Don't Bet on It

RePlay Survey Shows Video Gaming Initiatives Are a Gamble

Always a hot topic, legalized, operator-run gaming has become a feverish issue within the amusement industry as state governments and amusement companies look for fresh infusions of income. Despite the best efforts of states where it's currently banned, video gaming has proven to be more tantalizing than money making. Illinois' passage of the Video Gaming Act in 2009, a victory for the operating community envied by many, currently sits in judiciary stalemate (see "Gaming Remains Elusive" elsewhere in this issue). Meanwhile in North Carolina, where video poker was banned in 2006, the state's governor has indicated an interest in asking lawmakers to reconsider.

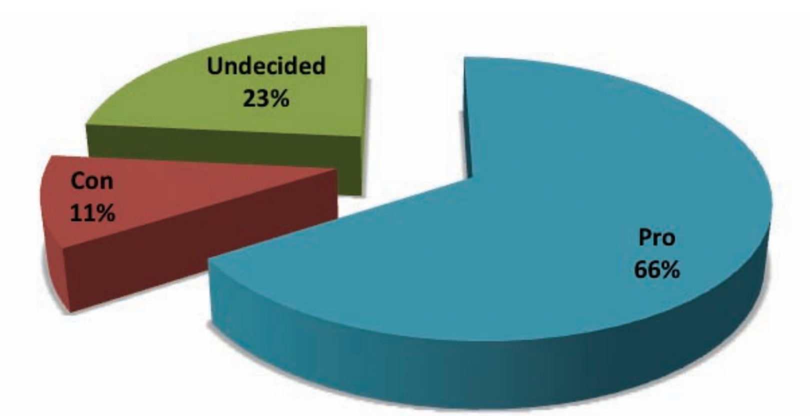
RePlay's fourth comprehensive survey of the industry measures how gaming interests are changing small business and politics, state by state. The results indicate that while most of the operator business community supports legalization, a deep ambivalence divides many about its benefits for state governments and amusement operations.

Who's Who Among Gaming Operators

Respondents identifying as amusement route owners or executives amounted to 70.9% of survey takers while 14.5% were route staffers. (Those who selected other included a handful of location owners, as well as gaming device manufacturers and suppliers.) A majority (67.8%) of operator companies focused on providing equipment and service to one state; 7.1%, two states; 5.3%, three or four; 14.2%, five or more. Two percent were self-described as national operators.

A little over half (55%) of survey takers hailed from states where video gaming devices of chance are illegal. While 20.4% of all respondents conducted business where such machines are legal, 31.8% reported operating gaming devices, a tally that also includes approved skill-based gaming equipment. Such games turned out to be approved in 16% of survey takers' states. The balance of respondents came from Illinois (10.2%) — where the legislature and governor have approved operator-run video gaming, though its implementation has been repeatedly delayed by court decisions — and states like Iowa, where gaming was legalized (i.e., *TouchPlay*) then infamously discontinued.

Professionally speaking, are you pro or con non-skill-based gaming on location?



"Gaming can be a great opportunity, but proceed with caution and do not expect it to solve all the economic woes of either the state budgets or the operators."

Our results showed only a subtle difference between business and personal preferences for gaming. When asked, "Professionally speaking, are you for or against non-skill-based gaming in general?", pro responses constituted 65.9% of results with 10.6% con and 23.4% undecided. Many qualified their affirmation of gaming, often supporting its implementation as long as operators played a role.

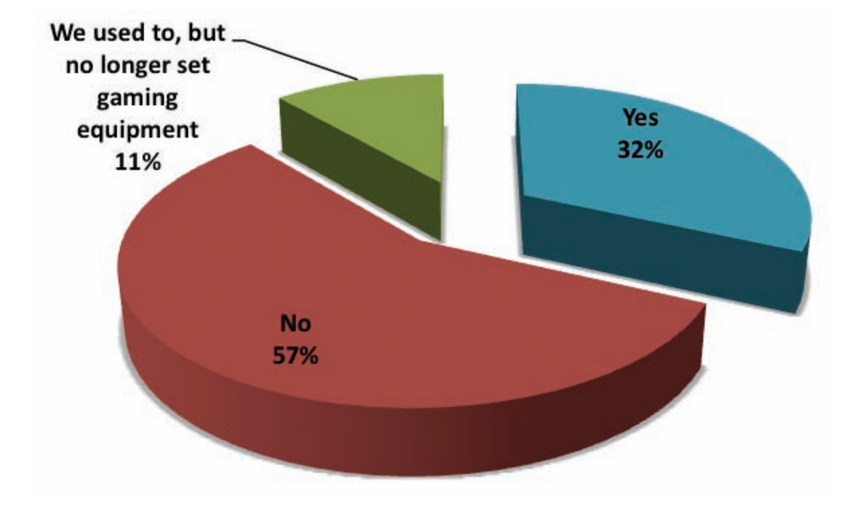
"I would be con (against) if the lottery, race tracks, etc., were also outlawed," noted one survey taker. Another equivocated, "I see positives from a business perspective, but I can also see downsides such as having to effectively police it so it does not take on a criminal element."

The results to "Personally speaking, are you for or against gambling in general?" showed 63.8% are pro, 12.7% con and 19.1% undecided, with 4.2% selecting other and also commenting only if its legalization was in partnership with the operating community. "If the operation was state government run and did not generate added income for the company providing the equipment at locations, it would pull revenue from amusement income," said one respondent.

Capitol vs. Capital

Many attested to state governments' disapproval of gaming being out of step with public favor, as conveyed in this typical response: "I believe members of our

Does your firm operate gaming devices?



area would favor gambling, but I also feel that the state would never allow it." According to an operator in Oregon, which has gaming devices on premise, "The majority of public opinion is OK with gaming that has cash payouts. What they don't like is the large number of people who are on some form of public assistance that spend money on gaming."

Apart from small business and political interests, a noticeable portion of the population does not prioritize gaming as a concern, as described by one Kentucky operator, who doubted operators would be included if his state ever considers a gaming initiative. "About 40% are indifferent, 20% are adamantly against it based upon religious beliefs or experience with family gambling addiction problems, and 30% are supportive," he wrote. Yet another Kentucky operator described enthusiastic public support of gaming translating into revenues for other states' coffers. "The state needs revenue, and consumers are jumping state lines to spend their cash."

Naturally, states with a history of legalized forms of gaming and benefitting, in various ways and degrees from those dollars, were more supportive. "The majority of our state is behind cash gaming as it is our major income," noted a Nevada operator.

By the Numbers

Many declined to answer how much in annual earnings they derived from gaming devices. The most income reported was $500,000 annually; several reported figures around $100,000 and still others put revenues at $40,000.

Because of consolidation and economic forces, gaming has become a matter of necessity in many of today's markets where forms are legal, notably Texas, as several operators explained. "Most of the operators that are active in AMOT (Amusement and Music Operators of

Texas) operate in bars with music, pool and other coin-operated devices. In addition, they have 8-Liners. Many would not be able to continue without 8-Liners," as one said.

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Unsurprisingly, many believed the legal, regulated placement of video gaming devices on premise would be a boon for business, if and only if operators were able to collect a legitimate share of proceeds. Many were positive, indeed downright enthusiastic, about gaming's dramatic ability to open doors to new accounts, supplement lost amusement revenues from the economic downturn, increase business for locations, decrease gray gaming through regulation and expand operators' workforce thanks to more income.

"In many cases, operating two gaming pieces in a location can generate an additional net income for the location of $20,000 to $50,000 per year net," said one. "For these small business owners, that added income can be the difference between making a decent living and just getting by."

Conversely, a sizable number predicted an adverse affect on business due to attracting new operator competitors; the likelihood of some taking advantage of the system; the suffering of on-location amusement and music revenues, as was cited in West Virginia; as well as corporate and state collusion to eliminate small business involvement, especially given the immediate need for direct infusions of revenues and less resources to manage it. "I watched as major gaming corporations came in with huge amounts of capital and pushed out most small operators, and in some states these corporations struck deals directly with the state which also shut out the operators," an operator stated.

Most in favor aspire to a system where limited video gaming may exist hand-in-hand with amusements with fair success, as states have demonstrated. "In most of our bar and tavern operations, pool table and digital jukebox revenues are a distant second to gaming. Other equipment is even further down the list," noted an operator in Nevada, which has unlimited gaming competing. "However, it's not all bad. I've been operating in this state for 37 years and have been very successful."

Another gaming operator advised caution: "Operators have to look at this type of gaming in their own states and realize the competition it will bring," he said. "Operators must be prepared to compete with large corporations with unlimited funding and possibly state contracts and backing as well. Be careful what you wish for, and look at past states that have legalized these types of gaming devices for clues of what to expect. It is not always the golden ticket you may think it will be. Go in with eyes wide open."

As the myriad effects of the recession continue to be felt, there's some room for doubt that gaming is the immediate cash cow lawmakers and operators hope it will be. Indeed, gambling fell off as the economy plummeted, and states like Oregon continue to feel the pinch: "Currently, the Oregon lottery has a firm grip on all gaming devices. Their revenue is down significantly due to the economy, so they have increased their percentage on state-owned video lottery and Keno machines."

"Maybe it's just not as good as we thought," another survey taker concurred. "By that, I mean it will likely be regulated so much that after the state takes their share and equipment prices and direct labor, there may not not be very much left. After all this, our respective amusement routes will not have the proper revenues to

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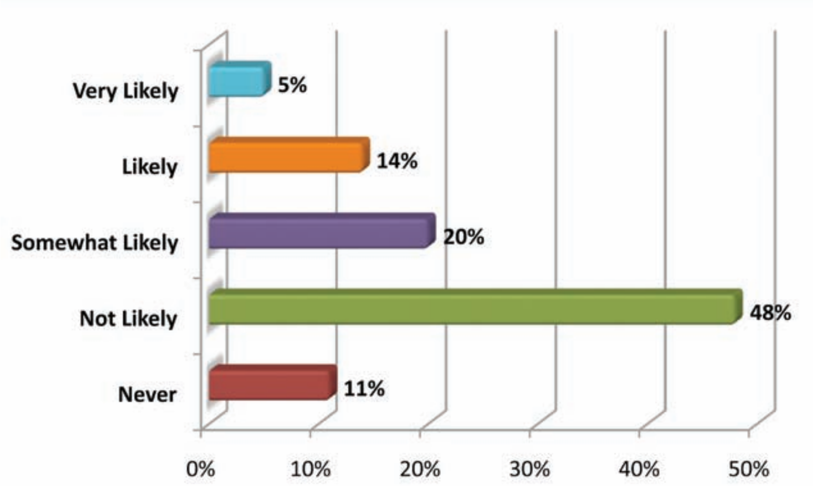
How do you rate the likelihood that regulated, operator-run gaming devices will be legalized in your state within your lifetime?



purchase the new high-priced amusement machines that customers are demanding."

Game On or Over?

The quandary over gaming within the amusement industry may also serve as a measure of state associations' existing relationship with their lawmakers. Those operator groups that have organized a long-running audience with government officials are more likely to have their case heard than those that are still needing an introduction. To that end, 28.2% were involved in state association efforts to lobby for legalized gaming, from lending financial support to collaborating with a paid lobbyist to actively contacting state lawmakers.

Although many hopes have been pinned on gaming, not much optimism was evident in our survey to back them up. On a scale of one to five, with one being "never" and five "very likely," survey takers' average prediction that regulated, operator-run gaming devices would be ratified by their state within their lifetime was 2.5, between "not likely" and "somewhat likely." Fourteen percent believed it was "likely" and 5% "very likely."

"I believe that, with states in dire need of revenue, there is opportunity for growth in gaming. I am not sure it is the kind of growth that I am looking for," declared an operator. "Our business is diversified, and we have expanded into ATMs in a significant manner. I don't know if being at the mercy of the state is a good long-range strategy." And put another way, in conclusion: "Don't get me wrong, it can be a great opportunity, but proceed with caution and do not expect it to solve all the economic woes of either the state budgets or the operators. Just as we learned in high school physics — for every action there is an equal and opposite reaction." ◆