 25.6% in dollar volume.

The declines in the other three categories have very different explanations. Vended hot beverages registered a dip in dollar volume, but it is very likely that this reflects the replacement of older full-size hot drink machines with new, smaller single-cup equipment, usually countertop types associated with coffee service. Operators may or may not regard these as "vending machines," and their categorization conditions their reports of equipment use. Today's small workplace populations lend themselves to "total refreshment service" that combines OCS, pure water and vending (at least).

Postmix cold drink vending has been adversely affected by the increasing prevalence of small workplaces over the past two decades, and suffered a substantial further decline last year. It remains a very profitable category, and modern technology exists for bringing its advantages to smaller locations. As fuel costs remain high and plastic bottles increasingly come under attack, it would not be at all surprising to see a resurgence of fountain drinks in a total refreshment service context.

Cigarette vending also has fallen victim to external forces, from punitive taxes on cigarettes to increasingly stringent restrictions on the placement of cigarette venders, including outright prohibition. Vending machines equipped with modern safeguards continue to represent a very effective way of controlling access to tobacco products, but they are such attractive targets that this potential benefit has not yet been widely recognized.

2007 TOTAL VENDED $ VOLUME



1997	2003	2004	2005	2006	2007
$32,886,690,000	**$42,150,228,000**	**$44,190,409,000**	**$46,042,000,000**	**$46,820,000,000**	**$47,499,000,000**

2007 VENDED PRODUCT VOLUME

RETAIL SALES THROUGH VENDERS

PRODUCT	PERCENT SHARE 2007	DOLLAR VOLUME 2007
Packaged Cold Beverages[1]	52.31%	$24,800,000,000
Snacks, Confections, Pastry[2]	22.27%	$10,600,000,000
Hot Drinks	9.12%	$4,340,000,000
Vended Food[3]	7.02%	$3,340,000,000
Cold Drinks (Cup)	1.66%	$788,000,000
Ice Cream	1.92%	$916,000,000
Milk	1.81%	$860,000,000
Cigarettes & Cigars	1.24%	$588,000,000
Bulk Vending	0.88%	$417,000,000
All Other	1.79%	$850,000,000
Total	**100.00%**	**$47,499,000,000**

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

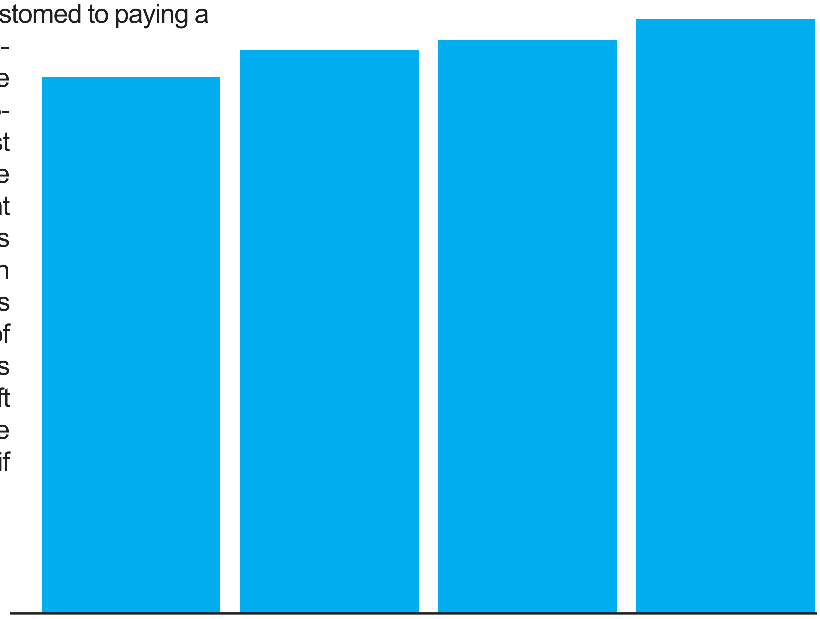
NUMBER OF LOCATIONS	2004	2005	2006	2007
Plants, Factories	158,000	157,000	156,000	156,000
Primary & Secondary Schools	21,000	21,500	22,000	21,000
Colleges & Universities	34,000	34,000	34,500	34,000
Public Locations	480,000	482,000	483,000	481,000
Government & Military	13,000	12,500	12,500	12,000
Offices, Office Complexes	510,000	511,000	511,500	509,000
Hospitals, Nursing Homes	48,000	48,500	49,700	50,000
Other Locations	171,000	172,000	173,000	174,000
Total	1,435,000	1,438,500	1,442,200	1,437,000

LOCATION DOLLAR SALES	Vending 2007	Manual 2007
Plants, Factories	$4,909,000,000	$1,975,000,000
Primary & Secondary Schools	1,400,000,000	217,000,000
Colleges & Universities	4,700,000,000	1,900,000,000
Public Locations	15,390,000,000	620,000,000
Government & Military	1,600,000,000	295,000,000
Offices	12,700,000,000	4,750,000,000
Hospitals, Nursing Homes	3,900,000,000	405,000,000
Other Locations	2,900,000,000	379,000,000
Total	$47,499,000,000	$10,541,000,000

Vending was an “on-street” business until the late 1950s, and operators served commercial and industrial sites with the same mix of equipment as was placed in public sites, usually serviced on the same routes. The advent of reliable coffee, postmix cold drink and food machines enabled vending to serve large groups quickly and efficiently, and made it the preferred feeding and coffee break service method for large industrial enterprises. The evolution of the economy from a heavy-industrial to an information-and-services core has ended the predominance of heavy industrial locations, although they remain a key element in the vending account mix. Offices have become the principal category of workplace location. In many technology-oriented service sectors, the distinction between an office (white- or pink-collar clientele) and a plant (blue-collar customer base) has become increasingly indistinct. Today’s vending equipment, far more versatile and reliable than that of past generations, increasingly meets the needs of a society in which people spend ever-greater amounts of time away from home. This has encouraged a steady increase in public sites, the category which is the leading revenue generator, and “other” locations. Many of those are public (i.e, accessible from the street), but not definable by operators as traditional street stops (which are restaurants, taverns, supermarkets, movie theaters, etc.). Others do not fit precisely into traditional categories; a large retail establishment that contracts for vending services for its staff but not its clientele is an example. Vending companies long have seen opportunity in offering “manual” services, i.e. the sale of food and beverages through cafeterias, speedlines and service bars, as a location-pleasing supplement to the core vending business. The steady growth of manual services in public and “other” locations reflects operators’ long involvement in a variety of concession and catering activities. In 2007, the total number of locations that could be served by classical vending and manual methods dipped, while demand for away-from-home refreshments remained robust. Thus, operators increasingly turned to the office refreshment delivery approaches that have evolved from office coffee service. This makes analysis difficult, since one operator may regard a countertop bulk-loading single-cup brewer as a vending machine, while another treats it as a piece of OCS equipment. In a sense, this represents the wheel coming full circle. In the early 1960s, many vending locations that had been profitable during the postwar boom became less so. From one viewpoint, the modern office coffee service model represented an effective response. Today, more and more operators offer “total refreshment service,” providing coffee, pure water and/or vending equipment as client needs dictate.

VENDED PACKAGED COLD DRINKS

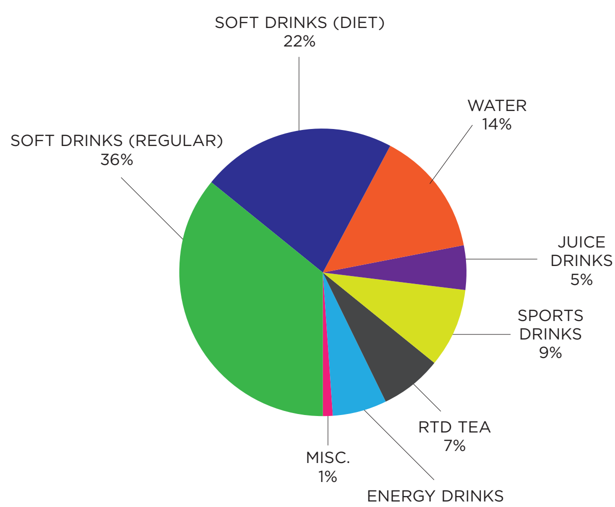
Packaged cold drinks retained their dominance among vendible product categories last year, accounting for 52.3% of all vended revenues. Dollar volume climbed $900 million to $24.8 billion from $23.9 billion a year earlier, but unit sales dipped 1.3% as the number of machines in the field increased. This reflects the situation that the industry confronted last year: Demand for vending services remained high, but there were fewer large locations, and client populations were smaller across the board. The growing popularity of enhanced cold beverages – energy drinks, functional formulations – drove higher dollar volume, since consumers are accustomed to paying a premium for these items through other retail channels. While many of today's popular alternative beverages have been offered for vending in 11.5-fl.oz. or 12-fl.oz. cans, operators over the past decade increasingly have striven to provide the same packaging that patrons have been taught by convenience stores to expect, which includes larger glass and PET bottles associated with ready-to-drink teas, juices, water and sports drinks, as well as smaller cans characteristic of energy and ready-to-drink coffee beverages. It is important, nonetheless, to remember that soft drinks in 12-fl.oz. cans continue to represent the lion's share of unit vending sales by operators, if not by bottlers who run vending equipment.



	2004	2005	2006	2007
TOTAL DOLLAR VOLUME	**$22,391,000,000**	**$23,491,000,000**	**$23,900,000,000**	**$24,800,000,000**
TOTAL UNIT VOLUME	29,855,000,000	30,508,000,000	30,641,000,000	30,254,000,000
AVERAGE WEEKLY UNIT VOLUME	173	174	175	173
MACHINES ON LOCATION	3,256,000	3,372,000	3,364,000	3,360,000

COLD DRINK CATEGORIES

Cold beverages have more than shared in 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 2007, the proliferation of subcategories slowed, which was inevitable, although new products designed for very specific sensibilities continued to appear. Soft drinks (regular and diet) retained their stronghold on first place among vended cold drink categories last year, at 58% of sales, and water held its second-place position with a 14% share. Juices, sports drinks, energy drinks and ready-to-drink teas were grouped in the 5% to 9% range, similar to the year prior. It must be said that determining the appropriate category for many newer items is not an easy task, as crossover types (soft drinks with energy-drink characteristics extending best-selling brands, functionally enhanced waters and the like) continued to multiply in 2007.



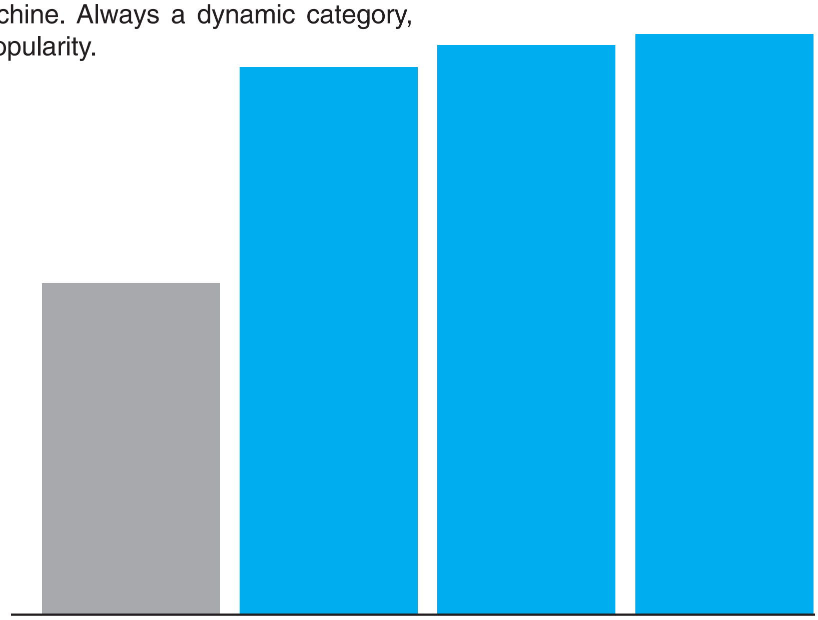
VENDED CUP COLD DRINKS

Postmix cold cup vending equipment still 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, and these two working together 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 popular and profitable in locations with enough traffic to justify the equipment and maintenance cost, but these locations have been dwindling in number. The continued slide in manufacturing employment during a time of apparent economic strength further eroded cup cold drink vending in 2007, with machines on location declining by 10.4% and dollar sales dipping 16%. The relatively few operators who continue to run cold cup drink venders have made full use of the larger cup size and pure-water options of the last generation of equipment to optimize pricing, and there seems little opportunity to improve sales further until workplace staffing increases. Postmix machines offer patrons an attractive value proposition, a carbonated soft drink with or without ice, in a generous serving size at a very competitive price. Equipped with efficient water filters, they also can vend purified water, still or sparkling, by the cup. However, they cannot offer the wide variety of alternative cold beverage categories that have proliferated over the past two decades. Thus, operators who continue to have locations suitable for postmix equipment usually couple it with packaged-beverage equipment stocked with the new-age products.This, along with a leaner workforce, accounted for the decline in weekly average unit volume. Even so, pairing a high-margin cup machine stocked with the popular core soft drinks and a high-gross-profit can-and-bottle machine offers real advantages in the profitable but shrinking niche that postmix equipment continues to serve efficiently.

	1997	2005	2006	2007
TOTAL DOLLAR VOLUME	**$1,930,000,000**	**$971,000,000**	**$939,000,000**	**$788,000,000**
TOTAL UNIT VOLUME	3,218,000,000	1,517,000,000	1,465,000,000	1,231,000,000
WEEKLY UNIT VOLUME	340	342	341	320
MACHINES ON LOCATION	182,000	85,400	82,600	74,000

VENDED CONFECTIONS and SNACKS

Packaged confections and snacks, which may loosely be defined as anything edible that is vended from an unrefrigerated glassfront multiproduct machine – represent the second-largest vendible product category in 2007; these items produced 22.3% of all vended dollar volume last year, virtually unchanged from the previous year. Dollar sales rose to $10.6 billion from $10.4 billion, although machine placements and average weekly unit volume dipped. This reflects improvements in pricing occasioned by the growing popularity of large single-serving formats, which became increasingly available in categories other than bagged salty snacks. The variety of products suitable for sale through snack machines continued to grow last year, as extensions of existing lines (including those larger package sizes) vied with a stream of new entries to give operators an extensive choice of merchandise from which to assemble menus tailored to just about any clientele. Glassfront machines increasingly were offered in designs ranging from simple to sophisticated, and this helped operators deal with the demands of smaller workplaces. The growing popularity of combination snack/cold drink and snack/fresh food venders (which also can vend milk) provided new tools for meeting the needs of nontraditional markets, while further complicating the task of defining exactly what products are being sold through precisely which kind of vending machine. Always a dynamic category, snacks and confections continue to grow in popularity.



	1997	2005	2006	2007
TOTAL DOLLAR VOLUME	**$6,048,000,000**	**$10,002,000,000**	**$10,400,000,000**	**$10,600,000,000**
TOTAL UNIT VOLUME	9,756,000,000	12,187,000,000	12,235,000,000	12,144,000,000
WEEKLY UNIT VOLUME (plus pastry)	177	180	179	178
MACHINES ON LOCATION	1,060,000	1,302,000	1,314,000	1,312,000

HOT BEVERAGE VENDING

The vended hot drink market traditionally was closely tied to industrial employment, but has been widening far beyond its old factory base in recent years. The apparent dip in hot beverage vending machine placements and sales last year largely resulted from the increased deployment by operators of countertop fresh-brew equipment, which has given operators additional options for dealing with a larger number of smaller locations. The bulk-loading kind, essentially miniature vending machines, sometimes are operated on a full route service basis in locations that formerly might have received an older soluble-product vender. The newer portion-pack brewers, accepting coffee pods or proprietary cartridges, also found increasing favor in 2007. For these reasons, the slip in vended coffee sales largely is illusory; the workplace remains an important market for coffee, and operators are meeting that market effectively. Vended hot drinks have outgrown their early identification with blue-collar locations and low vend prices, and remain poised to meet the needs of the market when account populations increase.

	1997	2005	2006	2007
TOTAL DOLLAR VOLUME	**$2,610,000,000**	**$4,413,000,000**	**$4,430,000,000**	**$4,340,000,000**
TOTAL UNIT VOLUME	5,930,000,000	7,098,000,000	7,145,000,000	6,990,000,000
WEEKLY UNIT VOLUME	375	390	388	384
MACHINES ON LOCATION	304,000	350,000	354,000	350,000

VENDED MILK

In 2007, milk ran counter to the general industry stagnation by increasing in dollar sales, unit volume and machines on location. The school market received most attention, as vended milk was the right product at the right time to replace high-sugar soft drinks prohibited by more and more districts. In other market segments, too, milk continued its dramatic resurgence from a traditional must-offer product to a popular contemporary cold drink choice. Strong dairy industry marketing efforts and growing public interest in the nutritional impact of away-from-home choices widened the availability of attractively packaged new products from regional dairies and national suppliers. The new generation of refrigerated packaged-beverage and combination machines had health controls allowing them to accommodate perishable items, and extended shelf-life milk beverages were joined by shelf-stable selections, simplifying transport and storage while reducing waste. Milk had been a mainstay vendible product even before the full-line revolution, and its retreat into refrigerated-food machines in the 1970s was part of a much broader consumption shift. Milk producers have found vending a valuable ally in their prolonged effort to reverse this trend.

	1997	2005	2006	2007
TOTAL DOLLAR VOLUME	**$446,150,000**	**$802,000,000**	**$840,000,000**	**$860,000,000**
TOTAL UNIT VOLUME	892,300,000	944,000,000	955,000,000	957,000,000
WEEKLY UNIT VOLUME	195	196	198	198
MACHINES ON LOCATION	88,000	92,500	92,710	93,000

VENDED ICE CREAM

Ice cream increased in dollar volume during 2007, although unit sales and machine placements were affected by the erosion in populations able to support vending. As operators adopted frozen machines as a solution to the continuing strong demand for food, a mix of main-meal and snack/dessert items maximized sales. Operators continued to move toward branded premium ice cream novelties, which boosted dollar sales. Vending experienced its first great period of growth as a channel for retailing a limited number of products that had to conform to rather rigorous size and shape criteria. Ice cream vending long predates the full-line revolution, but it was not until the mid-1990s that it was able to accommodate today's wide range of premium-frozen desserts and snacks. As a category, "ice cream" is an umbrella description of a wide range of frozen novelty items including water ices and yogurt-based delicacies. The selectivity and merchandising power of today's robotic and glassfront frozen machines continues to spur demand for them, and their ability to offer a wide mix of products for varied dayparts and occasions, with high gross margins, rewards vendors who perform accurate sales analysis and address specific preferences. In public locations, machines stocked entirely with frozen snacks and desserts continue to thrive.

	1997	2005	2006	2007
TOTAL DOLLAR VOLUME	**$369,000,000**	**$905,000,000**	**$915,000,000**	**$916,000,000**
TOTAL UNIT VOLUME	439,040,000	993,500,000	978,500,000	958,000,000
WEEKLY UNIT VOLUME	130	156	153	151
MACHINES ON LOCATION	65,000	122,500	123,000	122,000

FOOD VENDING

The refrigerated fresh-food vender and microwave oven gave vending the marketing edge that spearheaded the full-line revolution. The traditional full-line dilemma, of course, is that there are more locations that want food than locations that can support a machine that must be serviced frequently because it sells perishable products with short shelf-lives. In 2007, the continued reluctance of employers to return to pre-9/11 staffing levels maintained that demand. At the same time, the number of locations that could support vending of any kind decreased, reducing the number of machines in the field. Operators strove to respond with an expanded range of equipment and products, and higher-value items gained favor, generating higher dollar volume. Smaller refrigerated machines menued with a greater proportion of shelf-stable and extended shelf-life items and supported by increasingly capable forecasting software continued to reduce costly food waste. And the frozen vender has entered the mainstream, making it impossible to differentiate between a "refrigerated" and a "frozen" category; the same branded sandwiches, shipped and stored frozen, can be sold through both kinds of machine. A fast-growing array of appealing, branded single-serve sandwiches and platters, shipped frozen for refrigerated or frozen vending, maximized variety and allowed commissary operators to concentrate on high-ticket signature creations. While the once-ubiquitous hot canned food machine has fallen from favor, canned and microwave-bowl-packed entrees and soups, now sold through refrigerated food machines as well as glassfront snack venders, plus freeze-dried items, offered a wide range of options with which to meet the market.

	2004	2005	2006	2007
TOTAL DOLLAR VOLUME	**$3,118,325,000**	**$3,280,000,000**	**$3,320,000,000**	**$3,340,000,000**
TOTAL UNIT VOLUME	2,300,000,000	2,377,000,000	2,386,000,000	2,314,000,000
WEEKLY UNIT VOLUME	188*(86)*	189*(85)*	189*(85)*	188*(80)*
MACHINES ON LOCATION	161,500	166,800	166,750	166,000

**(Restated to include canned food.)*

PRODUCT SALES SHARE	2004	2005	2006	2007
Sandwiches & other "finger foods"	62%	61%	62%	63%
Dairy snacks/desserts (yogurt, cottage cheese, etc.)	4%	5%	6%	6%
Salads	13.5%	15%	16%	17%
Fresh fruit & vegetables	1%	1%	2%	3%
Packaged cold beverages* (juice, milk, water, etc.)	7%	6%	4%	3%
Platters, entrees, soups (including cans)	10%	9%	7%	5%
Pastries	3%	1%	1%	1%
Packaged fruit, gelatin, puddings	1.5%	2%	2%	2%

BULK VENDING

Bulk vending posted a very modest dollar sales gain between 2006 and 2007, as the composition of those sales continued to shift. Suppliers have grown skilled at developing products that speak to the aesthetic enthusiasms of the youth market. The willingness of bulk and flat merchandise patrons to insert multiple coins helped offset the increased cost of merchandise occasioned by higher prices for everything from petroleum feedstock to sugar, and sales at 50¢ and above rose to 64% of total dollar volume. At the same time, higher commodity costs impacted the nuts and candy segment. Capsuled toys and novelties held their own in dollar sales, though fewer machines were on location; the industry benefited from the proactive stance taken by the National Bulk Vendors Association and leading suppliers in response to recurrent alarms about the lead content of toy jewelry. And the bulk industry increasingly interpenetrated the street music and amusement business. In particular, the growing popularity of prize cranes on the street eroded the installed base of animated and dynamic novelty capsule venders. That interpenetration has historic analogs; many of the pioneers of the modern coin machine industries began as bulk vendors. The bulk and flat merchandise vending segment continues to be a school for operators, hospitable to hard-working entrepreneurs who often expand into other areas of coin operation.

CAPSULE VENDERS	**2005**	**2006**	**2007**
Total Machines	695,000	692,000	691,000
Annual average volume per machine	$257	$258	$263
TOTAL DOLLAR VOLUME	**$178,615,000**	**$178,536,000**	**$181,733,000**

NOVELTY CAPSULE VENDERS *(Animated high-capacity units)*			
Total Machines	14,000	13,000	10,500
Annual average volume per machine	$395	$395	$380
TOTAL DOLLAR VOLUME	**$5,530,000**	**$5,135,000**	**$3,990,000**

NUT/PAN CANDY VENDERS			
Total Machines	417,000	413,000	400,000
Annual average volume per machine	$206	$206	$200
TOTAL DOLLAR VOLUME	**$85,902,000**	**$85,078,000**	**$80,000,000**

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

*(*Includes an estimated 75,000 charitable/civic organization placements)*

FLAT VENDING *(Special-purpose and multi-purpose machines, including stickers, temporary tattoos, sports cards, etc.)*			
Total Machines	201,000	210,000	215,000
Annual average volume per machine	$170	$176	$176
TOTAL DOLLAR VOLUME	**$34,170,000**	**$36,960,000**	**$37,840,000**

	2005	**2006**	**2007**
TOTAL DOLLAR VOLUME — ALL TYPES	**$413,417,000**	**$415,940,000**	**$416,775,000**

VENDED PRICES/SHARE OF SALES (DOLLARS)	**2005**	**2006**	**2007**
Less than 25¢	—	—	—
25¢	42%	38%	36%
50¢	38%	40%	41%
75¢ and $1	20%	22%	23%

VENDED CIGARETTES

The decline of cigarette vending accelerated in 2007, as smoking bans proliferated, 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. Virtually confined to sites with adult clientele and liquor licenses, cigarette vending machines continued to solve problems for location owners and patrons. Average weekly unit sales held steady, but the number of machines shrank dramatically. With public smoking confined 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. The potential of vending technology for controlling access to cigarettes has not been widely recognized, which has led many observers to suspect that antismoking zealots are less interested in solutions to the problem of under-age smoking than they are in harassing tobacco retailers and legal purchasers.

	1997	2005	2006	2007
TOTAL DOLLAR VOLUME	**$1,425,000,000**	**$875,000,000**	**$790,000,000**	**$588,120,000**
TOTAL UNIT VOLUME	548,400,000	156,250,000	137,391,000	90,480,000
WEEKLY UNIT VOLUME	35	30	29	29
MACHINES ON LOCATION	285,000	100,000	91,000	60,000

SNACK and CONFECTION SALES

2007 composition reported by Management Science Associates

The revolution in retailing that has altered the American marketplace combines electronic cash registers and barcode scanners. Central computers record every sale as it is made, immediately update a database and use that database to automate reordering, identify the slowest-turning items for replacement and determine the direction of an emerging trend to reduce the guesswork involved in choosing new items to offer. The application of the DEX/UCS protocol to vending enables machines to record sales automatically, making possible a much higher degree of precision in sales analysis and category management. This has allowed vending operators to join the retail revolution.

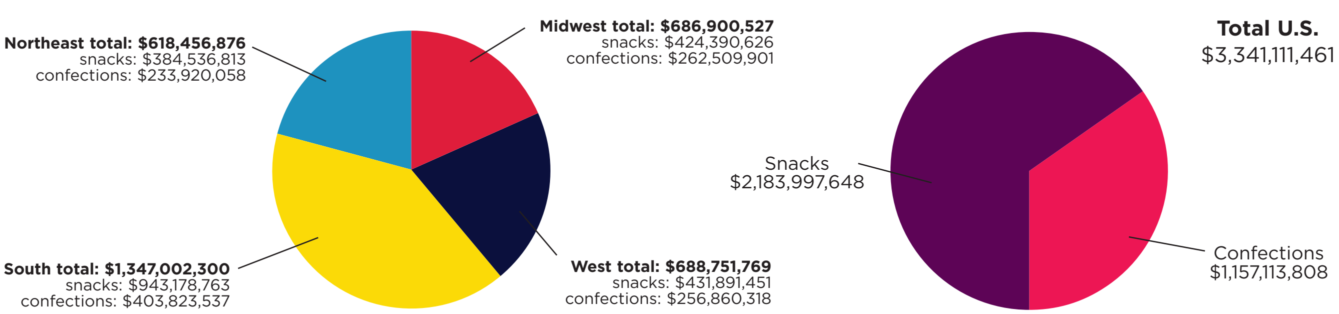
Management Science Associates (Pittsburgh) broke new ground in the development of vending sales databases by teaming up with Validata Computer & Research (Montgomery, AL), which markets the popular RouteSail management software suite. The joint effort encourages operators using the automated data retrieval features of RouteSail to share their information, in return for detailed individual reports. The result was VendScape, which tracks the sale of vended snacks and confections (as well as cold beverages) by location type and geographic region.

As operator participation has strengthened with the accelerating adoption of DEX technology, and as the database has increased in depth through continued accessions of information, MSA went on to launch ProVen. This is a nationally projected data service based on VendScape information. The proprietary system now takes into account a variety of measurable external influences, including seasonality and industry growth. It projects results for four major geographic regions. ProVen subscribers can receive brand information at the item level, depicting vending sales with the sample biases removed. This year, we again are pleased to include a summary of MSA's ProVen snack and confectionary results in the VT *Census*.

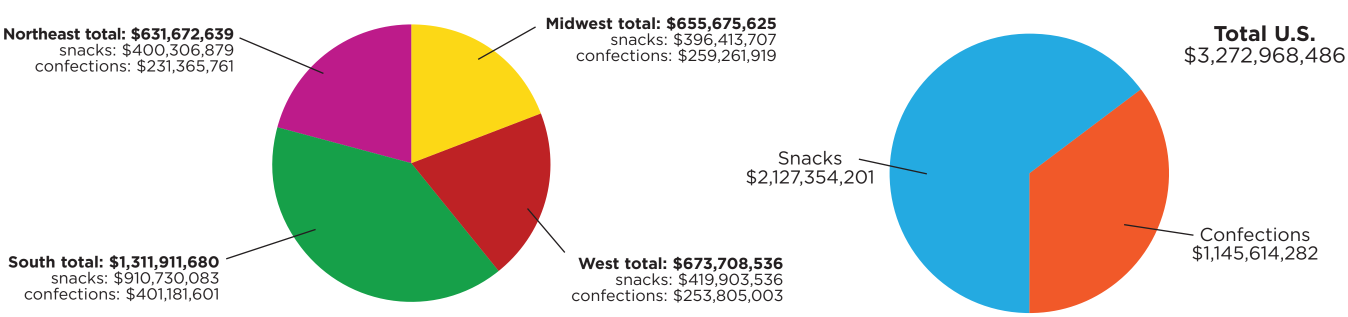
Definitions of industry participation (who is a "vending operator" and who is something else?), and the more stringent procedures involved in analyzing information at the level of the specific stock-keeping unit, preclude direct correspondence between ProVen results and this *Census*. But the availability of this kind of database, constantly refreshed with detailed, accurate and timely location and vender-specific sales results, is a major advance for the vending industry. As the industry finds its feet with automated data-retrieval technology, vending will become more accessible and inviting to suppliers who increasingly expect to find channel information at this level of detail.

ProVen results for 2007 and the prior three years show that the broad confections category has continued to lose share to "snacks," though very slightly. Last year, total snack dollar volume increased 2.66% while confections ticked up 1%. Snacks represented 65.37% of sales and confections 34.63%. In 2007, the Midwest (4.76%), South (2.67%) and West (2.23%) regions enjoyed gains; the Northeast region's dollar volume dropped 2.09%.

ProVen Snack/Confection Sales Composition: 2007



ProVen Snack/Confection Sales Composition: 2006



Source: Management Science Associates Inc. Based on ProVen snack/confection database as of August 10, 2008. **Note:** Vend data has inherent variance due to sample restrictions, technology lags and other channel characteristics. It should be used only directionally and in combination with other data sources and inputs.

COFFEE SERVICE

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

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

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

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

COFFEE SERVICE EQUIPMENT	2004	2005	2006	2007
AVERAGE NUMBER OF ACCOUNTS	572	572	575	578
AVERAGE BREWING EQUIPMENT PURCHASES	73	74	73	71
AVERAGE NON-BREWER PURCHASES	35	34	34	34

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

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

LOCATIONS: AVERAGE DISTRIBUTION SERVED BY COFFEE SERVICE OPERATIONS

OFFICES: 74% FACTORIES: 6% STORES: 7% RESTAURANTS: 6% INSTITUTIONS: 4% GOVERNMENT: 3%

PURE WATER

Purified water has been a mainstay of the workplace service industry from its earliest days. Water fountains connected to the municipal supply date from the early 20th century, and bulk bottled water dispensers were developed to make water available at workstations where plumbed-in water was impractical. The coffee and cup cold drink vending machines that made full-line vending possible required filtered water for reliable production of high-quality beverages, and the demand created by the dramatic growth of the vending industry played an important role in encouraging advances in water treatment technology, such as the use of polyphosphate to sequester dissolved minerals so they would not plate out as hard “lime scale” deposits in tubes and heating tanks.

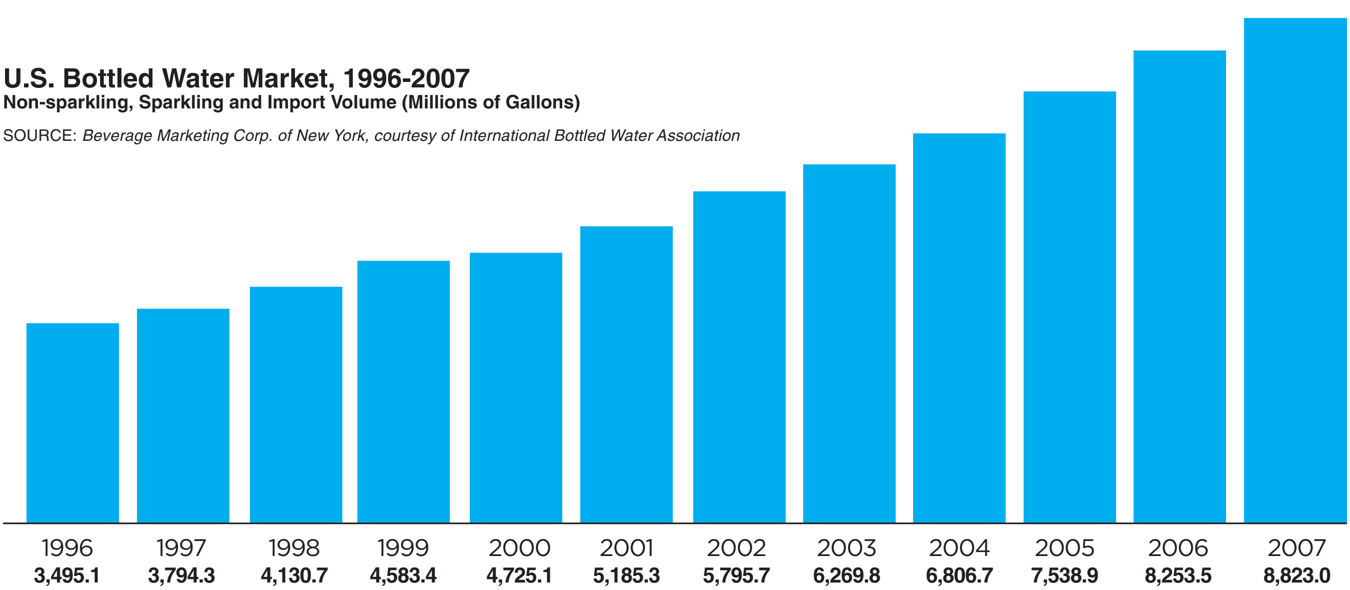
Operator familiarity with these filters for vending machines led to requests for similar protection when office coffee service emerged as a solution to providing hot drinks in locations too small to support a full-size vending machine. Soon thereafter, in the early 1970s, concern over reports of deteriorating municipal water supplies in major metropolitan areas led alert operators to recognize that the sophisticated filters they were installing on location water supplies to protect plumbed-in brewers could be converted from an expense item to a new profit center if a means could be found to make the water available for drinking.

Some of the pioneer coffee service operators were also spring water bottlers with established commercial routes, and they perceived OCS as a way to increase their same-location sales. As demand for pure water began to grow in the 1980s, full-line operators with postmix cold drink machines found they could boost sales by offering chilled filtered water, still or sparkling, with or without ice as a selection; even priced a nickel below a soft drink, this was an attractive proposition. That demand also moved small-package bottled water away from its classic premium specialty-beverage niche (met by vendors with refrigerated food machines) into the retailing mainstream, and it became a packaged cold beverage category. That category has grown steadily ever since. Bottled water doubled in volume in less than a decade, emerging as the second-largest beverage category in 2007. Although growth slowed last year to its lowest rate since the early 1990s, the category continues to excel, as demonstrated by the latest data from Beverage Marketing Corp. and the International Bottled Water Association.

In 2007, total U.S. bottled water volume exceeded 8.8 billion gallons, a 6.9% advance over 2006’s volume level, according to the 2008 edition of BMC’s *Bottled Water in the U.S.*, a comprehensive annual market study. Just two years after reaching sales of $10 billion for the first time, industry wholesale dollars topped $11.7 billion in 2007. Americans now drink more bottled water annually than any beverage other than carbonated soft drinks, according to the study. Bottled water consumption exceeded 29 gallons per person in 2007, and the gap between the two top categories is narrowing as bottled water advances and CSDs decline, as has happened in recent years. In each year since of the present century, average intake of bottled water grew by at least one gallon, and frequently by much more. Per-capita consumption of CSDs has dipped slightly for several consecutive years. A single segment – retail PET water (single serve) – accounts for essentially all of the market’s recent growth. Retail PET reportedly increased from 2.2 billion gallons in 2002 to almost 5.3 billion gallons five years later, boosting its share of volume from 38% to nearly 60%. Flavored and enhanced waters, because they contain ingredients such as vitamins and minerals, technically are not “waters,” but they certainly compete with other cold-drink choices for consumers’ attention. Beverage Marketing Corp. figures show that these beverages increased by more than 30% in 2007, though they still remain a very small sub-segment.

U.S. Bottled Water Market, 1996-2007
Non-sparkling, Sparkling and Import Volume (Millions of Gallons)

SOURCE: *Beverage Marketing Corp. of New York, courtesy of International Bottled Water Association*



PATTERNS in OPERATING

The composition of the interrelated workplace service and amusement and music industries showed little change between 2006 and 2007. The total number of operating entities dipped, with midsize companies tending to merge into larger ones. At the same time, 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 oscillation has recurred for half a century, at least. Last year, there was a larger percentage of very small firms than there had been in 2006, as strong demand for vending and coffee service favored entry. The industry continues to offer attractive prospects to enterprising individuals with good sales and customer service skills and an appetite for hard work. Most vending operations are small, and this always has been true. Last year, 70% employed three or fewer people full-time. The percentage of organizations employing 20 or more full-time staff members rose to 17%, near the high end of the historic variation, fueled by acquisition and merger. The number of midsize organizations (3.5 to 19.5 employees) dipped to 13%. It must be emphasized that whether a company is a "vending operation" or not largely is a matter of self-definition, and the vast number of workable older machines available always has made it practical to become a part-time or hobbyist operator without industry affiliation.

OPERATING COMPANIES:	**1997**	**2005**	**2006**	**2007**
(Independent & branch operations)	*10,500*	*10,700*	*10,550*	*10,300*

OPERATING COMPANY EMPLOYEES:				
Owner *only*	27%	30%	32%	34%
1 employee *part-time*	14%	15%	16%	17%
1-3 employees *full-time*	28%	22%	21%	19%
3.5-5 employees	10%	8%	8%	8%
5.5-10.5 employees	5%	5%	4%	2%
11-19.5 employees	6%	5%	4%	3%
20 or more employees	10%	15%	15%	17%

Industry NAICS Codes

The U.S. government's Standard Industrial Classifications (SIC) is being superseded by the North American Industry Classification System (NAICS). The classifications for coin machine operators 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 2007. This group includes "full-line" operators, a description that may or may not imply providing food; **43%** of them do. And **25%** concentrated on *specialized* vending segments (candy, cigarette, dairy, bulk, etc.).

The survey shows that **46%** of vending firms market **coffee service** (a larger percentage would result from including vendors that limit their OCS to existing vending accounts); at least **16%** operate **music and games** equipment as well as vending machines; **12%** of all vendors are involved in **manual foodservice**; **2%** combine vending and **mobile catering** and **18%** are engaged in other activities.

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

TRUCK and VAN USE

Vending, amusement and music, and office refreshment services regard themselves as sales and service organizations, but they equally are route distribution businesses that rely on vehicle fleets to conduct business. In 2007, the number of vehicles run by operating companies dipped as operators strove to consolidate routes and improve scheduling efficiency to counter high fuel costs. In general, the composition of operator fleets remained the same. Vans represented 55% of vehicles in use by operators. Non-modified vehicles, principally automobiles used by sales, technical and supervisory personnel, 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.

	2004		**2005**		**2006**		**2007**	
TOTAL VEHICLES	**205,420**	**100%**	**205,400**	**100%**	**205,300**	**100%**	**203,600**	**100%**
Vans *(route delivery vehicles)*	113,000	55%	113,500	57%	113,450	55%	112,500	55%
Maintenance vehicles *(specialized)*	28,750	14%	28,400	13%	28,250	14%	27,500	14%
Medium-duty trucks	14,370	7%	14,500	7%	14,700	7%	14,600	7%
Non-modified vehicles*	49,300	24%	48,000	23%	48,900	24%	49,000	24%

*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.

OTHER COIN-OP EQUIPMENT

The restriction of “vending machine” to a device that delivers merchandise is useful, but is somewhat artificial. If one defines “vending” as customer operation of a coin, currency or card-actuated appliance, then services are vendible, too. Coin lockers, coin copiers, pay telephones and coin washers and dryers — and the coin-operated shoeshine machines and hair dryers of happy memory — are service vending machines. So are jukeboxes and coin amusements.

In some countries with advanced vending industries, vending is defined differently. The Japanese Vending Machine Manufacturers Association aggregates such things as self-service railroad ticket dispensing machines with merchandise venders, for statistical purposes. The French regard newspaper and magazine vending machines as “vending machines.” Both of these examples, and others, are entirely reasonable. Late-20th-century U.S. definitions are different because of the way in which our vending, music and games, coin laundry, gasoline station and public transportation industries have developed.

Even ruling out coin-operated television sets, pay telephones and toilet locks — and these would not have been ruled out 45 years ago — we are left with a large number of self-service devices that, for the most part, are run by operators, but that defy precise classification. An ancient example is the penny scale, the last mechanical versions of which not only told you your weight, but also issued a ticket with your fortune printed on it. This is a service vending concept, but it also is fun. Modern implementations can analyze your weight and height, and issue rather detailed dietary recommendations. That coin scales are no longer a dominant part of the coin machine industry is a reflection of the development of many other types of equipment, and the evolution of public taste. So, too, is the decline of the venerable pickled-egg vender (shaped like a chicken).

Other hard-to-define equipment types that operators run profitably include medical monitoring devices, such as pulse and blood-pressure testing machines, and breath alcohol testing equipment. All perform a useful service, and all perform very well in certain kinds of location. All are technically quite sophisticated, but simple to maintain in the field. And all provide, if not fun, at least reassurance that patrons consider worth the price.

Collectors of vending machines recognize a turn-of-the-century type usually called a “sales stimulator.” This was a simple brand-identified mechanical vender, usually cast in the shape of a human or animal, supplied by a candy or gum company to select retailers. The idea was that the novelty, the fun of the thing, would attract patrons to the store and impel them to use the machine. If they liked the gum, they would buy it over the counter, too. There are indications that this concept is coming back, but in the form of extremely sophisticated brand-identified machines connected to a wide-area network and designed to work with cards, providing detailed demographic information to the brand owner in return for the fun of using the machine — and, perhaps, a discounted price on an attractive product. In general, the fun aspect of using a vending machine is receiving more attention than it has for half a century or so, with very positive results for the industry.

Other types of vending machine are run by specialist operators within rather narrowlydefined location types. Such are refrigerated flower vending machines, live-bait venders, bulk water dispensers, DVD rental devices, compact audio disc venders, a variety of card-printing devices, and so on and on. The appeal of this equipment is very real and widespread, but is exerted locally and in response to an occasion.

The vending, music and amusements industry that we track in the annual VENDING TIMES *Census of the Industry* thus resembles the earth as photographed from a high altitude. The prominent terrain features stand out clearly, but they emerge from a great landscape, the fine details of which inevitably are lost in the haze. It is important to remember that the landscape affords a good living to its inhabitants, and offers many attractive and intriguing prospects to those who are prepared to explore it close up.

MUSIC and GAMES ANALYSIS

Revenue generated by coin-operated amusement machines declined 1.3% last year, reflecting fewer units on location and slower location traffic. Total amusement revenue dropped from $6,218,000,000 in 2006 to $6,139,000,000 in 2007. The decline in net operating profits was even greater for most amusement vendors, who grappled with rising overhead costs that had affected all sales and service organizations.

Most amusement categories experienced declines in the number of pieces on location in 2007. Only prize-dispensing and redemption games advanced in both numbers and revenue. Reduced traffic at tavern locations triggered declines in pool, darts and videogames. The classical games – pinball, shuffle alleys and kiddie rides – continue to contribute to the coin-op entertainment mix. In 2007, the VT *Census* tracked nine coin-op amusement machine categories:

Pool tables down 1.7% represented 34.6% of total dollar volume.
Prize-dispensing machines up 1.1% represented 16.3% of total dollar volume.
Videogames down 3.3% represented 14.7% of total dollar volume.
Ticket redemption up 3.2% represented 14.6% of total dollar volume.
Electronic dartboards down 0.9% represented 11.3% of total dollar volume.
Flipper games down 9.7% represented 6.2% of total dollar volume.
Soccer tables down 9.9% represented 1.2% of total dollar volume.
Kiddie rides showing no change represented 0.8% of total dollar volume.
Shuffle alleys showing no change represented 0.3% of total dollar volume.

Without question, 2007 was a difficult year for the industry at home and abroad. The nation's top street operators, however, did not turn negative. Cashbox receipts were down, but operators pointed out that the declines were relatively modest, and reasonably commensurate with outside market challenges. Gas prices skyrocketed nearly 30% during 2007. The number of states that banned smoking in most bars and restaurants rose 30% last year. Both factors had an immediate, obvious and consistently negative impact on the national cashbox. Gas prices began 2007 with a nationwide per-gallon average of $3.25, peaked at $4.40 in June and ended the year at $4. That meant 2007 was the second year in a row during which gas prices climbed sharply enough to cause noticeable downward pressure on customer traffic – driving an analogous fall in collections.

Some of the industry's leading operators raised their hopes that consumers would absorb the inflationary shock and eventually return to locations. Unfortunately, it did not happen. The expansion of smoking bans across the country was one main reason bar patrons reduced the number visits to their favorite haunts in 2007. As the year began, more than 50% of the U.S. population already lived under state and/or local smoking bans. Some 23 states had laws in place that prohibited smoking in public buildings, including bars and restaurants. By year's end, however, a total of 30 states prohibited smoking in public places, including most bars. It was the largest expansion of statewide bans in a single year in American history. The seven states that banned smoking in bars were Arizona, Louisiana, Minnesota, Nevada, New Hampshire, New Mexico and Ohio.

As 2007 progressed, and confronting these economic and social challenges, optimistic operators found it increasingly difficult to maintain any confidence that conditions would improve. Especially sharp cashbox declines were reported during 2007's fourth quarter. Tavern sports games – pool, electronic darts and foosball – and videogames took a hit, as did jukeboxes.

Some important gains were made. Operators last year installed an estimated 14,000 new online jukeboxes, increasing the industry's digital footprint to 48,000 locations. The reemergence of the jukebox as a popular and profitable coin-op service is one of coin-op's success stories in recent years. The struggle to survive and adapt to technological and social changes has become one of the broadest themes in the music business and the coin-op industry's jukebox sector – with success by no means guaranteed. By and large, jukeboxes appear to receive greater benefits from technological advances than they lose through the social change that it entails. Through all of last year's stumbling blocks, the industry demonstrated that the jukebox is the best way to deliver music to bars, taverns and other locations.

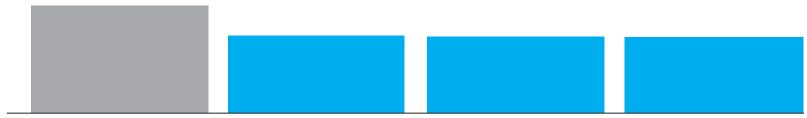
Anticipating changes affecting the future direction of the music and games industry has never been easy. A half-century ago, a mix of jukeboxes, cigarette venders and flipper games served a clientele who sought entertainment close to home at a neighborhood tavern, diner or pizzeria. Something new was needed by the 1970s, and the videogame arrived and created a new business model. When the consumer videogame eclipsed its arcade forerunner, the industry turned to promotion and the league operator emerged. The digital downloading jukebox was imagined in concept two decades before it rolled out in 1999. And the technology to make possible digital jukebox operation was available 10 years before its official introduction nine years ago.

The route service model, which has delivered the industry's entertainment product to the consumer through these different stages, will also change. Last year's challenges, and an even more demanding 2008, have shown the amusement and music vendor that a whole new set of tools will be needed to survive and prosper.

2007 TOTAL AMUSEMENT $ VOLUME

	1997	2005	2006	2007
Total Revenue	**$6,493,196,000**	**$6,157,000,000**	**$6,218,000,000**	**$6,139,000,000**
Pool Tables	$1,420,000,000	$2,157,000,000	$2,160,000,000	$2,124,000,000
Prize-Dispensing Games	$338,000,000	$967,000,000	$990,000,000	$1,005,000,000
Videogames	$1,870,000,000	$892,000,000	$935,000,000	$904,000,000
Ticket Redemption	$327,600,000	$855,000,000	$868,000,000	$896,000,000
Electronic Darts	$760,240,000	$685,000,000	$702,000,000	$696,000,000
Flipper Games	$1,690,000,000	$460,000,000	$423,000,000	$382,000,000
Soccer Tables	$54,600,000	$83,000,000	$81,000,000	$73,000,000
Kiddie Rides	$13,100,000	$41,000,000	$41,000,000	$41,000,000
Shuffle Alleys	$19,656,000	$17,000,000	$18,000,000	$18,000,000

AMUSEMENT EQUIPMENT: 2007 UNITS



	1997	2005	2006	2007
TOTAL UNITS ON LOCATION	**1,795,900**	**1,296,100**	**1,279,300**	**1,267,800**
Pool Tables	290,000	340,000	335,000	332,000
Prize-Dispensing Games	58,000	120,000	122,000	124,000
Videogames	620,000	330,000	327,000	328,000
Ticket Redemption	70,000	143,000	144,000	146,000
Electronic Darts	215,000	183,000	180,000	176,000
Flipper Games	500,000	118,000	110,000	102,000
Soccer Tables	30,000	43,000	42,000	40,000
Kiddie Rides	3,500	11,200	11,500	12,000
Shuffle Alleys	8,400	7,900	7,800	7,800

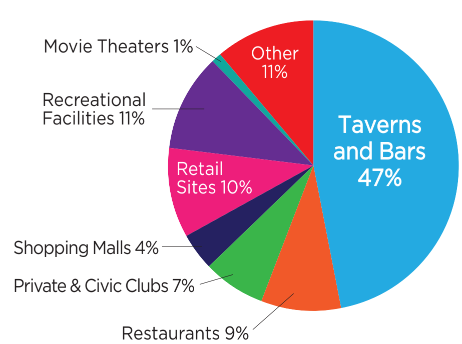
2007 PRICING and COMMISSIONS

GAME CATEGORY	AVG. PLAY PRICE PER GAME	AVG. COMMISSION % RATE
POOL TABLES	$0.89	49%
PRIZE-DISPENSING GAMES	$0.47	37%
TICKET REDEMPTION	$0.45	38%
VIDEOGAMES	$0.47	48%
FLIPPER GAMES	$0.52	47%
ELECTRONIC DARTS	$0.52	47%
SOCCER TABLES	$0.58	48%
KIDDIE RIDES	$0.33	47%
SHUFFLE ALLEYS	$0.47	50%
HOCKEY TABLES*	$0.66	49%
PHOTOBOOTHS*	$2.52	32%
IMPULSE GAMES*	$0.34	50%

**Game categories not yet represented by the* Census of the Industry.

2007 MUSIC and GAMES LOCATIONS

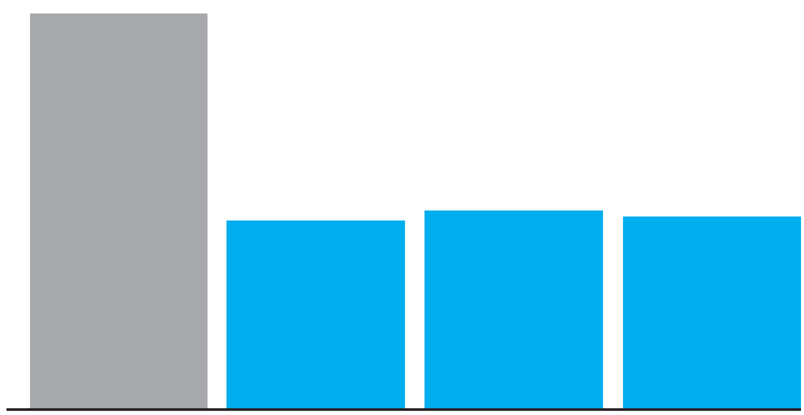
Music and games companies install and service coin-op devices and jukeboxes in transportation depots, hotels, taverns, restaurants and other "street" locations. (A location is a site that provides space for the machines.) They may also run equipment on their own premises, called arcades or family entertainment centers. A music and games operation is functionally similar to a vending operation in that both involve route service and the deployment of technicians who install and repair equipment. It may be helpful to think of a music and games operation as a vending company that sells services, rather than products, through its "robot retailers." Historically, taverns and bars, defined by NAICS as "drinking places," have represented the majority of sites served by operators.



VIDEOGAMES

Videogames reshaped the modern amusement services industry, for better or worse. Appearing in the early 1970s, within a few years they were hailed as the answer to injecting coin-op into the mainstream entertainment industry. And they did. They also encouraged many new operators to enter the business; they had a major impact on the organization and scheduling of trade shows; and they put the coin-op industry onto a convergent course with computer-based entertainment, with the latter establishing dominion over a decade ago. The videogame performed best when treated 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 '80s and has continued, with some temporary remissions, ever since. In 2007, videogames represented approximately 15% of total revenue generated by commercial amusement games. At their peak in 1982, they represented 60% of total amusement revenue, or $4.4 billion.

Videogames of the classical era, 1978-1982, appealed strongly to adolescents and very young adults, with themes such as auto racing and defending the earth against alien invasion. Between the mid-'80s and mid-'90s, videogame programming narrowed its target on teenage boys with a surplus of combat software. Such games often earned very well for short periods of time; the few that retained player esteem for more than six months were highly prized. 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 games 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 community. These attributes have helped free coin-op videogames from the frenzy of the 1980s, when a continual outpouring of new designs yielded one hit (which would not die on location in a month) among many misses. The current generation of games exhibits much longer earnings life and broader market appeal. And this is true among other videogame types, including driving, other simulators and hunting, to name a few. Last year, those operators who made use of networked, tournament-enabled videogames reported 20% to 25% higher earnings. But the number of online games in 2007 was down compared with the year prior.



	1997	2005	2006	2007
DOLLAR VOLUME	**$1,870,000,000**	**$892,000,000**	**$935,000,000**	**$904,000,000**
WEEKLY AVERAGE	$58	$52	$55	$53
UNITS ON LOCATION	620,000	330,000	327,000	328,000

TOUCHSCREEN VIDEOGAMES

The touchscreen videogame is a subcategory of the larger videogame group, which also includes conventional uprights, sitdown simulators and cocktail tables. Touchscreen games are small, flexible, usually bundled in countertop cabinetry, are 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 descendant 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 is difficult to collect accurate earnings estimates in the touchscreen entertainment category. Last year, the number of units on location declined slightly, according to operators participating in this survey.

In the past 17 years, touchscreen games have made great strides compared to their button-operated predecessors. This advance dates back to 1992, when touchscreen technology was first applied to coin-operated amusement videogame design. At the time, there were an estimated 80,000 push-button models operating in the U.S. Operators who had been testing limited numbers of touch-enabled games began to place them in quantity through the mid-1990s. Today, almost all button models have been replaced by touchscreens, a transition that has been remarkably successful and profitable. The touchscreen also has advanced dramatically since its introduction. Early models stored programming on EPROM firmware; in 1996, designs began to integrate CD-ROM technology to facilitate the upgrading process; and contemporary touchscreen amusements employ PC-based hard drive and/or flash memory technology, and support DVD media. Advances in physical designs played an important role in 2007, when space-saving flat-panel models reached a new level functionality.

In 2006, an estimated 10,000 touchscreen terminals were online. Data gathered by this year’s *Census* suggest that the number was down in 2007. For their part, touchscreens offer a wide variety of game types that can be played online. Their interactivity enables tournament play, publicizes high scorers, opens the door to promotions and builds camaraderie in locations. It was thought that the touchscreen game would meet consumer expectations for interactivity as the Internet became mainstream a decade ago. But the process of bringing these games online has been slow.

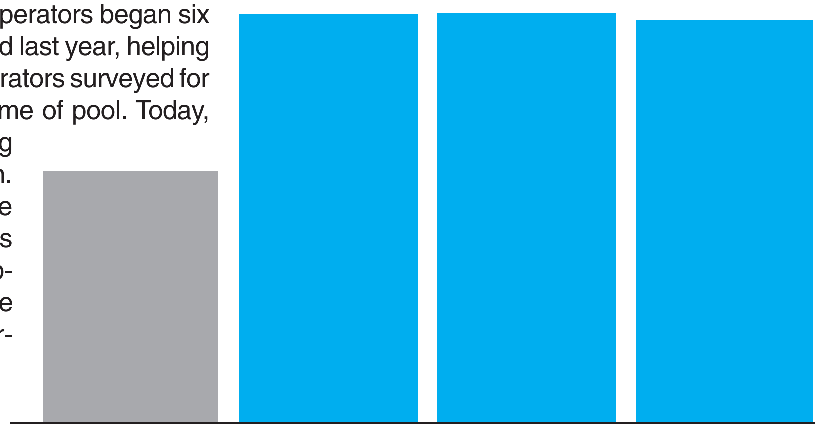
Developed in 1971, the electronic touch interface itself is one of the simplest ways for a human to interact with a computer. It possesses five basic characteristics that lend themselves to simplifying operation and improving the playing experience: (1) touch input is natural and requires no training; (2) touchscreen components are rugged enough to withstand spills, dirt and grease; (3) clearly defined menus offer greater selection accuracy; (4) the input device is integrated into the display, reducing space requirements and vulnerability to damage; and (5) there’s versatile software support for new types of game and functionality.

The long-established strengths of the touchscreen countertop game have given it an important position in the front line of industry efforts to widen the market for pay-to-play amusements. Touchscreen countertop equipment possesses several advantages in a pay-to-play environment, which, with the exception of site-based locations, is an impulse sales market. Games are located in sites where they are not the primary business. Unlike larger, arcade videogame systems that offer a single play theme and game experience, or even conversion systems that require a reconfiguration of input controls and front-panel graphics to accommodate content change, multi-game touch terminals offer dozens of games, selectable with a single on-screen control menu. Because of this versatility, and the ease of updating and tailoring content to specific audience interests, one unit is capable of generating revenue in the same location over a long period of time.

NOTE: The earliest home computer games were text-based. These generally did not make the leap to coin operation when videogames arrived on the market. The exception was, and is, the question-and-answer (or “trivia”) game. In fact, the popularity of such amusements predates computer technology. A design that used 16mm endless-loop film cartridges and a small rear-projection screen to present the questions was implemented in several “quiz” games. Optical and computer/video question-and-answer games enjoyed long earnings life, because the questions could be custom-selected to appeal to the clientele at each location, and also could be updated periodically, to maintain player interest. These games occupied a durable niche in the on-street market for three decades. Improved computer/video technology has moved the question-and-answer game out of that niche and into the mainstream. The game system itself is compact, can offer customers a menu of games to play and can be built into a range of cabinets to meet the needs of any location. “Countertop” units are popular in taverns, where they actually are bartop machines; “cocktail table” cabinets are another option, perhaps more popular in the past than they are at present. The games also may be presented as stand-alone pieces. Because their appeal has not primarily been based on fast-action dimensional graphics, the games’ monitors (normally providing super VGA resolution) could be kept to a manageable size. Flat-panel LCD monitors offer a wider range of possibilities, and modern countertop pieces can support games of all kinds. Although the format still lends itself to classic text-based games, increasingly sophisticated computer graphics add play appeal by widening the menu, which makes the type viable in new markets.

POOL TABLES

Despite modest declines, the pool table remained the prevailing coin-operated game in 2007, representing 35% of all revenue and 26% of total units on location. Revenue and placement declines reflect slower location traffic last year. Pocket billiards is almost exclusively referred to as "pool," one American variant of a game long popular in England and on the European continent. Pool parlors once were an important part of the recreational scene, although regarded as a corruptive influence. After World War II, inventors sought to develop tables that would not require attendants, and so could be placed in the local taverns that were flourishing in postwar America. A design using a sub-diameter cueball that was returned to play while the object balls were trapped began to find wide favor in the 1950s, and it made sense for street operators who were installing jukeboxes, pinball machines and cigarette venders in those locations to add pool tables to the mix. The addition of battery-powered electronics and bill acceptance on tables designed for professional operators began six years ago. Electronic tables continued to spread last year, helping operators to improve prices. Almost half the operators surveyed for this study report charging $1 or more for a game of pool. Today, the game enjoys a broad constituency consisting of men, women, teenagers and even children. The coin-op industry has produced a nationwide system of leagues and tournaments that offers participating operator-serviced locations substantial increases in patronage. Some 36% of the operators participating in this year's *Census* survey said they were involved in pool leagues.



	1997	2005	2006	2007
DOLLAR VOLUME	**$1,420,000,000**	**$2,157,000,000**	**$2,160,000,000**	**$2,124,000,000**
WEEKLY AVERAGE	$88	$122	$124	$123
UNITS ON LOCATION	286,000	340,000	335,000	332,000

SOCCER TABLES

Not unlike other tavern sports games, soccer table revenue and placements declined in 2007. Overall earnings declined 10% on a drop in weekly averages (5.5%) and unit deployment (5%). Soccer tables run by specialized operations that cater to leagues and professional players continue to outearn those run by full-service music and games operations, which attract casual players, represented in this survey.

Also known as foosball, table football or baby foot, this action game has been a part of the American coin-op landscape since the mid-1970s, and has a history that spans more than a century. Its fame began to grow after World War II in Europe and slowly in the U.S., where it became extremely popular during the '70s on and near college campuses and in recreation centers. The first tables were imported into the U.S. around 1955; not readily accepted by the public, they experienced a slow start and earned marginally. In spite of this, the game became very popular during the '50s and '60s with U.S. military personnel stationed in Europe. Returning servicemen, it is alleged, created a large player base for foosball's resurgence in 1969, but only for a short period. Not unlike other coin-op recreational activities, table soccer was eclipsed in the late-'70s by the arrival of the videogame, though strong regional followings remained in certain parts of the country.

	1997	2005	2006	2007
DOLLAR VOLUME	**$54,600,000**	**$83,000,000**	**$81,000,000**	**$73,000,000**
WEEKLY AVERAGE	$35	$37	$37	$35
UNITS ON LOCATION	30,000	43,000	42,000	40,000

KIDDIE RIDES

Limited to a narrow audience of children between ages three and seven, kiddie rides never really 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 likely adjuncts to bulk venders and cranes serving the same retail spaces. The vast majority of rides has been 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.

Historically, kiddie ride designs and themes have mirrored national children's fads. Pony rides and chuck wagons prevailed in the early '50s, when Westerns were popular on television, at the movies and in literature. As the 1950s came to a close, America's space program got off the ground, science fiction programming expanded, and, accordingly, spaceships became the preferred rides. Cars, trucks and ponies, on the other hand, remain perennial favorites. Four decades ago, the industry miniaturized the musical carousel for the kiddie market to address the need to raise prices. In the late '60s, the end of the "postwar economy" was accompanied by the start of the inflation that would proceed throughout the next decade. Traditional pricing – a ride for 10¢ – was no longer adequate to cover an operator's costs while returning the necessary profit, but customers had not yet learned that prices sometimes must go up. An industry pioneer's solution was a ride that would accommodate more than one child and offer greatly enhanced entertainment. The merry-go-round, a perennial favorite at amusement parks and county fairs, was the natural model. So the first coin-op carousel, which accommodated up to four young patrons at 25¢ a ride, came to market in 1968, and was an immediate success. Today, "branded" or "character" products based on popular properties for children are very common, and have become an effective marketing tool for placement. Interactive rides equipped with video monitors and input controls appeal to children growing up in the computer age.

	1997	2005	2006	2007
DOLLAR VOLUME	**$13,000,000**	**$41,000,000**	**$41,000,000**	**$41,000,000**
WEEKLY AVERAGE	$56	$70	$70	$65
UNITS ON LOCATION	3,500	11,200	11,200	12,000

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 90,000 (similar to 2006).

PINBALL MACHINES

Deeply rooted in American pop culture, and a top-earning commercial device between the late 1950s and early ‘80s, pinball machines today are regarded as the archetype of coin-op games. At the same time, the pinball machine – or flipper game – remains part of the modern operator’s equipment mix and continued its transformation as a trendy recreational device in 2007. Beyond pure nostalgia, interest in the art of playing pinball also remains high for many in the 40-and-older crowd and is growing among a younger generation of players. Its deployment as a commercial device has been declining over the past two decades, as amusement vendors favor standardized electronic equipment over the more complex electromechanical designs of classic pinball. The modern pinball era began in the 1970s, when circuit boards and digital displays replaced electromechanical relays and scoring reels. Some industry observers predicted that the videogame of the 1980s signaled pinball’s end. However, they remained strong during the ‘80s, compensating for the dramatic swings in videogame popularity, and experienced a comeback in early 1990s, when five U.S. pinball machine manufacturers sold some 100,000 pinball machines a year. Today, only 10,000 new machines are sold annually. Stern Pinball Inc. (Chicago) has been the only major manufacturer and designer of pinball machines since 1999, when WMS Industries closed its Williams Electronics Games division, which had been the game’s largest manufacturer.

	1997	2005	2006	2007
DOLLAR VOLUME	**$1,690,000,000**	**$460,000,000**	**$423,000,000**	**$382,000,000**
WEEKLY AVERAGE	$65	$75	$74	$72
UNITS ON LOCATION	500,000	118,000	110,000	102,000

ELECTRONIC DART GAMES

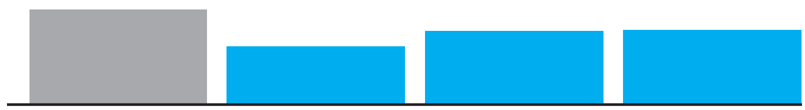
Revenue generated by electronic dart machines dipped slightly last year, falling just 1% as placements dropped more than 2%. Like pool and foosball, this tavern staple suffered losses caused by erosion in location base, particularly the loss of blue-collar taverns nationwide. Weekly averages remain strong, however, reflecting the retirement of older machines and steady placement of newer boards that are capable of generating greater revenue. Professional operating companies running dart machines usually complement the service with well-organized leagues and tournament programs. Player membership in dart organizations and participation in local and national events was strong in 2007, as it was during the three years prior. National Dart Association, which is organized to support and promote operator-run leagues, sanctioned some 60,000 players last year.

The invention of a practical automatic scoring system allowed the game to be put into service as a coin-operated amusement, which took place three decades ago when an electronic bomb-aiming simulation system developed for the British Royal Air Force was adapted for installation behind a plastic mesh board that served as the target for soft-tipped darts. The game took off swiftly in some market areas and slowly in others, but experience led to increased operator sophistication. The similarities between darts and pocket billiards were recognized early on, and dart leagues were organized to promote steady play, add value to the operator's service and reward players with the opportunity to compete in tournaments. Electronic boards played with soft-tip darts were among the first coin-op games to go online; an early generation of games, as far back as 1991, was capable of transmitting data from the field to an operator's computer. Last year, many of the new games placed went online. New boards – enhanced by bill acceptance, Internet capabilities and interactive features – have allowed operators to successfully raise the price for a game of darts, per player, from 50¢ to 75¢ or from 75¢ to $1.

	1997	2005	2006	2007
DOLLAR VOLUME	**$760,000,000**	**$685,000,000**	**$702,000,000**	**$696,000,000**
WEEKLY AVERAGE	$68	$72	$75	$76
UNITS ON LOCATION	215,000	183,000	180,000	176,000

SHUFFLE ALLEYS and BOWLERS

Classic shuffleboard tables and puck bowlers have carved out a small and vibrant niche in the modern entertainment services industry dominated by touchscreen devices and prize-based amusements. Both types of game were route staples during the 1950s and early '60s, when they enjoyed immense popularity in neighborhood taverns. Shuffleboard is regarded as an early contributor to the success of the coin-operated amusement business nearly half a century ago. As with other traditional coin-op games, the emergence in the mid-'70s of the videogame, which generated greater returns from less location floor space, and changes in leisure preferences have led to the category's gradual decline during the past three decades. But the shuffleboard has survived, offering nostalgic appeal to older players and new challenges to a younger generation playing for the first time. In 2007, this game category held the line in revenue and unit placements.



	1997	2005	2006	2007
DOLLAR VOLUME	**$19,656,000**	**$17,200,000**	**$18,000,000**	**$18,000,000**
WEEKLY AVERAGE	$45	$42	$44	$44
UNITS ON LOCATION	8,400	7,900	7,800	7,800

PRIZE MERCHANDISERS

The ability to instantly offer a patron a prize after playing a game of skill plays a central role in today's amusement industry. Prize-merchandising equipment is one of the categories most dramatically affected by the changes in the coin-operated amusement industry that was formerly dominated by pinball machines and videogames. In 2007, coin drop from prize merchandisers represented 16% of total amusement revenue, the same as the previous year, posting 1.6% revenue gains on the same percentage increase of unit placements. Coin-operated amusement devices that award prizes robotically have profited from the availability of affordable equipment that provides stronger merchandising appeal. Not unlike kiddie rides and bulk venders, prize dispensers were put into service as an "other" income source 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.

Cranes and amusement venders described as "skill-based" games, which challenge players to maneuver controls to retrieve a desired prize from an enclosed display area, are among the coin-operated amusement devices that comprise this category. The kinetic art aspect of these machines, surrounded by digital entertainment forms, provides "retro" appeal. The most common type is the skill crane, which makes use of a claw with adjustable tension strength to retrieve prizes, and, to a lesser extent, the amusement vender (also known as "self-contained redemption"), that combines a skill game and wider range of vendible selections that are awarded through a separate dispensing mechanism. Cranes have an almost unlimited clientele; they are part of the equipment rotations in locations catering to children, teenagers and adults; and they can produce high earnings over long periods, if serviced properly. During the past decade, consumers have responded positively to the industry's attention to product and machine designs.

	1997	2005	2006	2007
DOLLAR VOLUME	**$338,000,000**	**$967,000,000**	**$990,000,000**	**$1,005,000,000**
WEEKLY AVERAGE	$125	$155	$156	$156
UNITS ON LOCATION	58,000	120,000	122,000	124,000

PRIZE MERCHANDISERS: 1986-2007 PERFORMANCE

	Weekly Averages	(%Change)	Units on Location	(%Change)	TOTAL $ VOLUME	(%Change)
1986	$330	(NA)	18,000	(NA)	$308,880,000	(NA)
1987	$225	(-32%)	40,000	(+122%)	$530,408,000	(+72%)
1988	$215	(-4%)	50,000	(+25%)	$560,000,000	(+6%)
1989	$200	(-7%)	58,000	(+16%)	$603,000,000	(+8%)
1990	$180	(-10%)	64,000	(+10%)	$599,000,000	(-1%)
1991	$150	(-17%)	60,000	(-6%)	$468,000,000	(-22%)
1992	$140	(-7%)	55,000	(-8%)	$400,400,000	(-14%)
1993	$125	(-11%)	50,000	(-9%)	$325,000,000	(-19%)
1994	$120	(-4%)	45,000	(-10%)	$280,000,000	(-14%)
1995	$115	(-4%)	40,000	(-11%)	$240,000,000	(-14%)
1996	$110	(-4%)	42,000	(+5%)	$240,250,000	(0%)
1997	$125	(+14%)	58,000	(+38%)	$338,000,000	(+41%)
1998	$132	(+7%)	65,000	(+12%)	$446,200,000	(+32%)
1999	$138	(+5%)	72,000	(+11%)	$517,000,000	(+16%)
2000	$142	(+3%)	82,000	(+14%)	$605,500,000	(+17%)
2001	$150	(+5%)	93,000	(+13%)	$725,000,000	(+20%)
2002	$158	(+5%)	108,000	(+14%)	$887,000,000	(+22%)
2003	$156	(-1.3%)	112,000	(+3.7%)	$910,000,000	(+2.6%)
2004	$156	(0%)	117,000	(+4.5%)	$950,000,000	(+4.4%)
2005	$155	(-0.6%)	120,000	(+2.5%)	$967,000,000	(+1.8%)
2006	$156	(+0.65%)	122,000	(+1.6%)	$990,000,000	(+2.5%)
2007	$156	(0%)	124,000	(1.6%)	$1,005,000,000	(+1.6%)

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 *Census of the Industry* began publishing data on prize-merchandising equipment in 1986, and showed the number of cranes on location more than tripled between 1986 and 1990, with annual revenue rising 195% over the past two decades. The category has gone through two distinct growth phases over the past 18 years. During the late '80s and early '90s, skill cranes swept the country as one authority after another approved the operation of claw devices that awarded prizes based on a player's skill. By 1987, some 40 companies manufactured cranes, expanding the original single-player, small-plush designs with variations that included jumbo and multi-cabinet cranes, gift box and watch models, and later, "winner-every-time" cranes that awarded candy for every credit. A small but steady market for rotary merchandisers accompanied this windfall.

The second growth spurt in automatic prize-merchandising was initiated in late 1997 by Sports Arena, a skill-based amusement vender that used rotating carousels to store, display and dispense products attached to keychains. More than 12,000 Sports Arenas and successive models have been deployed and were followed by an even greater number of versatile prize merchandisers made by other companies. These machines were capable of accommodating a wider variety of products, including "capsuled" prizes similar to those used in the bulk vending channel, and contributed to the category's growth.

A decade after Sports Arena demonstrated that a skill game combined with a practical method of delivering a variety of prizes could capture the public's attention, the amusement-merchandising segment remains vibrant and profitable. Last year a new concept that uses a progressive prize system, which allows players to win smaller prizes before trying to earn more luxurious merchandise, contributed to the category's growth. This trade-up strategy was popularized by a game called Stacker, which set off another impetus when it debuted four years ago. Because they present patrons with the opportunity to win a prize at the point of sale, amusement merchandisers are part of the larger prize-dispensing category that includes skill cranes. Whereas cranes require players to maneuver controls to retrieve desired prizes, merchandisers usually employ robotic mechanisms, with varying degrees of complexity, to store, display and vend an assortment of products and different packaging formats. The game element typically involves a simple LED-based or "lightchaser" challenge.

TICKET REDEMPTION (ARCADE GAMES)

A strong case could be made for ticket redemption as the amusement game that saved the arcade two decades ago. Ticket redemption devices – specialized arcade games that include skill-based amusements – are prevalent in site-based entertainment facilities, particularly FECs (family entertainment centers). They dispense tickets that can be redeemed for prizes. (The 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.) Unlike prize dispensers, such as cranes, that award merchandise at points of sale, redemption games almost always operated alongside attended product centers that showcase a wide selection of prize merchandise, and which act as exchange points for accumulated tickets. Sometimes redemption centers are sited in high-traffic locations whose primary business is something other than coin-operated amusements; redemption offerings in the gamerooms of bowling centers illustrates this growing trend.

The category's strong unit and dollar volume growth over the past 16 years reflects the public's enthusiasm for this amusement type, particularly in view of the fact that most redemption operations exist in FECs and arcades that serve the same, local customer base. Approximately 37% of this year's survey participants reported that they operate FECs and arcades, or provide equipment for them. Revenue generated by ticket redemption games increased in 2007. Last year, the category represented approximately 15% of all amusement revenue and 11% of the installed base, similar to 2006's performance. Information provided by FEC and arcade operators suggests that between 70% and 80% of the space in those facilities was dedicated to running redemption games and prize centers.

	1997	2005	2006	2007
DOLLAR VOLUME	**$327,600,000**	**$855,000,000**	**$868,000,000**	**$896,000,000**
WEEKLY AVERAGE	$90	$115	$116	$118
UNITS ON LOCATION	70,000	143,000	144,000	146,000

COIN PHONOGRAPHS

Jukeboxes took center stage in 2007, led by further gains in the deployment of digital, downloading machines. By the end of last year, there were an estimated 48,000 digital jukeboxes online, compared with 34,000 by the prior year's end.

As has been the case with many equipment types, jukeboxes have declined in absolute numbers while average per-machine revenues have increased. This reflects the prolonged attrition of the traditional street locations that always formed the core jukebox market, as well as the 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, especially in an era of high fuel prices. The contraction has been most evident in the middle of the market; old, fully-paid-for CD and 45-RPM machines continue to satisfy long-lived mixed-use locations off the beaten path, while competition is fierce for prime locations in more populous markets. In 2007, the Jukebox Licensing Office reported issuing licenses for 44,500 pieces, down from 54,000 the prior year. Last year's 17.6% drop in CD and 45 machine licenses is similar to the decline from 2005 to 2006.

Because the JLO does not cover digital downloading machines – whose networking software records actual plays and computes royalty payments, all included in the cost of the service to operators – the decline in the number of licenses last year suggests that the deployment of digital systems continues at an accelerated rate.

However, CD jukeboxes continue to benefit from a tremendous range of recorded music available in compact audio disc format, and patrons understand and like CDs. Formats that died out in the past – from the 78-RPM shellac discs of the Depression and WWII era to the SQ, QS and CD4 high-fi quadraphonic records of the 1970s – expired only when programming material no longer was available for them. And certain artists who are important to the jukebox market – Bruce Springsteen, Jimmy Buffett, Garth Brooks and The Beatles, among others – remain difficult to sign for play on the digital jukebox networks. For these reasons, the CD jukebox may not yet face the threat of extinction. As in other industries, however, jukebox manufacturers have found that business models perfected over decades now are being challenged by rapid changes in information technology. Of operators participating in our survey, 55% report that they plan to buy digital downloading jukeboxes in 2008 and 2% plan to buy new CD models.

Online jukeboxes offer operators the advantage of eliminating record libraries and an inventory of obsolescing vinyl; patrons, the benefit of expanded selectivity; and locations, potentially, the attraction of a professionally maintained Internet connection. Online systems also have created a revenue stream, in which patrons can select music remotely for a premium price; as digital jukebox libraries grow, so do on-demand music sales. And the public is willing to pay for it: The average weekly income generated by a digital unit, according to respondents of this survey, was $255, compared with $261 in 2006. Last year, CD boxes generated $74 each week while legacy vinyl boxes produced $25 or less – similar to 2006. Further penetration of connections into "C," "D" and "E" locations might explain the decline in weekly earnings experienced by digital systems. A box that can be managed over a network allows operators to add holiday music remotely, for instance. Upgrades enabled them to transition more locations into the efficient digital operating model with lower capital investment, justifying modest revenue gains.

Please turn to the next page

JUKEBOX EQUIPMENT in USE	**2003**	**2004**	**2005**	**2006**	**2007**
Compact Disc	78%	75%	70%	58%	45%
45-RPM	8%	7%	6%	4%	3%
Digital Downloading	14%	18%	24%	38%	52%
JUKEBOX REVENUE	**2003**	**2004**	**2005**	**2006**	**2007**
Average Weekly Income	$113	$116	$148	$144	$145
Average Commission Rate	46%	44%	45%	43%	43%
JUKEBOX PRICING	**2003**	**2004**	**2005**	**2006**	**2007**
5/$1 or 25¢	9%	9%	6%	4%	3%
3/$1 or 50¢	41%	40%	38%	39%	40%
5/$2	7%	9%	13%	13%	13%
18/$5	21%	21%	22%	22%	22%
15/$5	11%	12%	12%	13%	13%
Other	11%	9%	7%	7%	7%
AVG. GROSS REVENUE VOLUME CHANGE	**2003**	**2004**	**2005**	**2006**	**2007**
Increase	20%	21%	22%	23%	38%
Decrease	2%	5%	8%	9%	12%
No change	78%	74%	70%	68%	50%
ALLIED MUSIC SERVICES (offered by operators)	**2003**	**2004**	**2005**	**2006**	**2007**
Karaoke	4%	4%	3%	3%	2%
Background Music Systems	5%	3%	2%	3%	3%

COIN PHONOGRAPHS

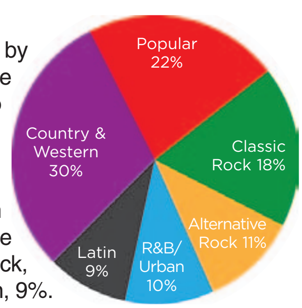
Continued from the previous page

Jukebox operations last year continued the trends that emerged in the late 1990s. Operators had access to better tools for meeting specific location demands, and increased use of them. While moving the jukebox to an interactive, digital format may increase its social appeal, the industry continued to face new challenges presented by the same music technology it has employed. IPod nights in certain types of location that began to take hold three years ago persisted. The ability to play and share publicly music from one's personal portable digital player is a powerful social trend.

The arrival of music stored in digital format on a central server and provided to subscribers over a wide-area network (the Internet) has presented the music industry with a whole new series of challenges, few of which directly involve jukeboxes. Consumers have shown great interest in downloading music, even if they have to pay for it. The Internet thus is an appealing delivery system for a desired product. In 2007, the sellers continued to debate the most satisfactory way of meeting this demand. Apple's successful iPod and other handheld digital music playback devices demonstrate the inevitability of digital media distributed over the Internet, although the consensus in the music industry appears to be that the iTunes model is by no means the best one for everybody, however beneficial it has been to Apple.

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 ear 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 for high-end electronic gear, turned to the LP album as its favored music format. Last year, the recording industry once again began to recognize the jukebox as an effective tool for promoting new music and it made wider use of the industry's digital networks.

JUKEBOX MUSIC



Jukeboxes serve a public whose segments are defined by the music industry for its own marketing purposes, and the percentages of music directed at locations catering to those segments tend to remain fairly consistent from year to year. Each year, the *Census of the Industry* asks jukebox operators to provide data on the types of music programming they offer in their locations in six categories. In 2007, Country & Western was the leading jukebox genre at 30%. Following were Popular Music at 22%; Classic Rock, 18%; Alternative Rock, 11%; R&B/Urban, 10%; and Latin, 9%. Percentages reflect play on the dominant digital and CD systems, as well as the vanishing 45-RPM machines. While demand for vinyl LPs is strong among audiophiles, jukeboxes almost by themselves may have kept the 45-RPM stereo microgroove vinyl record alive. The Country & Western genre, which often has shown its appreciation for the role of the jukebox in building its popularity in regions other than its birthplace, has been the most receptive to operators' desire for a continued supply of 45s, and several one-stop record distributors continued to broker this service.

In 2007, the recorded music industry reported shipping 511.1 million compact audio discs compared with 619.7 million in 2006, a decline of 17.5%. Although small by comparison, the number of CD singles shipped jumped over 50% to 2.6 million units over 1.7 million the previous year. Downloaded digital singles and albums significantly increased last year. Consumers downloaded 809.9 million singles compared with 586.4 million in 2006, a 38.1% increase, and 42.5 million albums compared with 27.6 million in 2006, a 54% increase. Last year's vinyl single shipments dropped 58.5% to 600,000 units from 1.5 million in 2006. In contrast, shipments of vinyl LP/EP units increased 36.6% to 1.3 million from 900,000 in 2006.