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Primer on Distributed Gaming

Understanding the Evolution, Regulation, and Reach of Gaming Beyond the Casino Floor

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Abstract: This research primer explores the historical roots, regulatory landscape, and technological evolution of distributed gaming—an increasingly influential segment of the gambling industry that operates outside traditional casino settings. From charitable bingo and pull tabs to modern route operations and skill-based machines in bars, truck stops, and convenience stores, the primer outlines how distributed gaming has grown into a scalable, revenue-generating model. It examines the legal complexities across jurisdictions, highlights the role of technology in blurring the lines between gambling and entertainment, and details its intersection with regulated markets, including tribal gaming and online platforms. Through case studies, enforcement actions, and emerging trends, this primer provides a comprehensive understanding of how distributed gaming is shaping the future of the global gaming ecosystem.

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1. Executive Summary

Key Findings

- Distributed gaming is rapidly growing and blurring the lines between traditional gambling and entertainment.
- Core categories include skill games, pull-tabs, charitable gaming, historical horse racing (HHR), sweepstakes, social casinos, slot routes, and arcade-style gaming.
- Technology, regulatory gaps, and player demand are driving adoption.
- Operators, regulators, and investors must collaborate to ensure sustainable growth.

Market Size & Growth Overview

Distributed gaming is estimated to account for over \$10 billion in annual gross gaming revenue across regulated and unregulated markets in the United States alone. States like Illinois, Georgia, Minnesota, and Kentucky have formal frameworks that generate hundreds of millions in tax revenue annually. Globally, Italy, Australia, and the UK offer further evidence of distributed gaming's scale and viability.

Why Distributed Gaming Matters Now

As consumer behaviors shift toward convenience, gamification, and personalization, distributed gaming meets the market at the intersection of tech innovation and casual entertainment. With pressure mounting on state governments to diversify revenue, distributed gaming offers a politically palatable, community-integrated model.

2. Introduction: What is Distributed Gaming?

Definition and Scope

Distributed gaming refers to legal wagering activities occurring through machines or platforms situated outside of traditional casinos, such as in bars, convenience stores, clubs, or online platforms. These games can range from skill-based terminals and electronic pull-tabs to sweepstakes cafés and mobile social casinos.

Core Categories of Distributed Gaming

1. Skill-Based Machines
2. Pull Tabs & Electronic Pull Tabs (e-tabs)
3. Charitable Gaming
4. Historical Horse Racing (HHR)
5. Sweepstakes & Internet Café Models
6. Social & Mobile Casino Games
7. Arcade & Redemption Games

Distributed vs. Traditional Gambling: Key Distinctions

Unlike traditional casinos that operate in centralized, regulated environments, distributed gaming occurs across various venues, often governed by different laws or regulatory gaps. While both offer wagering, distributed formats can include prize redemption, virtual currency, or community-based gaming with charitable components.

The Role of Distributed Gaming in the Entertainment Ecosystem

Distributed gaming complements casual entertainment venues by offering light gambling experiences in social or habitual environments. It taps into the same cultural appetite that drives mobile games, fantasy sports, and arcade competitions, offering a lower barrier to entry and reaching broader demographics.

3. The Historical Landscape of Distributed Gaming

Early Roots: Pull Tabs, Bingo, and Charitable Gaming

Distributed gaming has deep roots in American communities. Pull tabs, bingo halls, and charitable raffles have historically raised funds for veterans' groups, religious organizations, and local schools. These formats introduced the concept of decentralized gaming long before commercial casinos became widespread. Bingo, in particular, became a staple of social gatherings, with its origins tracing back to the early 20th century. Charitable gaming, often regulated at the state level, provided a legal framework for small-scale, community-based gambling activities.

The Rise of Route Operations

Route operators—third-party companies managing machines in venues like bars, truck stops, and convenience stores—emerged as critical players in states like Montana, Nevada, and Illinois. Their model proved that decentralized gaming could be operated at scale while delivering reliable returns for both operators and host venues. This system allowed small businesses to benefit from gaming revenue without the need to operate full-scale casinos. The success of route operations in states like Nevada demonstrated the viability of distributed gaming as a sustainable business model.

Legal Milestones and Regulatory Gaps

The lack of uniform federal laws has led to a patchwork of state-level approaches. Key moments include the 1988 Indian Gaming Regulatory Act (IGRA), which established a regulatory framework for tribal gaming operations, and early Video Lottery Terminal (VLT) legalization in South Dakota and West Virginia. More recent court rulings have distinguished skill-based games from illegal gambling, further complicating the regulatory landscape. States like Illinois and Pennsylvania have also implemented VLT programs, expanding the scope of distributed gaming.

The Expansion of Video Lottery Terminals (VLTs)

The introduction of VLTs in states like Oregon, West Virginia, and Rhode Island marked a significant evolution in distributed gaming. These terminals, often placed in bars and restaurants, are connected to a central system that ensures fair play and revenue tracking. VLTs have provided substantial tax revenue for states while offering a regulated alternative to unlicensed gaming machines.

The Role of Skill-Based Gaming

Skill-based gaming machines, which incorporate elements of player skill rather than relying solely on chance, have gained traction in recent years. These machines often resemble traditional slot machines but require players to demonstrate proficiency in certain tasks to influence outcomes. The rise of skill-based gaming has led to legal debates over whether these machines constitute gambling or amusement devices, with different states adopting varying stances.

How Technology Began to Blur Lines

The rise of touchscreen interfaces, mobile payments, and internet connectivity introduced new ways to gamble—or simulate gambling—outside regulated environments. This blurred the lines between amusement, skill, and gambling, creating challenges for regulators and opportunities for innovators. The proliferation of mobile gaming apps and social casinos has further complicated the landscape, as these platforms often operate in legal gray areas. Additionally, advancements in blockchain technology and cryptocurrencies have introduced new possibilities for decentralized and peer-to-peer gaming experiences.

The Emergence of Online and Mobile Distributed Gaming

The advent of online gaming platforms and mobile apps has transformed distributed gaming into a global phenomenon. States like New Jersey, Pennsylvania, and Michigan have legalized online casinos and poker, allowing residents to participate in regulated gaming from their smartphones and computers. The rise of daily fantasy sports (DFS) and esports betting has also contributed to the diversification of distributed gaming options.

The Future of Distributed Gaming

As technology continues to evolve, the future of distributed gaming will likely involve greater integration of virtual reality (VR), augmented reality (AR), and artificial intelligence (AI). These innovations have the potential to create immersive gaming experiences that bridge the gap between traditional and digital gaming environments. Additionally, the ongoing debate over the regulation of skill-based and online gaming will shape the industry's trajectory in the coming years.

In summary, distributed gaming has evolved from simple community-based activities to a complex and multifaceted industry. Legal and technological developments have played a crucial role in shaping its growth, and the future promises further innovation and regulatory challenges.

4. The Core Categories of Distributed Gaming

Distributed gaming is not a monolith—it encompasses a diverse range of formats that differ in terms of legality, regulatory oversight, player experience, and intended beneficiaries. This section presents a comprehensive breakdown of the major distributed gaming formats, framed with greater depth and contextual analysis, supported by real-world examples and policy dynamics.

4.1 Skill-Based Machines

Skill-based gaming machines are designed to incorporate elements of player skill into the gaming outcome, contrasting with traditional slot machines governed by pure chance via Random Number Generators (RNGs). In these machines, the outcome may be partially or fully dependent on factors like reaction time, memory recall, or precision.

In practical application, notable examples include Pace-O-Matic's skill games in Pennsylvania, which incorporate a post-spin tic-tac-toe component that purports to determine whether a prize is won. Similarly, GameCo developed Video Game Gambling Machines (VGMs) that simulate video games—such as shooting or racing challenges—found in casinos like Caesars Atlantic City, although many were removed after limited traction.

The regulatory classification of skill-based machines varies widely. In Georgia, such devices are considered Class B COAMs (Coin Operated Amusement Machines) and regulated under the Georgia Lottery Corporation. These machines must be connected to a central monitoring system and adhere to a revenue-sharing model with the state. In contrast, Pennsylvania courts have ruled in favor of skill game legality, though comprehensive regulation remains pending. Kentucky has taken an oppositional stance, banning these machines outright and sparking ongoing litigation.

Critics of skill-based games raise concerns that the "skill" element is often superficial, and that the devices are functionally similar to slot machines, allowing them to skirt regulatory and tax obligations. Additionally, their placement in gas stations, convenience stores, and other non-casino venues has heightened scrutiny around accessibility to underage players and the proliferation of gambling environments in everyday spaces.

4.2 Pull Tabs & Electronic Pull Tabs (E-Tabs)

Pull tabs—paper-based games similar to scratch tickets—have long been a staple of charitable gaming in the United States. In recent years, however, these have undergone digital transformation through the development of electronic pull tabs (e-tabs), offering touchscreen interfaces and animated reel displays that resemble slot machines.

Minnesota has been a leader in this space, reporting over \$2 billion in handle from e-tabs during FY2022, with revenues primarily benefiting charitable organizations such as veterans' groups and community centers. These e-tabs are typically offered through licensed bars and restaurants,

using a networked system that allows for ticket distribution, prize validation, and revenue tracking.

However, their resemblance to slot machines has sparked regulatory challenges. Minnesota enacted reforms to restrict slot-like features such as "open all" buttons and cascading reels to maintain a clear distinction from commercial casino gaming. Some critics argue that the gamification of charity fundraising risks diverting organizations from their original missions—a concern referred to as "mission drift."

Despite these concerns, e-tabs remain popular, particularly in states like North Dakota and Minnesota. Their success underscores both the fundraising potential and regulatory challenges posed by the digitization of traditional paper-based games.

4.3 Charitable Gaming

Charitable gaming refers to gambling activities conducted by or for the benefit of nonprofit organizations. Formats include bingo, raffles, paper pull tabs, paddle wheels, and more recently, e-tabs. These games serve as a revenue source for community organizations, fraternal clubs, religious institutions, and educational foundations.

The regulatory framework for charitable gaming varies significantly by state. In Minnesota, for instance, charitable gaming is overseen by a dedicated Gambling Control Board that enforces compliance in licensing, financial reporting, and use-of-proceeds declarations. Regulations typically require licensees to report gross income, net profit, and the percentage allocated to charitable activities.

While charitable gaming is generally considered a low-risk form of gambling, it is not without controversy. In some jurisdictions, large-scale bingo halls or e-tab operations have raised concerns about competition with tribal or commercial casinos. Additionally, limited regulatory capacity may result in inadequate oversight, leading to potential misuse of funds or underreporting of revenues.

Nonetheless, charitable gaming remains a culturally accepted and socially beneficial format in many regions, offering a means of fundraising that aligns with local values and civic engagement.

4.4 Historical Horse Racing (HHR)

Historical Horse Racing (HHR) machines offer a unique approach to wagering by allowing players to bet on anonymized replays of past horse races. These systems rely on pari-mutuel wagering models, where players review race data—such as jockey statistics, track conditions, and odds—to make informed betting decisions. The results are then revealed through slot-like video terminals.

Kentucky has become the U.S. leader in HHR, with over \$5.5 billion in handle in 2023. The format has also gained traction in Virginia, Wyoming, and Louisiana, often housed within

racetracks or affiliated facilities. Companies like Exakta Systems and AmTote provide the underlying technology for these machines, enabling game selection, result generation, and compliance with pari-mutuel wagering statutes.

The HHR format is considered a financial lifeline for the horse racing industry, particularly as traditional racing revenues decline. By maintaining a connection to historical racing data, HHR machines are legally distinguished from traditional slots in many states. However, critics argue that the gameplay is indistinguishable from slot machines, creating tension around constitutional gambling definitions and calls for tighter legislative scrutiny.

4.5 Sweepstakes Gaming

Sweepstakes gaming operates under a legal construct that attempts to sidestep gambling prohibitions by embedding chance-based games within promotional sales of unrelated products, such as internet access or phone cards. In these setups, a customer purchases a product and receives sweepstakes entries for slot-style games that offer cash prizes.

This format has proliferated in states with unclear gambling laws, particularly in the South. Internet cafés and gas stations often host these terminals under brand names like Pot-O-Gold, offering a casino-like experience in unregulated environments.

However, sweepstakes gaming has come under fire. Florida's 2013 crackdown followed a high-profile scandal involving a veterans charity allegedly used as a front for illegal gaming. In Texas, appellate courts have ruled that such sweepstakes terminals constitute illegal lotteries, leading to aggressive enforcement actions.

Operators maintain that their platforms are legal under federal and state sweepstakes laws, citing precedents used by consumer brands. Nevertheless, the legal gray area, frequent shutdowns, and rebranding efforts illustrate the unstable nature of this format.

4.6 Social & Mobile Casino Gaming

Social casino games replicate the mechanics of traditional gambling—such as slots, blackjack, or roulette—but without offering cash payouts. Players instead purchase virtual coins or credits to continue gameplay, often via mobile apps or desktop platforms.

Popular games like Slotomania (by Playtika) and myVEGAS (by PLAYSTUDIOS) dominate this space. The latter provides users with loyalty rewards redeemable for hotel stays, meals, and entertainment in Las Vegas, effectively linking virtual engagement with real-world incentives.

Globally, the social casino market is projected to exceed \$13 billion in annual revenue by 2030. While these games are largely unregulated in the United States, legal issues persist. In the landmark *Dickerson v. Big Fish Games* decision, the Ninth Circuit ruled that virtual chips qualified as “things of value” under Washington state law, setting a precedent that could apply to other platforms.

Consumer advocates and psychologists also warn of addictive behaviors facilitated by loot box mechanics and predatory monetization models. As these games grow in popularity, pressure mounts on regulators to consider their impact on consumers—especially minors and high-spending users with no opportunity to recoup losses.

4.7 Arcade and Redemption Gaming

Arcade and redemption games blur the line between entertainment and gambling. These machines, commonly found in arcades, family entertainment centers, and increasingly bars, award players points or tickets based on performance, which can then be redeemed for prizes. Examples include claw machines, basketball shootouts, and digital “videmption” games like Connect 4 Hoops.

While generally viewed as harmless fun, some states have scrutinized high-value prize redemption schemes. In Arizona and Ohio, regulators have taken action against establishments offering arcade-style machines that functionally mirror gambling devices—especially when the reward includes electronics, gift cards, or cash-equivalent items. Texas has also targeted venues with “skill redemption rooms,” arguing that the chance component violates state gambling laws.

Emerging trends include the gamification of prize lockers with escalating values, esports-style arcade tournaments, and networked redemption systems with shared jackpots across locations. As arcade-style experiences become more digital and competitive, regulators are increasingly monitoring the boundaries between entertainment, skill gaming, and unlicensed gambling.

What is a COAM?

A Coin Operated Amusement Machine (COAM) is a regulated gambling or amusement device that operates via coin or token inputs. In Georgia, COAMs are categorized and overseen by the Georgia Lottery Corporation under one of the most structured distributed gaming frameworks in the United States.

Class A COAMs are purely for entertainment and do not offer any redeemable prizes. Examples include jukeboxes, kiddie rides, arcade video games, pool tables, or any other amusement device not designed for payout. These machines are exempt from many of the stringent oversight mechanisms applied to gambling devices.

Class B COAMs, by contrast, are skill-based devices that do offer non-cash redemption prizes. Players may redeem their winnings for store merchandise, fuel discounts, lottery tickets, or other tangible items—but never direct cash. These machines are tightly regulated: they must be registered with the state, connected to a centralized monitoring system, and operated by licensed vendors. Class B COAM operators share a portion of revenues with the state, providing a model that seeks to balance commercial opportunity with public oversight.

Georgia’s COAM framework has become a case study for other jurisdictions exploring ways to legalize and regulate the widespread presence of grey-market skill games. It offers insight into

how a state can formalize distributed gaming within a controlled structure, ensuring tax compliance, responsible gaming, and stakeholder alignment.

5. The Intersection with Regulated Gambling

A Multifaceted Relationship

Distributed gaming sits at the crossroads of community entertainment and regulated gambling, touching on everything from consumer behavior and legal interpretation to tribal sovereignty and tax revenue. The way these elements interact reveals a complex but increasingly important segment of the gaming industry.

From Play-for-Fun to Real Money

Social casinos and other distributed formats often serve as a starting point for players who eventually engage in real-money gambling. Studies have shown that around 26% of social casino users begin gambling online within six months. Players who make in-game purchases are particularly likely to make that transition. These games, often modeled on traditional slot and casino experiences, also double as marketing tools—acting as a soft introduction to real-money brands and platforms through loyalty programs and game-based engagement strategies.

Tribal Gaming Compacts and Emerging Conflicts

The rollout of distributed gaming formats like electronic pull-tabs and sweepstakes machines has sparked tension in states with tribal gaming agreements. In Minnesota, tribal leaders have argued that these new forms of gaming infringe on their exclusive rights, leading to proposed legal changes aimed at clarifying what is—and isn't—allowed. Oklahoma has faced similar disputes, where tribal representatives have raised concerns about how newer gaming formats might undermine existing compacts and the financial terms tied to exclusivity payments.

Divergent State Strategies

Each state has taken its own approach to regulating distributed gaming. Illinois stands out for its centralized oversight model, which includes licensing, revenue tracking, and a real-time monitoring system for every Video Gaming Terminal (VGT). Georgia operates under a different structure, regulating its Coin Operated Amusement Machine (COAM) program through the state lottery. Meanwhile, states like Pennsylvania and Missouri have experienced the unchecked spread of skill-based gaming machines, often without formal regulatory frameworks in place, leading to disputes and enforcement challenges.

Revenue, Licensing, and Public Impact

Tax rates and licensing structures vary drastically across states. In Oklahoma, for example, tribal operators paid over \$200 million in exclusivity fees in fiscal year 2024—fees that support public programs like education and infrastructure. Other states, like Georgia and South Dakota, tax distributed gaming between 10% and 50%, depending on the model. In many cases, a portion of

these revenues is reinvested in the community, making the model more appealing to the public and lawmakers alike.

Skill vs. Chance: Legal Definitions Under Scrutiny

A central legal debate in distributed gaming revolves around how machines are classified. In Pennsylvania, courts have ruled that certain machines meet the threshold for games of skill, exempting them from traditional gambling laws—though lawmakers continue to debate more permanent legislation. Florida has taken a stricter stance, cracking down on sweepstakes cafés that authorities deemed illegal gambling operations. These rulings underscore how legal interpretation—often in the absence of updated legislation—continues to shape the future of distributed formats.

6. The Present State of Distributed Gaming

Revenue Metrics by Format & Jurisdiction

Distributed gaming revenue varies widely depending on jurisdiction and format. Below is a sample table outlining estimated net revenues across selected U.S. states:

Jurisdiction	Format	Estimated Net Revenue (2022)	Tax Allocation
Illinois	VGTs (Video Gaming Terminals)	\$2.79 billion	~\$900M (State + Local)
Georgia	COAM (Skill Redemption)	~\$640 million (est.)	\$141M to Education
Minnesota	Electronic Pull-Tabs	~\$300 million	Charitable Organizations
Kentucky	Historical Horse Racing	~\$440 million	\$60M to Purses, \$21M in State Tax
West Virginia	Limited Video Lottery	~\$400 million	~\$190M State Share (48% tax)
Montana	Video Gambling Machines	~\$400 million (est.)	\$63M in State Taxes (15%)

Key Operators and Stakeholders

- **Accel Entertainment** – A publicly traded route operator dominating the Illinois VGT market.
- **Pace-O-Matic** – Major player in the skill game sector, with significant presence in Pennsylvania.
- **Exacta Systems & Ainsworth** – Leaders in HHR technology and platforms.
- **Georgia Lottery Corp.** – Oversees COAM distributed gaming in Georgia.

- **State Lotteries & Charities** – Key stakeholders in e-tabs and pull-tab jurisdictions.

Public Perception and Political Landscape

Public attitudes toward distributed gaming are mixed. While many support revenue for education and veterans, critics raise concerns about predatory placement, insufficient oversight, and the encroachment on tribal or casino exclusivity. Political leaders are increasingly pressed to regulate these games, particularly as media coverage highlights gray market proliferation.

Challenges in Enforcement and Oversight

- **Inconsistent Laws:** Many states lack unified definitions or enforcement powers.
- **Gray Machines:** Skill and sweepstakes machines in legal limbo outnumber regulated devices in some markets.
- **Local Conflicts:** Municipalities often feel powerless against unregulated or state-authorized games in local bars.

Trends in Urban vs Rural Markets

Urban venues tend to focus on novelty, including esports-style arcade gaming and hybrid machines. Rural markets remain hotspots for unregulated skill machines and charitable formats, with distributed gaming sometimes becoming a major income source for local nonprofits.

7. Technology Driving Distributed Gaming

Machine Innovation & Compliance Features

Modern distributed gaming machines are increasingly sophisticated, with high-resolution touchscreens, modular cabinets, and integrated compliance technology. Features like session timers, skill-based modules, and regulatory audit logs are now common. In Georgia’s COAM system and Illinois’ VGTs, machines must meet strict technical standards before deployment.

Central Monitoring Systems

Several states mandate central monitoring systems (CMS) to ensure integrity and track financials. For example:

State	CMS Provider	Key Features
Illinois	Scientific Games	Tracks every transaction; tax enforcement
Georgia	Intralot (Lottery)	Monitors Class B COAM machines
South Dakota	State-run CMS	Manages real-time tracking and reporting

These systems enable state regulators to verify payouts, confirm machine configurations, and ensure that revenue is correctly shared between operators, hosts, and the state.

Cashless Payments & Player Tracking

In response to the global push for digital payments, distributed gaming machines are now being integrated with cashless solutions. Players can use mobile wallets, prepaid cards, or loyalty accounts to fund play. Benefits include:

- Reduced risk of theft and fraud
- Easier tracking of player behavior for responsible gaming
- Integration with loyalty rewards and cross-venue play history

Data Analytics and AI Integration

AI-driven analytics help route operators and regulators track player engagement, optimize machine placement, and predict maintenance needs. For example, predictive analytics can identify which machines underperform in a location, or when a game needs updating based on player fatigue. AI also helps personalize gaming offers and trigger responsible gaming interventions.

Remote and Cloud-Based Management

Remote management platforms now allow operators to:

- Update game software across all machines in real time
- Adjust payout percentages within regulatory thresholds
- Run diagnostics and receive alerts for mechanical issues

This reduces on-site maintenance costs and speeds up regulatory updates.

8. Case Studies

Georgia COAM Program

Georgia's Coin Operated Amusement Machine (COAM) program is one of the most robust regulated skill-game models in the U.S. Class B COAM machines offer prize redemption based on skill performance and are overseen by the Georgia Lottery. In FY2023, COAM machines generated over \$3.2 billion in handle and returned more than \$140 million to the Lottery for education programs. These machines are limited to certain venues (e.g., bars, gas stations), must adhere to central monitoring, and only offer non-cash prizes, such as gift cards or store credits.

Kentucky Historical Horse Racing

Kentucky has become a national leader in Historical Horse Racing (HHR) machines. In 2023, HHR facilities processed over \$5.5 billion in wagers, providing over \$60 million in purses for live racing and more than \$21 million in tax revenue. The success is largely attributed to the

machines’ resemblance to video slots and their legality under pari-mutuel wagering frameworks. Churchill Downs Inc. and Exakta Systems are key players in this ecosystem.

Minnesota E-Tab Implementation

Minnesota’s charitable electronic pull-tab (e-tab) market has grown rapidly since its inception. As of 2023, e-tabs generated more than \$2.3 billion in gross sales across roughly 1,400 bar and club locations. While the growth has significantly benefited local charities, it also raised concerns about the games mimicking traditional slots too closely. As a result, lawmakers passed reforms limiting autoplay and “open all” functions to preserve the charitable nature and distinction from casino gambling.

Sweepstakes Crackdowns in Florida & Texas

Both Florida and Texas have taken aggressive legal action against sweepstakes machines and cafés. In 2013, Florida’s Allied Veterans case resulted in hundreds of arrests and a statewide ban on sweepstakes parlors masquerading as internet cafés. Similarly, Texas has ramped up enforcement of its prohibition on “eight-liner” machines, with cities like Fort Worth leading closures of illegal game rooms following recent appellate court rulings.

Social Gaming Success: MyVEGAS & Slotomania

Social casinos like MyVEGAS (by PlayStudios) and Slotomania (by Playtika) demonstrate the power of non-monetary distributed gaming. MyVEGAS allows players to earn loyalty rewards redeemable at MGM properties, creating a tangible link between free-to-play and real-world gambling. Slotomania has over 1 million daily users and generates hundreds of millions annually through in-app purchases despite offering no real-money payouts. These platforms are key examples of distributed gaming’s digital evolution.

9. Distributed Gaming and Tribal Sovereignty

Tribal-State Compacts and Class II/III Impacts

Under the Indian Gaming Regulatory Act (IGRA), federally recognized tribes are entitled to operate Class II gaming (e.g., bingo, non-banked card games) without state approval, while Class III gaming (e.g., slots, house-banked games) requires tribal-state compacts. The expansion of distributed gaming outside of casinos challenges these compacts. For instance, if a state permits slot-like video lottery terminals (VLTs) or skill games in convenience stores, tribes may argue that the state has violated the exclusivity clause of their compacts.

Conflicts Over eTabs and Skill Games

In Minnesota, tribal casinos pushed back against charitable electronic pull-tabs (e-tabs) that visually and functionally resembled slot machines. The state eventually amended e-tab laws to limit autoplay and graphical mimicry of slots to uphold tribal exclusivity rights. Similar tensions

have arisen in Virginia, Oklahoma, and Michigan when states considered expanding skill gaming or distributed VLTs.

Case Law and Legal Precedents

Relevant cases include:

- *Yavapai-Prescott Indian Tribe v. Arizona (1992)* – A landmark IGRA case emphasizing states must negotiate in good faith when offering similar gaming forms to non-tribal entities.
- *Confederated Tribes of Grand Ronde v. Oregon (2021)* – The tribe sued the state for allowing a private VLT operator near tribal land, claiming it violated their exclusivity; while dismissed, the case highlights ongoing disputes.

Revenue Distribution and Exclusivity Challenges

Many tribes rely heavily on casino revenues to fund essential services, and the spread of distributed gaming can dilute their market. In states like Washington, California, and Wisconsin, compacts often include revenue-sharing terms based on exclusivity. If distributed gaming infringes on these terms, tribes may seek compensation or file suit.

Conversely, some tribes are exploring distributed gaming themselves. For example, in Oklahoma and Arizona, tribal convenience stores now host Class II or skill-influenced machines as part of their economic diversification. This growing interest may lead to a future where tribes are not only defending sovereignty but also participating as distributed gaming operators.

10. Risks, Concerns, and Responsible Gaming

Problem Gambling in Distributed Environments

One of the most pressing concerns associated with distributed gaming is the increased accessibility to gambling-like experiences in everyday environments. Unlike traditional casinos with trained staff and self-exclusion programs, convenience stores, bars, and social apps typically lack infrastructure to monitor or assist individuals displaying problem gambling behaviors. This raises the risk of normalizing gambling, particularly among younger or vulnerable demographics.

Age Verification & Location-Based Access

While most regulated distributed gaming systems require age checks, enforcement is inconsistent in semi-legal or gray market environments. For example, sweepstakes cafes and unregulated skill machines may not implement robust ID verification. Additionally, mobile social casinos that simulate real-money gambling are available to underage users through app stores, undermining efforts to protect minors.

In more mature systems (e.g., Illinois VGTs, Georgia COAM), access is restricted through licensing requirements and state audits, but enforcement still varies by location. Improved geofencing, biometrics, and age verification technologies are potential solutions, especially as digital and physical gaming environments continue to converge.

Unregulated Market Exploitation

Unregulated or gray market machines often operate without oversight, leading to:

- No guaranteed payout fairness
- Unlicensed operators who evade taxation
- No required responsible gaming messaging or features
- Player disputes with no formal resolution path

In states like Pennsylvania, Kentucky, and Missouri, thousands of unregulated machines outnumber their licensed counterparts. This not only undermines legal operators and tribal agreements but can foster distrust in the broader gambling industry.

Industry and Regulatory Safeguards

To address these challenges, leading jurisdictions have begun implementing responsible gaming requirements specific to distributed settings:

- **Session Timers and Pop-Ups:** Machines display play duration alerts.
- **Helpline Information:** Mandatory display of problem gambling hotlines.
- **Cashless Controls:** Payment solutions with deposit caps or play limits.
- **Training for Retail Staff:** In states like Illinois, host venue staff must complete basic responsible gaming training.

Meanwhile, regulators are exploring centralized exclusion lists that extend to distributed machines and mobile apps. Public-private partnerships are also forming to fund treatment programs using distributed gaming revenues.

11. Global Perspectives on Distributed Gaming

Distributed Gaming in Europe, Australia, and Latin America

Distributed gaming takes varied forms around the globe. In Europe, countries like Italy and the UK have long regulated distributed machines in pubs and cafes. Italy maintains one of the largest distributed gaming networks globally, with over 265,000 machines generating €10.2 billion in net revenue in 2021. However, concerns about gambling harm have led to machine number reductions and advertising restrictions.

In the UK, Fixed-Odds Betting Terminals (FOBTs) in betting shops were a hotbed of controversy, leading to a 2019 law that slashed max bets from £100 to £2. While this curbed losses and industry revenue, it illustrated how public pressure can quickly reshape policy.

Australia is another distributed gaming giant, with New South Wales hosting over 95,000 slot machines in clubs and hotels—more than in all of Las Vegas. Australia’s regulatory model mandates harm minimization tools like loss limits, warning messages, and mandatory player cards in some jurisdictions, offering a mature reference point for U.S. regulators.

Latin America is emerging as a distributed gaming frontier. Argentina, Mexico, and Colombia have started deploying small-scale machines through lottery-run programs or private operators under strict oversight. Brazil, which has historically banned most gambling, is considering legalizing street-level machines through a federal lottery framework.

Comparative Legal Frameworks

Country	Key Regulator	Format	Key Features
UK	Gambling Commission	Machines in betting shops	Stake limits, licensing, public health focus
Italy	ADM (Customs & Monopoly)	AWPs & VLTs	Strict registration, tax reporting, machine ID tags
Australia	State-Based Regulators	Club & hotel pokies	Mandatory loss limits, pre-commitment trials
Norway	Norsk Tipping	VLTs in public venues	National monopoly, mandatory ID card, loss/time limits
Colombia	Coljuegos	Lottery-linked terminals	Private operator model with regulatory oversight

Technology Transfer & Market Adaptability

Many global jurisdictions are sharing regulatory best practices and even software platforms. For example, Norwegian-style centralized control systems are being evaluated in parts of the U.S. for managing skill and VLT machines. Meanwhile, U.S. developers are exporting skill games to Latin America and Asia.

Markets with adaptable digital infrastructure (e.g., mobile-first societies like India or Kenya) present strong growth opportunities for hybrid distributed formats such as mobile VLTs or AR-based wagering terminals. Compliance technology (ID verification, session tracking) is often the key variable in determining whether distributed gaming can safely scale in emerging economies.

Lessons from International Regulation

International experience highlights several key insights:

- **Proactive Regulation Reduces Harm:** Norway’s replacement of all slot machines with centrally controlled VLTs sharply cut gambling addiction rates.
- **Unintended Consequences Exist:** The UK’s FOBT cap drove some players online, where protections are weaker.

- **Consistency is Key:** Australia's success is attributed to consistent harm minimization messaging across venues.

As the U.S. explores distributed gaming expansion, these international case studies provide valuable context and cautionary tales.

12. The Future of Distributed Gaming

Expansion of Regulatory Frameworks

As distributed gaming becomes more publicized and prevalent, more jurisdictions are expected to formalize regulatory frameworks. In the U.S., states like Pennsylvania, Virginia, and Texas, currently dealing with grey machines, are likely to move toward formal licensing and taxation systems, similar to the successful Illinois and Georgia models. This trend could significantly increase the number of legalized distributed gaming markets, especially in states under fiscal pressure.

Regulatory frameworks are likely to become more uniform, emphasizing central monitoring systems, age verification, and contributions to social programs. These will also need to expand to accommodate new game types, such as VR betting terminals or electronic skill-based pool tables. Proactive regulation, including drafting laws before new technologies proliferate, will be essential. Internationally, countries like Brazil may soon follow neighbors in adopting legalized street-level gaming under national oversight.

Multi-state and international collaborations are also anticipated, including compacts for progressive jackpots and shared bad actor databases. Community involvement will likely increase through local option votes and benefit agreements. In sum, distributed gaming is expected to evolve from a fragmented system to a normalized, regulated industry.

Retail to Digital Integration

The divide between physical and digital gaming is rapidly closing. Players may soon use a single account across retail and mobile environments, linking loyalty points and game histories. Cashless wallets will enable seamless fund transfers between machines and apps.

Digital features may include interactive tables, group betting games, and hybrid events such as statewide bingo tournaments held across multiple bars. Cloud-based gaming will allow machines to serve as terminals, centralizing content and enabling bring-your-own-device (BYOD) play.

Online operators may enter retail, and vice versa, resulting in a hybrid experience that merges location-based and online engagement. Augmented reality (AR) could bridge physical and digital worlds, enhancing player immersion and cross-channel marketing.

AI, Gamification, and Personalization

AI will shape the future of distributed gaming by offering tailored game recommendations, dynamic gamification features like missions and badges, and personalized responsible gaming messages. Machines could feature profile-based customization, including favorite game lists and custom backgrounds.

Gamified elements such as leaderboards and achievements can drive player retention and encourage social interaction. Loyalty programs may offer cross-venue rewards, such as free items at affiliated venues.

Regulators will need to monitor the use of AI to ensure it enhances player experience without enabling exploitation. VR and AR may further personalize engagement, blending entertainment with responsible gaming oversight.

M&A and Investment Opportunities

The sector is witnessing increased mergers and acquisitions, with major deals like Light & Wonder's \$850M acquisition of Grover Gaming highlighting its investment appeal. Accel Entertainment's expansion through acquisitions demonstrates consolidation trends.

Casino companies may seek diversification by acquiring route operators, while private equity may pursue distributed gaming for its steady revenue. International growth opportunities include exporting successful domestic models abroad.

Technology firms specializing in cashless systems or gaming analytics are ripe for acquisition. Social gaming companies and lottery operators may explore cross-channel partnerships or vertical integration.

As distributed gaming becomes recession-resilient and legislatively favorable, investment opportunities will continue to rise. Strategic partnerships and proactive compliance will be key to capitalizing on this momentum.

Will Distributed Gaming Lead or Follow Regulation?

Historically, distributed gaming innovations have outpaced regulation, often operating in grey zones. The future may bring a shift toward proactive regulation, with governments commissioning studies and pilot programs in advance.

Flexible, technology-neutral rules will enable regulators to adapt quickly. States lagging in regulation may see continued grey market growth until legal frameworks catch up. In contrast, jurisdictions that lead with comprehensive frameworks will minimize harm and foster industry growth.

The ideal scenario involves collaboration between industry and regulators, resulting in pre-approved technologies and smoother product rollouts. Whether regulation leads or follows, the dynamic relationship will shape the next phase of distributed gaming.

13. Conclusion & Strategic Recommendations

Policy Recommendations for Regulators

1. **Legal Clarity:** Define game types clearly to avoid loopholes.
2. **Monitoring Systems:** Mandate central monitoring for compliance and tax assurance.
3. **Licensing Requirements:** Require visible machine decals and operator registrations.
4. **Responsible Gaming Features:** Include session timers, play limits, and helpline info.
5. **Age Verification:** Enforce strict penalties and consider technology-based verification.
6. **Local Authority Input:** Allow municipalities to opt-in/out or set local rules.
7. **Ongoing Evaluation:** Collect and review data for policy refinement.
8. **Professional Oversight:** Use experienced gaming commissions or lotteries for regulation.
9. **Public Education:** Promote transparency around risks and benefits.

Opportunities for Operators and Entrepreneurs

1. **Innovative Game Content:** Develop skill-influenced or locally themed content.
2. **New Markets:** Target emerging or underserved jurisdictions.
3. **Value-Added Services:** Offer cashless payments, loyalty systems, and analytics.
4. **Entertainment Zones:** Provide full venue packages beyond just machines.
5. **Localized Content:** Create games tied to regional culture or sports.
6. **Crossover Products:** Combine gaming with hospitality and social activities.
7. **Maintenance Services:** Offer tech support across state lines for complex systems.

Investment Outlook and Market Readiness

1. **Mature Markets:** Illinois offers regulatory stability and reliable returns.
2. **Emerging Markets:** States like Pennsylvania and Missouri are ripe for early investment.
3. **Diversification:** Spread investment across formats and jurisdictions.
4. **Infrastructure Integration:** Partner with lottery vendors or race tracks for faster rollout.
5. **Public Sentiment:** Monitor local support to anticipate regulatory shifts.
6. **Global Strategy:** Avoid saturated markets and focus on Asia/Latin America growth.

Long-Term Vision: A Unified Gambling Ecosystem

In the long run, distributed gaming will become an essential layer of the broader gambling ecosystem. It will provide convenience-based, tech-enhanced experiences while serving as a testing ground for innovation.

Players will fluidly move between mobile apps, in-store kiosks, and destination casinos. Distributed gaming will support community events, fundraisers, and localized entertainment, expanding access while embedding safeguards.

If guided responsibly, distributed gaming will bridge accessibility and accountability, creating a gambling environment that is both inclusive and controlled.

14. Appendix

Glossary of Key Terms

- **Distributed Gaming:** Devices located across venues outside of dedicated casinos.
- **VLT (Video Lottery Terminal):** Slot-style device connected to state lottery systems.
- **Skill Game:** Game where skill influences outcomes.
- **Pull-Tab:** Instant win ticket, digital or paper.
- **e-Tab:** Digital pull-tab variant.
- **HHR (Historical Horse Racing):** Bets on anonymized past races.
- **Sweepstakes Machine:** Offers games under promotional legal pretense.
- **Redemption Game:** Arcade-style game awarding tickets or prizes.
- **Route Operator:** Entity managing machines across locations.
- **CMS (Central Monitoring System):** Software/hardware tracking machine operations.
- **Class II/III Gaming:** Definitions under IGRA distinguishing tribal gaming forms.
- **COAM:** Georgia's classification of amusement machines.
- **Eight-Liner:** Slot-like machine with eight paylines.
- **Fruit Machine:** UK term for slot machine.
- **Pokie:** Australian slang for poker/slot machines.

Key Legal Cases

- **Pace-O-Matic v. PA (2023)** – Skill games ruled legal pending legislation.
- **FL Allied Veterans Case (2013)** – Shut down sweepstakes cafes.
- **KY Gray Machines (2023)** – Ban on skill machines upheld.
- **Dickerson v. Big Fish (2018)** – Virtual chips deemed “thing of value.”
- **Yavapai-Prescott v. AZ (1992)** – Tribal rights case for casino-style gaming.
- **Norway VLT Reform (2007)** – Removal of slots, replaced by regulated VLTs.
- **Fort Worth v. Maverick (2023)** – Major enforcement against 8-liners.

Regulatory Overview by State

State	Format	Machines	Revenue	Oversight	Notes
Illinois	VGT	45,000+	\$2.79B	Scientific Games	34% tax, max 6/bar
Georgia	COAM Class B	33,000	~\$640M (est.)	GA Lottery / Intralot	10% to education
Minnesota	e-Tabs	1,450 sites	~\$300M	Gambling Control Board	Charity-driven, new rules in 2023
Kentucky	HHR	3,500+	~\$440M	Racing Commission	Handle \$5.5B
Montana	VGMs	16,000	~\$400M	DOJ Gaming	\$2 max bet, \$800 win

			(est.)	Control	cap
West Virginia	Limited VLT	7,200	~\$400M	State Lottery	50% tax, clubs/bars
South Dakota	Video Lottery	~9,000	~\$400M (est.)	State Lottery	\$2 max, \$1,000 win cap
Louisiana	Video Poker	N/A	N/A	State Police	Truck stops up to 50 machines
Nevada	Restricted Slots	N/A	N/A	NV Gaming Control Board	Up to 15 machines/location
Pennsylvania	VGTs / Skill	Truck stops only	N/A	Gaming Control Board	Skill games in legal limbo
Virginia	HHR	N/A	N/A	Racing Commission	Skill games banned post-2021
Texas	None (Grey Market)	N/A	N/A	N/A	8-liners illegal, limited enforcement
Florida	Limited (Tribal Only)	N/A	N/A	Gaming Commission	Sweepstakes banned since 2013

Estimated Net Revenue by Jurisdiction (2022)

Jurisdiction	Format	Net Revenue	Notes
Illinois	VGTs	\$2.79 billion	~\$900M in tax
Georgia	COAM	~\$640 million	\$141M to education
Minnesota	e-Tabs	~\$300 million	For charities
Kentucky	HHR	~\$440 million	\$60M to purses
West Virginia	Limited VLT	~\$400 million	48% state share
Montana	VGMs	~\$400 million	15% tax
Norway	VLTs	\$262 million	Strict loss controls
Italy	AWP/VLT	€10.2 billion	50%+ tax
Australia (NSW)	Pub/Club Slots	A\$6.5 billion	Major state revenue source

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