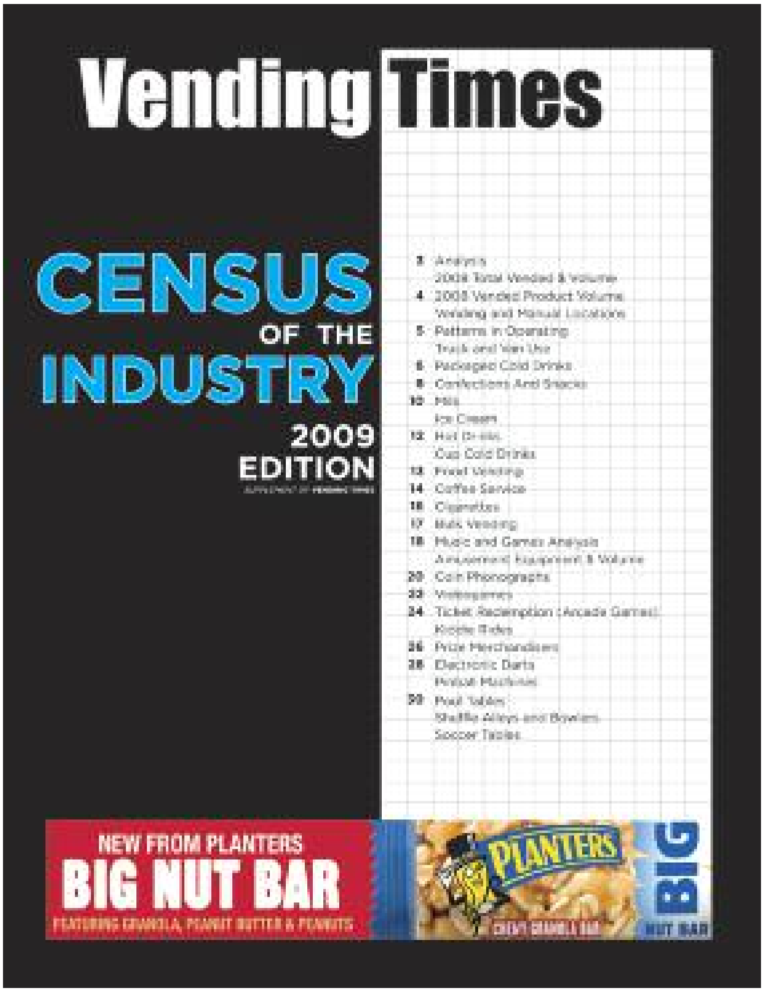

Vending Times
CENSUS
OF THE
INDUSTRY
2009
EDITION
NEW FROM PLANTERS
BIG NUT BAR
FEATURING GRANOLA, PEANUT BUTTER & PEANUTS
PLANTERS
BIG
NUT BAR

Analysis

The crisis that engulfed the U.S. and global economies in the second half of 2008 might be seen as the culmination of trends that began at the turn of the millennium. Manufacturing employment, which had been reported at 12,400,080 in 2000, declined to 11,270,210 in 2001 and never recovered. The Bureau of Labor Statistics reported it as 9,919,120 in May of 2008. Thus, while the dramatic economic contraction at the end of last year provoked well publicized alarm, the workplace service industries had been grappling with its precursors for almost a decade, and things had grown worse by the beginning of last year. Gross domestic product, which had exhibited decelerating growth in the last two quarters of 2007, declined in the first quarter of 2008, resumed weak growth in the second quarter and then went into a tailspin.

The workplace service industries are always sensitive to shifts in business confidence and employment. For this reason, longtime industry observers have noted that vending (in particular) is a "leading indicator" of economic health. As might be expected, then, 2008 was a difficult year. Vending, which had continued to post very modest gains in dollar sales through most of the decade, saw declines in most categories. Only food, milk and ice cream exhibited sales stability – and only milk saw an uptick in unit volume (1%), on a modest increase in machine placements.

Vended food (all kinds), up 1.2% in dollar volume;
Ice cream, up 0.2% in dollar volume;
Milk, up 0.1% in dollar volume.

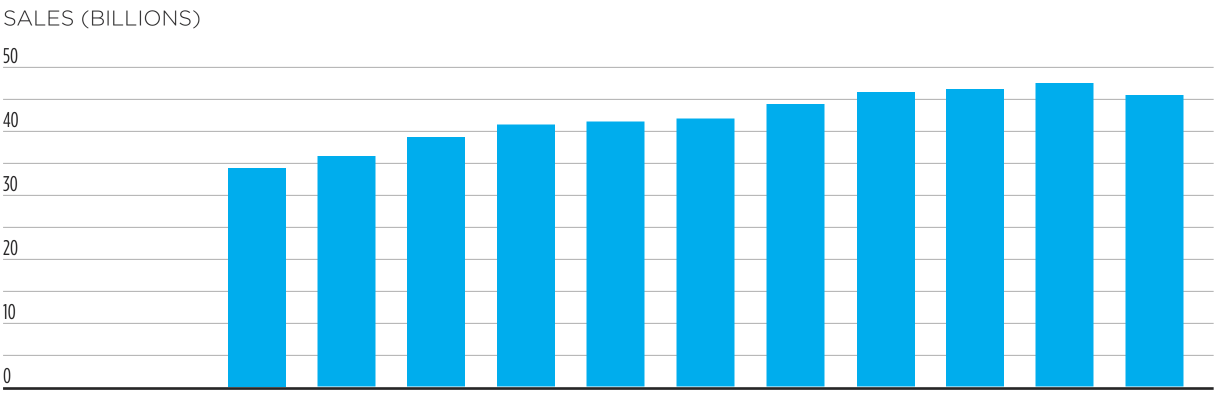
Bulk vending, down 1.5% in dollar volume;
Packaged cold drinks, down 2.8% in dollar volume;
Vended confections and snacks, down 3.8% in dollar volume;
Hot beverage vending, down 5.5% in dollar volume;
Postmix (cup) cold drinks, down 36.6% in dollar volume;
Cigarettes, down 39.6% in dollar volume.

Of the declining categories, postmix cold beverages have been fading for years, the victims of the steady erosion of their traditional heavy industrial market; 2008 was particularly unkind to domestic factory employment. Cigarette vending is the victim of a long-term campaign of strangulation by governments at all levels. Of the others, packaged cold drinks – vending's largest category – also suffered from higher unemployment, and dollar volume was affected by a resurgence of 12-fl.oz. cans in response to demand by nervous, cash-strapped patrons. The decline in bulk vending dollar volume was, to some extent, occasioned by the withdrawal of a major player from the market.

Office refreshments suffered less from the contracting economy, since coffee brewers and pure-water dispensers do not require the volume of traffic needed by vending for profitable route service. OCS also continued to benefit from the demand for high-end single-cup coffee which, although still demonstrated by a minority of locations, has had a very positive effect on the perception by patrons (and decision-makers) of professional refreshment services.

The industry conversation in recent years increasingly has turned to the persistent lack of acceptable profitability and the need for new approaches. Operators able to reduce expenses through greater efficiency hope to weather the storm.

2008 Total Vended $ Volume



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total $ vol. (in billions)	$34.8	$36.6	$38.7	$41.0	$41.1	$42.2	$44.2	$46.0	$46.8	$47.5	$45.6

2008 Vended Product Volume

PRODUCT	PERCENT SHARE 2008	DOLLAR VOLUME 2008
Packaged Cold Beverages[1]	53.0%	$24,100,000,000
Snacks, Confections, Pastry[2]	22.0%	$10,200,000,000
Hot Drinks	9.0%	$4,100,000,000
Vended Food[3]	7.5%	$3,380,000,000
Ice Cream	2.0%	$918,000,000
Milk	1.9%	$861,000,000
Cold Drinks (Cup)	1.0%	$500,000,000
Bulk Vending	1.0%	$410,000,000
Cigarettes & Cigars	0.8%	$355,000,000
All Other	1.8%	$800,000,000
Total	**100.0%**	**$45,624,000,000**

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

Vending and Manual Locations

The market for vending, office refreshments and manual foodservice reflects the overall economy, and so between 2007 and 2008 the number of locations served by operators dropped a little more than 3%. Manufacturing facilities (plants and factories) again declined in numbers, as they have done for more than a decade, along with other location types. Manual foodservice sales slid downward last year, decreasing more than 7% from $10.5 billion in 2007 to $9.8 billion in 2008.

	NUMBER OF LOCATIONS			LOCATION DOLLAR SALES	
	2006	**2007**	**2008**	**Vending 2008**	**Manual 2008**
Plants, Factories	156,000	156,000	150,000	$4,130,000,000	$1,475,000,000
Primary & Secondary Schools	22,000	21,000	19,000	1,000,000,000	211,000,000
Colleges & Universities	34,500	34,000	34,000	4,200,000,000	1,800,000,000
Public Locations	483,000	481,000	459,000	15,190,000,000	619,000,000
Government & Military	12,500	12,000	11,000	1,600,000,000	275,000,000
Offices, Office Complexes	511,500	509,000	499,000	12,600,000,000	4,650,000,000
Hospitals, Nursing Homes	49,700	50,000	50,000	4,000,000,000	415,000,000
Other Locations	173,000	174,000	170,000	2,904,000,000	379,000,000
Total	**1,442,200**	**1,437,000**	**1,392,000**	**$45,624,000,000**	**$9,824,000,000**

Patterns in Operating

The composition of the vending and amusement industries has witnessed little change in recent years. The total number of operating entities increased slightly in 2008, as entrepreneurs continued to launch startup firms, a task made easier by the unprecedented availability of professional-quality equipment and the increased ease of troubleshooting and maintaining it. This outpaced the trend of existing midsize operations merging into larger ones. The fluctuation of emerging new companies and consolidation of mature operations has recurred for half a century, at least, in the vending industry. Most vending operations are small, and this always has been true. Last year, 70% employed three or fewer people full-time.

OPERATING COMPANIES:	**1998**	**2006**	**2007**	**2008**
(Independent & branch operations)	10,800	10,550	10,300	10,400
OPERATING COMPANY EMPLOYEES:				
Owner *only*	29%	32%	34%	35%
1 employee *part-time*	15%	16%	17%	18%
1-3 employees *full-time*	23%	21%	19%	18%
3.5-5 employees	10%	8%	8%	8%
5.5-10.5 employees	4%	4%	2%	2%
11-19.5 employees	7%	4%	3%	3%
20 or more employees	12%	15%	17%	16%

Industry NAICS Codes

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

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

The ***Census of the Industry*** questionnaire asks respondents to indicate the kinds of business they conduct. The industry presents a diverse picture. **75%** of operators were involved in vending more than one product type in 2008. This group includes "full-line" operators, a description that may or may not imply providing food; **42%** of them do. And **25%** concentrated on *specialized* vending segments (candy, cigarette, dairy, bulk, etc.).

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

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

Truck and Van Use

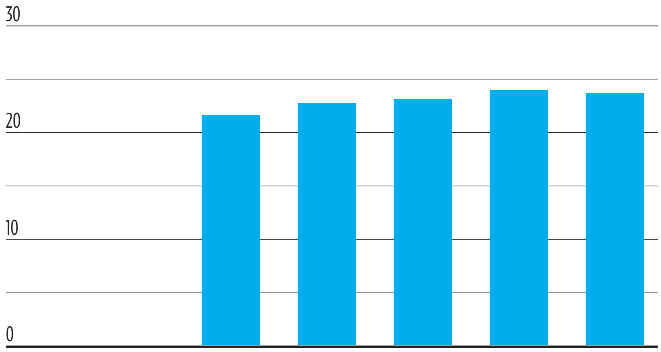
Vending, office refreshment, and coin-op amusement and music providers are sales and route distribution businesses that rely on fleets to conduct business. In 2008, the number of vehicles run by operating companies dipped by almost 3% as operators consolidated routes and improved scheduling efficiency to offset rising fuel costs. In general, the composition of operator fleets remained the same compared with the year prior. Vans represented 55% of vehicles in use by operators, and non-modified vehicles, principally automobiles used by sales, technical and supervisory personnel, again ticked up marginally. Operators continue to become more sophisticated vehicle purchasers, as the pressing need for improved route productivity puts a premium on vocational vehicles that allow drivers to make the most efficient use of their time. Vending delivery vehicles must be able to haul ever-larger payloads of packaged cold drinks; coffee service route trucks need different organization if they are delivering prewritten orders than if they are run as "rolling stores"; and in amusement and music fleets, the need to carry cigarettes has been supplanted by the need to haul redemption merchandise.

	2005		**2006**		**2007**		**2008**	
TOTAL VEHICLES	**205,400**	**100%**	**205,300**	**100%**	**203,600**	**100%**	**198,500**	**100%**
Vans *(route delivery vehicles)*	113,500	57%	113,450	55%	112,500	55%	108,500	55%
Maintenance vehicles *(specialized)*	28,400	13%	28,250	14%	27,500	14%	26,400	13%
Medium-duty trucks	14,500	7%	14,700	7%	14,600	7%	14,500	7%
Non-modified vehicles*	48,000	23%	48,900	24%	49,000	24%	49,100	25%

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

Vended Packaged Cold Drinks

SALES (BILLIONS)

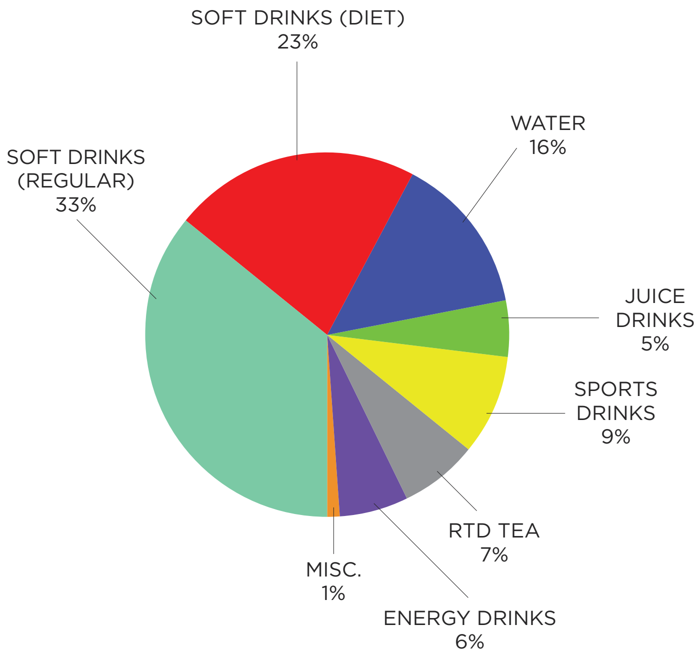


	2004	2005	2006	2007	2008
Total $ vol. (in billions)	**$22.4**	**$23.5**	**$23.9**	**$24.8**	**$24.1**
Total unit vol. (in billions)	29.3	30.5	30.6	30.2	28.4
Weekly unit vol.	173	174	175	173	168
Machines on site	3,256,000	3,372,000	3,364,000	3,360,000	3,250,000

Packaged cold drinks maintained their dominance among vending's product categories in 2008, representing 53% of all revenues. Dollar volume slid almost 3% and unit sales dropped 6% as the number of machines in the field decreased. These declines reflected last year's difficult economic conditions: There were fewer large locations and smaller client populations, but demand for vending services remained strong. 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 are increasingly providing 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, along with smaller cans characteristic of energy and ready-to-drink coffee beverages. However, 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.

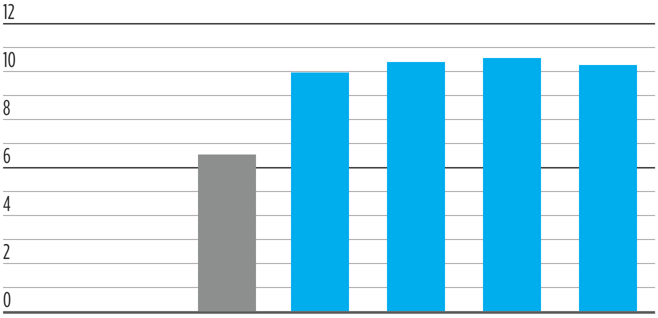
Cold Drink Categories

Cold beverages have been a part of the historic shift from mass to niche markets, which also has had a profound effect on the snack, confection, food and hot beverage categories. In 2008, the growth of subcategories was small, but significant to vending operators. New products designed for very specific sensibilities continued to appear, and had a place in vending machines. Carbonated soft drinks (regular and diet) retained their stronghold on first place among vended cold drink categories last year, at 56% of sales, and water held its second-place position with a 16% share. Juices, sports drinks, energy drinks and ready-to-drink teas were grouped in the 5% to 9% range, the same as the year prior.



Vended Confections and Snacks

SALES (BILLIONS)



	1998	2005	2006	2007	2008
Total $ vol. (in billions)	**$6.5**	**$10.0**	**$10.4**	**$10.6**	**$10.2**
Total unit vol. (in billions)	10.3	12.2	12.2	12.1	11.7
Weekly unit vol.	179	180	179	178	176
Machines on site	1,100,000	1,302,000	1,314,000	1,312,000	1,280,000

Packaged confections and snacks, usually sold through multi-product glassfront machines, was the second-largest vendible products category in 2008; these items produced 22% of all vended dollar volume last year, similar to the year prior. Dollar sales and unit volume each dropped about 3.5%, as machines on location decreased approximately 2.5%. Nevertheless, operators enjoyed improvement in sales prices, driven partly 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 through extensions of existing lines (including those larger package sizes) and new entries. Today's glassfront machines are offered in designs ranging from simple to sophisticated, and this helps operators address the demands of smaller workplaces. Combination snack/cold drink and snack/fresh food venders (which also can vend milk) provide tools for meeting the needs of nontraditional markets, while further complicating the task of defining exactly what products are being sold through precisely which kind of vending machine. Always a dynamic category, vendible snacks and confections remain prevalent.

Vending Times

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

CENSUS OF THE INDUSTRY 2009
a supplement

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

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

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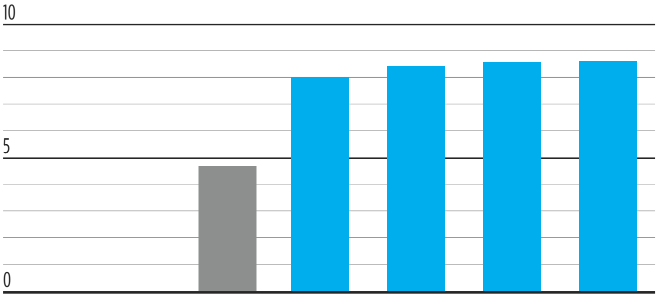
ABOUT THIS STUDY: The VENDING TIMES *Census of the Industry* provides performance results for major product categories in the automatic vending and coin-operated amusement industries. The objectives of this report have been met through mail survey techniques using VT's current circulation as the measured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

Vended Milk

SALES (MILLIONS)

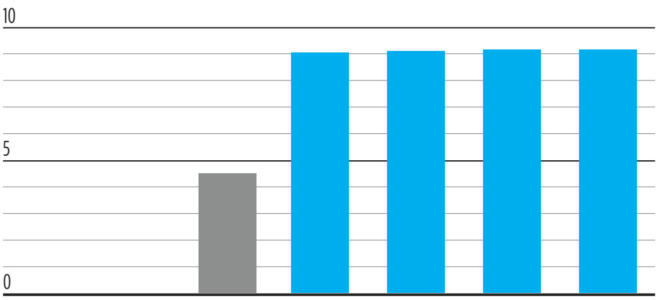


	1998	2005	2006	2007	2008
Total $ vol. (in millions)	**$474.0**	**$802.0**	**$840.0**	**$860.0**	**$861.0**
Total unit vol. (in millions)	867.0	942.8	954.5	957.5	967.8
Weekly unit vol.	195	196	198	198	198
Machines on site	85,000	92,500	92,710	93,000	94,000

Milk sales through vending machines held steady in 2008. There were approximately 94,000 machines vending milk in the field. Many of them were in the school market, where vended milk continued to receive attention as the right product to replace high-sugar soft drinks prohibited by more and more districts. In other consumer sectors, milk continued its resurgence from a customary must-offer product to a popular contemporary cold-drink choice. 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. And new refrigerated packaged-beverage and combination machines with sophisticated health controls made handling the perishable items much easier for operators, as did shelf-stable selections, which simplify transport and storage while reducing waste.

Vended Ice Cream

SALES (MILLIONS)

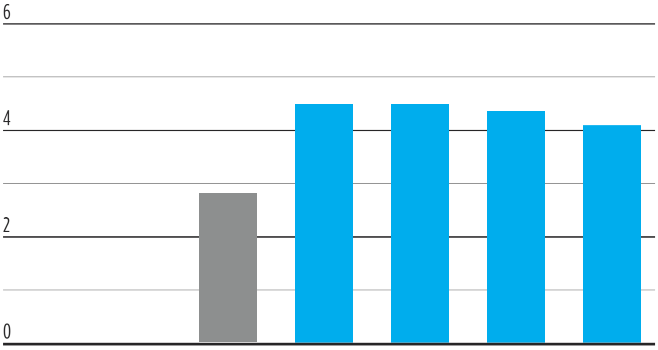


	1998	2005	2006	2007	2008
Total $ vol. (in millions)	**$453.5**	**$905.0**	**$915.0**	**$916.0**	**$918.0**
Total unit vol. (in millions)	477.4	993.7	978.6	957.9	928.0
Weekly unit vol.	135	156	153	151	150
Machines on site	68,000	122,500	123,000	122,000	119,000

Ice cream was a strong product category during 2008. 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. Sales through frozen food venders were approximately $918 million last year, and 119,000 machines dispensed about 928 million units. Operators continued to move toward branded premium ice cream novelties, which improved dollar sales. They also continued to adopt frozen machines as a solution to the meet demand for food; today's machines can offer a mix of main-meal and snack/dessert items to maximize sales. In public locations, machines stocked entirely with frozen snacks and desserts continued to perform well.

Hot Beverage Vending

SALES (BILLIONS)

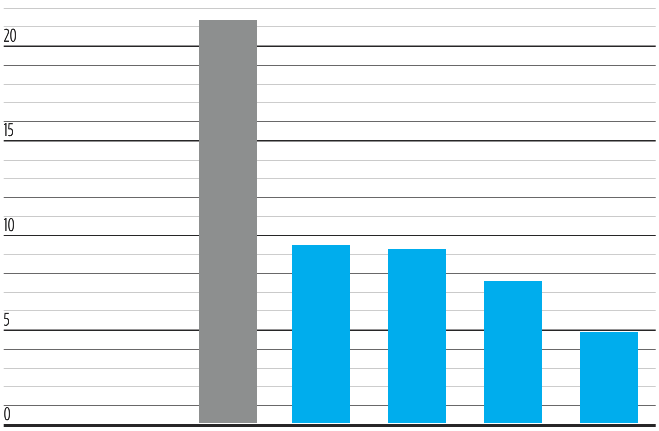


	1998	2005	2006	2007	2008
Total $ vol. (in billions)	**$2.8**	**$4.4**	**$4.4**	**$4.3**	**$4.1**
Total unit vol. (in billions)	6.1	7.1	7.1	7.0	6.4
Weekly unit vol.	375	390	388	384	374
Machines on site	314,000	350,000	354,000	350,000	330,000

Vended hot drink sales in 2008 dropped almost 6% on fewer machines in the field. Unit volume through vending machines declined about 8%. The full-line hot drink market traditionally was closely tied to industrial employment, but has been widening far beyond its old factory base in recent years. Losses of industrial locations and shrinking workplace populations are driving the decline in full-line hot beverages. At the same time, the increased deployment of countertop fresh-brew equipment, which has given operators additional options for dealing with a larger number of smaller locations, has supplanted full-size hot drink venders in many locations. The bulk-loading c-top fresh-brew machines, essentially miniature venders, are operated more and more 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 recent years.

Vended Cup Cold Drinks

SALES (MILLIONS)

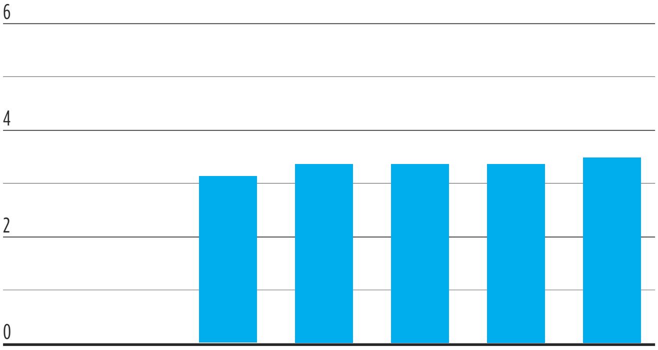


	1998	2005	2006	2007	2008
Total $ vol. (in millions)	**$2,145.5**	**$971.0**	**$939.0**	**$788.1**	**$500.0**
Total unit vol. (in billions)	3.2	1.5	1.5	1.2	0.8
Weekly unit vol.	337	342	341	320	250
Machines on site	180,000	85,400	82,600	74,000	60,000

Postmix cold cup vending equipment is one of only two traditional vending machine types that “finishes” the product before delivering it to the patron. The other type, of course, is hot beverage vending equipment, covered above, and these two working together once represented the high-margin foundation for full-line vending in the heavy industrial environment that characterized its formative years. This “wet mix” continues to be used in locations with enough traffic to justify the equipment and maintenance cost, but these locations have been dwindling in number.

Food Vending

SALES (BILLIONS)



	2004	2005	2006	2007	2008
Total $ vol. (in billions)	**$3.1**	**$3.3**	**$3.3**	**$3.3**	**$3.4**
Total unit vol. (in billions)	2.3	2.4	2.4	2.3	2.0
Weekly unit vol.	188 (86)*	189 (85)*	189 (85)*	268	245
Machines on site	161,500	166,800	166,750	166,000	160,000

*(Restated to include canned food.)

2008 PRODUCT SALES SHARE

Sandwiches & other "finger foods"	62%
Dairy snacks/desserts (yogurt, cottage cheese, etc.)	5%
Salads	18%
Fresh fruit & vegetables	4%
Packaged cold beverages (juice, milk, water, etc.)	3%
Platters, entrees, soups (including cans)	5%
Pastries	1%
Packaged fruit, gelatin, puddings	2%

The number of food machines in the field declined in 2008, as workplace populations and locations dropped. In the U.S., "food" as a vendible product category is regarded as something consumed as a meal, not a snack; this is not the case in some other countries. Items that constitute the principal components of a meal are available in an ever-wider variety of formats, from freeze-dried noodle dishes to canned soups and stews to frozen lasagna, not to mention fresh, refrigerated salads and sandwiches. Increasingly, these distinct product types are being sold through machines that can accommodate several of them. Sales through machines reach maximum potential during a strong 24/7 economy that demands round-the-clock convenience, which was not the case last year. Food machines must be serviced frequently because they sell perishable products with short shelf lives. And they are always in demand by locations, especially by those that can't support the service requirements. Improvements in machine technology, "menuing" and forecasting capabilities are helping operators to reduce costly waste. These factors and pricing improvements contributed to sales increases last year. And frozen venders, which are now a part of the mainstream, make it impossible to differentiate between the "refrigerated" and "frozen" category; the same branded sandwiches, shipped and stored frozen, can be sold through both kinds of machine.

Coffee Service

The financial crisis of late summer and fall had been foreshadowed by steady contraction of gross domestic product that began in the last quarter of 2007; and unemployment began to rise in late spring. More to the point, while office employment had been edging upward since 2000, manufacturing employment – the traditional core vending market segment – had been declining. Thus, by 2008, most operators in most market areas offered a "total refreshment" menu that could mix and match vending and coffee service to meet the needs of locations with small, medium or large populations. They also, for the most part, had added pure water service to that menu. And so they were as prepared as they possibly could be for the swift contraction that had set in by the second half of the year.

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

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

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

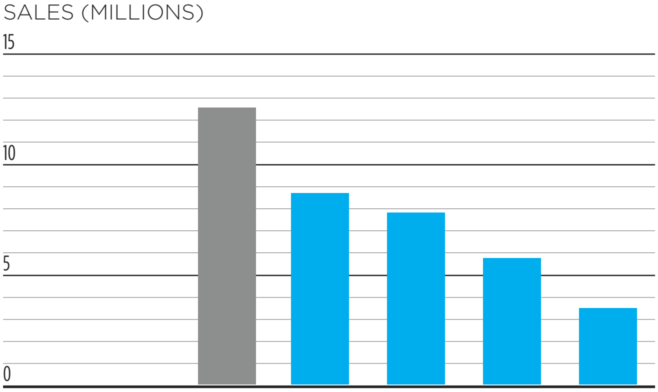
DISTRIBUTION of COMPANIES by VOLUME *(Annual dollar volume)*	**2004**	**2005**	**2006**	**2007**	**2008**
$1,000-$100,000	4%	3%	3%	3%	4%
$101,000-$500,000	38%	40%	39%	38%	40%
$501,000-$1,000,000	24%	22%	23%	23%	22%
$1,001,000-$2,000,000 *("Over $1 million" before 1995)*	20%	21%	20%	20%	19%
Over $2,000,000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

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

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

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

Vended Cigarettes



	1998	2005	2006	2007	2008
Total $ vol. (in millions)	**$1,260.0**	**$875.0**	**$790.0**	**$588.1**	**$355.0**
Total unit vol. (in millions)	446.0	156.0	137.2	90.5	53.3
Weekly unit vol.	33	30	29	29	25
Machines on site	260,000	100,000	91,000	60,000	41,000

Cigarette vending's decades-long decline was accelerated by the proliferation of smoking bans, reducing demand in the segment's core market. The ever-growing burden of taxes levied by all echelons of government on tobacco products imposed price increases on cigarettes sold through all retail channels, but vending operators were unable to treat cigarettes as a loss leader, and cigarette manufacturers did not offer sales incentives to vendors commensurate with those available to other channels. Virtually confined to sites with adult clientele and liquor licenses, cigarette vending machines continued to solve problems for location owners and patrons. 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. Nevertheless, sales in tavern locations have been diminished by comprehensive indoor smoking bans that are now common nationally; to date, only 13 states have no type of workplace ban on their books. 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 underage smoking than they are in harassing tobacco retailers and legal purchasers.

Bulk Vending

The number of bulk vending machines, which includes flat venders, dropped 5% between 2007 and 2008, but price improvements helped offset resulting revenue losses. Total revenue dipped from $417 million in 2007 to $410 million last year, or 1.5%. More and more bulk and flat merchandise patrons are willing to insert multiple coins to make a purchase, and this trend has compensated for the increased cost of merchandise brought about by higher prices for everything from petroleum feedstock to sugar. Sales at 50¢ and above rose to 68% of total dollar volume in 2008. Similar to the year prior, higher commodity costs impacted vended nuts and candy, and capsuled toys and novelties held their own in dollar sales, though fewer machines were on location. The effects of new safety legislation regulating capsuled toys, among myriad children's products, will likely be known over the next two years.

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

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

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

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

(*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	213,000
Annual average volume per machine	$170	$176	$176	$175
TOTAL DOLLAR VOLUME	**$34,170,000**	**$36,960,000**	**$37,840,000**	**$37,275,000**

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

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

Music and Games Analysis

The "great recession" of 2008, whose warning signs had caused pervasive anxiety well before the storm broke in midsummer, intensified the challenges confronted by operators of coin-operated amusement and music equipment. It really has not presented any new ones. While street operators have been lamenting the decline of neighborhood taverns for four decades now, that decline has been accelerated in the new century by the proliferation of alternate sources of high-quality recreation and the disincentives imposed on all the participants in the old local watering-hole experience by public smoking bans and dramatic initiatives ostensibly designed to curb drunken driving. Moreover, the corner bars celebrated by writers of the mid-20th century were situated in neighborhoods inhabited by relatively immobile populations. Those neighborhoods and those populations have ceased to exist.

But there remains a large market for out-of-home pay-per-use recreation, and alert operators have adopted imaginative new technologies and promotional approaches to meet that market. While spending by patrons in typical street locations and family entertainment centers was down (as, indeed, it was in restaurants), operators were able to attract their share of that spending. Many also were able to apply their knowledge of coin-op equipment to serving a wider market of consumers who wish to install classic games (and, often, a jukebox) in their own recreation rooms. And a new generation of players is being attracted by increasingly sophisticated tournament play with strengthening online components.

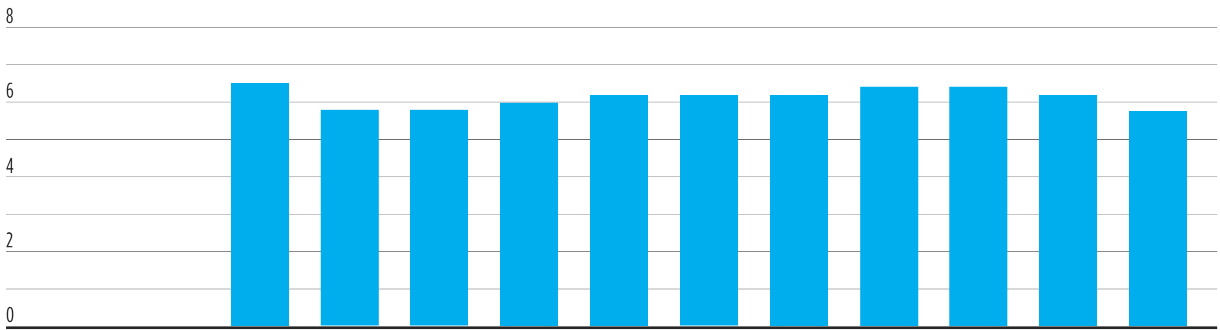
In 2008, overall amusement revenues tracked by the VT study fell 5%, and all categories exhibited noticeable declines, with the exception of merchandisers and redemption games, which dipped only slightly.

Pool tables down 6% represented 34% of total dollar volume;
Prize-dispensing machines down 0.4% represented 17% of total dollar volume;
Ticket redemption down 0.6% represented 16% of total dollar volume;
Videogames down 2.4% represented 15% of total dollar volume;
Electronic dartboards down 9% represented 11% of total dollar volume;
Pin games down 16% represented 5.5% of total dollar volume;
Soccer tables down 22% represented 1% of total dollar volume;
Kiddie rides down 5% represented less than 1% of total dollar volume;
Shuffle alleys down 1.3% represented less than 0.5% of total dollar volume;

The number of amusement machines operated in commercial locations dropped from 1,267,800 in 2007 to 1,216,200 last year, or about 4%. The installed base of most coin-op game categories shrank, with the exception of prize merchandisers, which experienced very modest growth. The number of touchscreen digital jukeboxes that were online grew from 48,000 in 2007 to 58,000 last year, or 21%.

2008 Total Amusement $ Volume

SALES (BILLIONS)



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total $ vol. (in billions)	$6.4	$5.8	$5.8	$6.0	$6.1	$6.1	$6.1	$6.2	$6.2	$6.1	$5.8

Coin Phonographs (Jukeboxes)

The restoration of the jukebox as the coin-op industry's central attraction over the past decade continued on course in 2008. The emergence of Internet-enabled jukeboxes almost 10 years ago has reshaped the industry, allowing coin machine operators to provide scalable multimedia product to their clientele. By the end of last year, there were an estimated 58,000 digital jukeboxes online, compared with 48,000 by the prior year's end, a 21% gain.

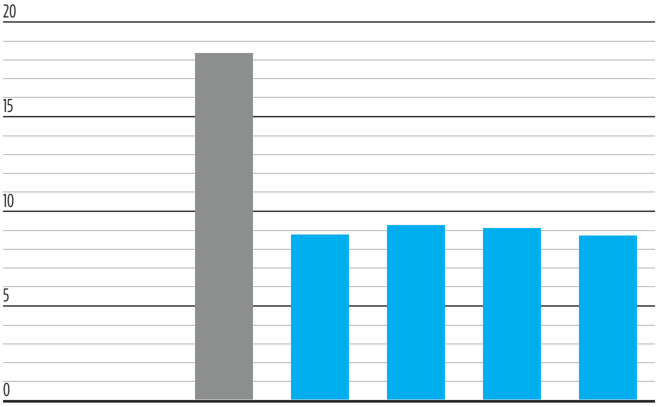
Jukeboxes, like other coin-operated equipment, have declined in absolute numbers while average per-machine revenues have increased. This reflects the slow wearing away of the traditional street locations that always formed the core jukebox market, as well as the operator's recognition that fewer pieces set at higher play prices, and placed in higher-traffic locations, offer a real advantage over a larger but less profitable installed base. This contraction is apparent in the middle of the market: legacy CD and 45-RPM machines, fully paid for, still satisfy long-lived mixed-use locations off the beaten path, while competition is fierce for prime locations in more populous markets. In 2008, the Jukebox Licensing Office reported issuing licenses for 33,000 pieces, compared with 44,500 the prior year. Last year's 28% drop in documented CD and vinyl boxes was greater than the period between 2006 to 2007, which saw an 18% decline. Because the JLO does not cover digital downloading machines – whose networking software records actual plays and computes royalty payments – the decline in the number of licenses last year suggests that the deployment of digital systems slowed compared with previous years.

The average weekly income generated by a digital unit, according to survey respondents, was $215, compared with $255 in 2007. Last year, CD boxes generated $68 each week while legacy vinyl boxes produced $25 or less. Further penetration of connections into "C," "D" and "E" locations might explain the decline in weekly earnings experienced by digital systems, as well as a harsh macroeconomic environment.

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

Videogames

SALES (MILLIONS)



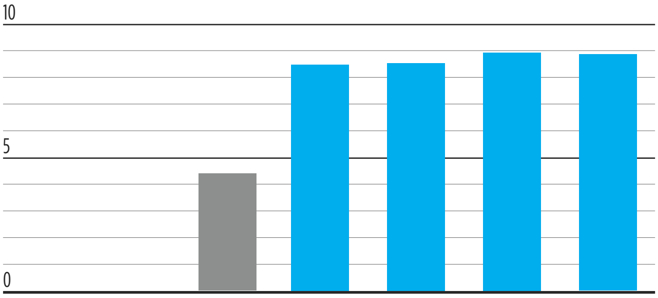
	1998	2005	2006	2007	2008
Total $ vol. (in millions)	**$1,840.8**	**$892.3**	**$935.2**	**$904.0**	**$882.0**
Weekly average	$60	$52	$55	$53	$53
Machines on site	590,000	330,000	327,000	328,000	320,000

Appearing in the early 1970s, coin-operated videogames dominated and reshaped the amusement trade by the end of that decade. At its peak in 1982, video represented 60% of total amusement revenue, or $4.4 billion. 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 2008, videogames generated 15% of all revenue generated by all amusement machines. Total dollar volume dropped about 2.5% last year on an equal decline of units on location.

The touchscreen videogame is a subcategory of the larger videogame group, which includes conventional uprights, sitdown simulators and cocktail tables. Touchscreen games are small and flexible. They are usually bundled in countertop cabinetry, installed almost anywhere and their broad programmability can easily provide an entertainment menu well matched to a wide range of audiences. Historically, they can be viewed as the successful descendent of the late-'60s "trivia game," a concept whose perfection was made possible by the microprocessor, the nonvolatile memory device and the flat-panel LCD videscreen. 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 to some extent, according to operators participating in this survey. Advances in physical designs and networking applications continued to play an important role in 2008, when space-saving flat-panel models reached a new level of functionality.

Ticket Redemption (Arcade Games)

SALES (MILLIONS)



	1998	2005	2006	2007	2008
Total $ vol. (in millions)	**$441.1**	**$855.1**	**$868.6**	**$895.9**	**$891.1**
Weekly average	$93	$115	$116	$118	$119
Machines on site	85,000	143,000	144,000	146,000	144,000

Ticket redemption devices – specialized arcade games that include a continually expanding line of skill-based amusements – are prevalent in site-based entertainment facilities, particularly FECs (family entertainment centers). In 2008, revenue generated by this amusement category held the line. These arcade games 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, like cranes that award merchandise at points of sale, redemption games are usually 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, known as anchors in industry parlance, whose primary business is something other than coin-operated amusements; redemption offerings in the gamerooms of bowling centers illustrate this growing trend.

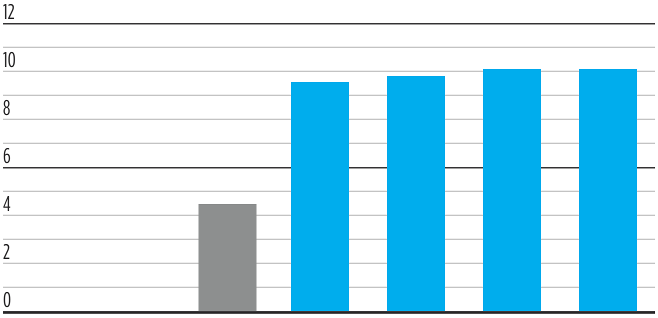
Kiddie Rides

	1998	2005	2006	2007	2008
Total $ vol. (in millions)	**$15.6**	**$40.8**	**$40.7**	**$40.6**	**$38.9**
Weekly average	$60	$70	$68	$65	$65
Machines on site	5,000	11,200	11,500	12,000	11,500

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. Most have 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. In 2008, this category registered a slight decline, attributed to a loss in the number of locations.

Prize Merchandisers

SALES (MILLIONS)

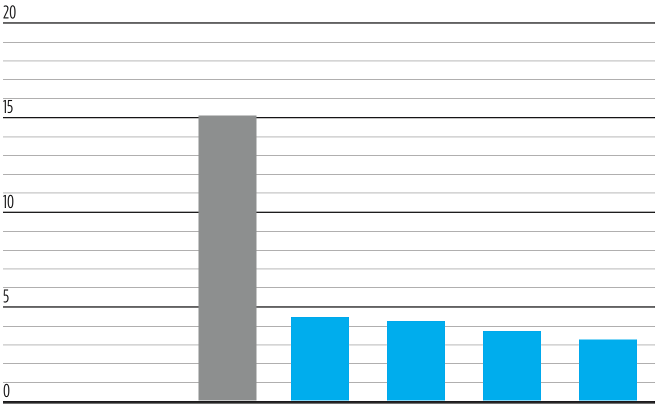


	1998	2005	2006	2007	2008
Total $ vol. (in millions)	**$446.2**	**$967.2**	**$989.7**	**$1,005.9**	**$1,001.0**
Weekly average	$132	$155	$156	$156	$154
Machines on site	65,000	120,000	122,000	124,000	125,000

Coin drop into prize merchandisers represented 17% of total amusement revenue in 2008, the industry's second-largest earning product. Coin-operated amusement devices that award prizes robotically have profited from the availability of affordable equipment that provides stronger merchandising appeal. And over the past decade, 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. The ability to instantly offer a patron a prize after playing a game of skill plays a central role in today's amusement industry. As a result, 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.

Pinball Machines

SALES (MILLIONS)

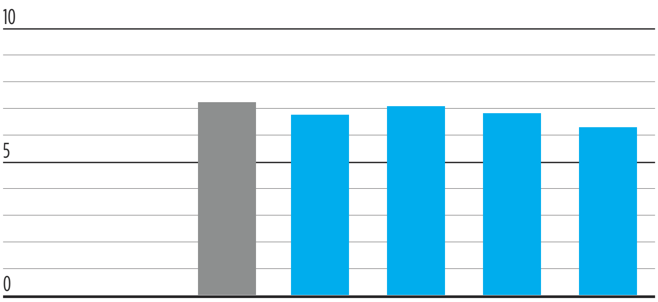


	1998	2005	2006	2007	2008
Total $ vol. (in millions)	**$1,504.1**	**$460.2**	**$423.3**	**$381.9**	**$323.0**
Weekly average	$65	$75	$74	$72	$69
Machines on site	445,000	118,000	110,000	102,000	90,000

Pinball machines – or flipper games – were among the first coin-operated amusement devices to be widely deployed by professional operating companies. Natural adjuncts to jukeboxes, they traditionally were associated with "street" locations, from neighborhood taverns and restaurants to candy stores and mom-and-pop groceries. But over the past three decades, pinball has lost most of its market share to standardized electronic equipment, which is favored by today's vendors over pinball's electromechanical designs. For some operators, the game remains an important part of the equipment mix and helps define their businesses as full-service coin-op amusement providers. Outside the commercial realm, pinball is regarded as a fashionable recreation device. Sales to homeowners and collectors have helped to sustain the game. Beyond pure nostalgia, interest in the art of playing pinball still remains high for many in the 40-and-older crowd. However, generations born after pinball's heyday have had little exposure to the game, which has made it difficult to expand its audience. Optimists continue to maintain that pinball's popularity as a high-end amusement device for personal recreation rooms may boost its appeal to younger players. And an increasingly well-organized, articulate and energetic community of collectors and other enthusiasts is not only holding interest in pinball, but also working hard to widen its appeal to a younger audience charmed by its nostalgic kinetic appeal.

Electronic Dart Games

SALES (MILLIONS)

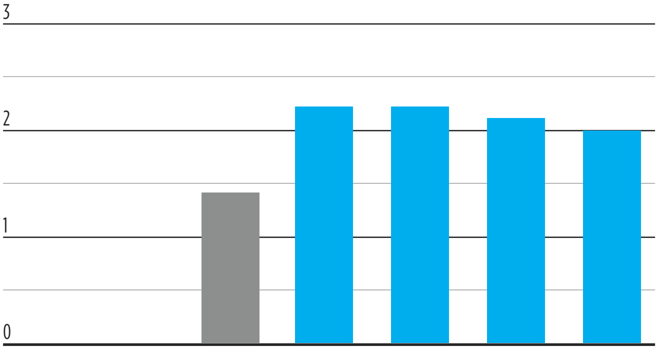


	1998	2005	2006	2007	2008
Total $ vol. (in millions)	**$720.7**	**$685.2**	**$702.0**	**$695.6**	**$632.3**
Weekly average	$66	$72	$75	$76	$76
Machines on site	210,000	183,000	180,000	176,000	160,000

The number of electronic dart machines decreased about 9% in 2008, pushing revenues down at the same rate. Losses in this key tavern-based recreation are almost entirely attributable difficult economic conditions in the Midwest, where dart machines and leagues are most prevalent. The decade-long decline in blue-collar taverns nationwide has not only impacted darts, but also other barroom staples like pool and foosball. Weekly averages, however, remained strong. Unit declines also reflect the ongoing retirement of older machines and steady placement of newer boards that are capable of generating greater revenue. Enhanced by bill acceptance, Internet capabilities and interactive functionality, new boards have helped operators to improve pricing and league administration.

Pool Tables

SALES (BILLIONS)



	1998	2005	2006	2007	2008
Total $ vol. (in billions)	**$1.4**	**$2.2**	**$2.2**	**$2.1**	**$2.0**
Weekly average	$90	$122	$124	$123	$120
Machines on site	300,000	340,000	335,000	332,000	320,000

The pool table held its position as the No. 1 earning coin-op game in 2008, accounting for 34% of total amusement revenue. However, the category recorded a 6% loss in revenue and almost 4% decline in unit placements. Pool tables are closely tied to traffic in taverns and bars, and the apparent dip in their earnings last year largely resulted from slower customer visits to those locations nationwide. The success story for pool operators in recent years is the electronically controlled table, sometimes powered by a battery. Operators report an average 20% to 30% increase in earnings when replacing older tables with electronic models. Pool tables earned a reputation for long, steady earnings life, and they continue to merit this distinction; operators reported an average service period of almost nine years. Today, pool enjoys a broad constituency consisting of men, women, teenagers and even children.

Soccer Tables

	1998	2005	2006	2007	2008
Total $ vol. (in millions)	**$63.6**	**$82.7**	**$80.8**	**$72.8**	**$57.3**
Weekly average	$36	$37	$37	$35	$29
Machines on site	34,000	43,000	42,000	40,000	38,000

In 2008, revenue generated by coin-operated soccer, or foosball, dropped about 20% on the street. Foosball games deployed by specialized operations that serve leagues and professional players continued to outperform equipment run by multi-amusement route companies.

Shuffle Alleys and Bowlers

	1998	2005	2006	2007	2008
Total $ vol. (in millions)	**$20.1**	**$17.3**	**$17.8**	**$17.8**	**$17.6**
Weekly average	$45	$42	$44	$44	$44
Machines on site	8,600	7,900	7,800	7,800	7,700

Classic shuffleboard tables and puck bowlers were route staples during the 1950s and early ‘60s, when they enjoyed immense popularity in neighborhood taverns. Today, they have carved out a small and vibrant niche in the modern entertainment services industry dominated by touchscreen devices and prize-based amusements. In 2008, shuffle game earnings and units on location dipped slightly and accordingly.