

Electronic Pull-Tabs: Boosting Revenues for Alaska's Charities

Grover Gaming

Scott Henneman

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What effect has electronic pull-tabs had on other forms of gaming in the charitable and lottery space, especially paper pull-tabs?

- ❖ *One of the key findings of this research is that when electronic pull-tabs are added to the product mix with other more traditional charitable or lottery gaming products, electronic pull-tabs add incremental sales and have not cannibalized existing products, including paper pull-tabs.*

Introduction

What are Electronic Pull-Tabs?

Electronic Pull-Tabs are used by charities and lotteries alike to raise necessary funding for charitable purposes or state governments. Electronic Pull-Tabs or e-tabs follow the exact fundamental characteristics of paper pull-tabs. The only difference is that e-tabs are played on a touchscreen monitor offering digital display and allowing this fundraising activity to be offered through new channels of technology. The main fundamental characteristics are:

- Electronic Pull-Tabs Maintain the Fundamental Characteristics of Paper Pull-Tabs
- They are Finite and Predetermined
- Each Game Has Predetermined Payout and Profit (When Completely Played Out)
- Electronic Pull-Tabs Use No Random Number Generator (RNG)
- Electronic Pull-Tabs are Player vs Player When Networked

What are Electronic Pull-Tab Devices?

An electronic pull-tab device is a stand-alone kiosk, hand-held, or linked device that allows a player to play electronic representations of pull-tab tickets from a finite deal where some of the tickets have been predetermined by the manufacturer as prize winners. Some jurisdictions require an electronic pull-tab device to dispense a ticket or voucher on every play, while others permit the player to redeem credits that have accumulated on the device. All states prohibit an electronic pull-tab device from mimicking the play of a slot machine.

Description of Pull-Tab Tickets

A traditional paper pull-tab is a gaming ticket that is sold as a means to play a pull-tab game. Other names for the paper pull-tab game include Break-Opens, Nevada Tickets, Cherry Bells, Lucky 7s, Bell-Jar Tickets, Pickle Cards, Instant Bingo, and Bowl Games. Physical paper pull-tab tickets are multi-layered paper tickets containing symbols hidden behind perforated tabs. The object of the game is to open perforated windows on the back of the ticket to reveal a winning combination listed on the front of the ticket. The winning pull-tab ticket is turned in for the prize amount associated with the combination of symbols listed on the front of the ticket.

Usually, pull-tab games are offered by charities to help raise funds for charitable purposes. Paper pull-tabs are currently allowed in Alaska now to help charities raise funds for worthy causes. State lotteries have sold paper pull-tab tickets to raise revenues

for state government purposes. When offered by charities, Charity Game Managers operate the game by selling tickets and distributing prizes. The tickets may be provided by mechanical pull-tab dispensers. Several different games may be offered for sale at any one time; each may have different prices and payouts. Pull-Tabs are typically sold for 25¢, 50¢, \$1, \$2, \$3, \$5, and \$10 and have prizes as high as \$5,000.

Pull-Tab games are relatively unique among wagering games in that each game, when new, has a predetermined quantity of tickets/chances, which can range in paper format from 2,500 to 10,000 tickets. Each set of tickets are predetermined with a fixed quantity of winning and non-winning chances, each of which rewards a predetermined prize value.

In many paper pull-tab locations, a potential player can see through a transparent plexiglass box and know roughly how many tickets are left in the game. Players can view on the associated game flare how many major prizes are in the game when first offered for sale. Some states, like Minnesota, allow large winners to be marked-off on the flare indicating how many large prizes are left in the game. When several major winners remain among a few chances, players may buy as many tickets as they can at a time. In some states when no major winners remain among unsold tickets, organizations may take the game out of play or retire that deal and replace it with a new deal. No other finite-probability based game provides more information to players about the status of the game.

The main fundamental characteristic of a Pull-Tab – electronic or paper – is the finite nature of the game. There is the finite probability basis of a predetermined quantity of winning and non-winning outcomes that pay a fixed and predetermined value of prizes and profits. This differs from slot machines that use a random number generator (RNG) to determine an infinite possibility of outcomes each time the game is played.

Purchasing a non-winning pull-tab actually means the game is one chance closer to a winner. This opposed to, for instance, slot machines that operate on near-continuum probability premises or random number generator (RNG), where each event is a separate activity without bearing on the next outcome and without having been influenced from past events.

Paper Tickets

Each ticket has two sides. Typically, one side lists the winning combinations of symbols, the cash payout for each combination, the number of tickets that contain each winning combination, and the total number of tickets in the game. This information is generally also posted in a large printed poster called a flare. The other side of the ticket contains the perforated tabs. After purchasing the ticket, the player pulls the perforated tabs to reveal their winnings, if any. Cash prizes may be claimed immediately.

Electronic Tickets

An electronic pull-tab is derived from paper pull tabs. The electronic game closely resembles paper pull-tabs in that when new, there are a fixed and preset quantity of chances among which are a fixed quantity of winning chances of a predetermined prize

value. Furthermore, it brings the unique features of allowing players to view the quantity of chances for each given prize value in each deal, as well as other pull-tab features. This is common to pull-tab operations in Minnesota, Virginia, North Dakota, Kentucky, New Hampshire and other jurisdictions.

The first electronic pull-tab patent was filed in November 1990. There have been several forms of electronic pull tabs since 1990. Most are offered on stand-up, kiosk style machines that are networked allowing for players to compete for common prizes. The kiosks usually have a chair or stool for the player to sit on while playing the device. One variation that was authorized in Minnesota in the 2012 legislative session authorized play on handheld devices, similar to a tablet with a touchscreen interface.

Each device must have access to one or more finite sets of chances not to exceed a maximum number per set or "deal" as they are called in the pull-tab industry. Sizes of the sets are under state jurisdictional control and vary between maximums of 7,500 to 25,000. Contained within the sets are a predetermined quantity of winning and non-winning chances. Furthermore, most state legislatures mandate that pull-tab devices have "no spinning reels or other representations that mimic a video slot machine."

One advantage of electronic pull-tab systems is that they provide more secure accountability than paper-based systems. Electronic Pull-Tabs afford an opportunity to present games that fall within existing paper pull-tab definitions, by offering an enhanced presentation that is more suited to the desires of an electronically oriented public. Innovative manufacturers of such gaming systems enhance the entertainment value of the gaming experience through the introduction of new game presentation styles containing animations, sounds and extended play features.



Legality

Electronic Pull-tabs are used as a fundraising activity for charities and lotteries. Currently electronic pull-tabs are approved to be played in the following jurisdictions:

Charitable

- Virginia
- Minnesota
- Kentucky
- New Hampshire
- North Dakota

Lottery

- Idaho
- Maryland
- Missouri
- Michigan*
- Ontario
- Kentucky*

*Some state lotteries regulate charitable gaming including electronic pull-tabs.

The Michigan Lottery is an example of this. Also, the Kentucky Lottery Corporation (KLC) recently issued a Request for Proposal (RFP) for “Digital Reveal Lottery Vending Machines.” The KLC expects to enter into a contract with one or more manufacturers to place Digital Reveal Lottery Vending Machines during 2021.

As of 2020, approximately 25 states have authorized and/or licensed the use of paper pull-tabs. The state with the largest volume in terms of dollar value sold is Minnesota. In some states, no pull-tab game may offer a single prize higher than a certain dollar amount and/or may not cost more than a certain amount. For instance, in Indiana, pull-tabs cannot cost more than \$1 per play and no single prize can be more than \$599.

In Minnesota, as well as some other states, pull-tabs are offered from vending booths often called jar bars. All of the tickets in a game (called a "deal") are poured into a transparent plexiglass container that has attached to it a "flare" or poster that displays all of the winning symbol combinations, the quantity of winning tickets at each reward level, the name of the game, etc. Also in Minnesota, attached to the container is a tally sheet that shows a potential player exactly how many of the "major winners" (major winner is one equal to or above 50x the value of the price paid for the chance) remain in that particular game at a given time.

Electronic Pull-Tab Basics and Differences from Paper Pull-tabs

“E-tabs” (otherwise known as electronic pull-tabs) are played in almost the same manner as paper pull-tabs. A player buys a ticket with one or more windows concealing symbols. The player opens the windows to determine whether the symbols on the ticket match the winning symbols as listed on the game flare or front of the ticket.

Although e-tab games play in almost the same way, there are some differences in the way e-tab games are conducted:

- There are no paper pull-tab tickets to count, deface, or store.
- A player can put cash directly into the e-tab kiosk or pay cash to a seller who then puts cash credit on a hand-held device.
- The devices “communicate” with an on-site point-of-sale computer (POS) using a secure Wi-Fi connection.
- The player uses the cash credit on the device to purchase e-tab tickets one at a time. A single cash drawer, similar to the cash register system currently allowed for paper pull-tabs, is used for e-tab point-of-sale systems.
- Winning electronic tickets are redeemed instantly by automatically adding cash credited to the kiosk or hand-held device.
- Prizes are paid to players when a cash voucher with a cash credit balance is printed by a kiosk device and redeemed by the player.
- With handheld or tablet devices prizes are paid after winning credits are accumulated on the device and players return the device with a cash credit balance.

Purchasing Electronic Pull-Tab Games:

- In charitable markets electronic pull-tab games are ordered from licensed distributors in the same way as paper pull-tabs but are “delivered” to the site electronically as determined by the licensed organization and distributor.
- The actual purchase is made as each game is electronically loaded on the on-site server computer and made available for play. In several markets, charities pay for tickets as they are played so that the charity does not have a large up-front expense of purchasing inventory.

Obtaining Electronic Pull-Tab Equipment - Kiosks and Handheld Devices:

- Most states allow for upright kiosks or handheld devices to be placed in locations that offer charitable gaming. Manufacturers of electronic pull-tab devices provide at no cost or lease the devices to distributors, who in turn provide at no cost or lease the devices to the charity.
- The kiosks, handhelds and electronic pull-tab systems are tested and approved by independent laboratories to ensure all equipment complies with state laws and rules.
- Electronic Pull-Tab equipment must use internet access to receive electronic ticket inventory and for reporting of sales. Costs of the internet access needed to operate the electronic pull-tab systems are usually paid by the charity or location where the equipment is in operation.

Benefits to Charities:

Offering new technology such as electronic pull-tabs has proven to provide a revenue boost for charities and also includes the following benefits:

1. Player excitement resulting in increased play.
2. New players – In this technology era new players are familiar with, and prefer visual digital play accompanied with a sound stimulus.
3. Eliminating the need to order, store, and manually add tickets to a machine.
4. Eliminates ticket jams when paper pull-tabs are dispensed or warped tickets resulting in less down time.
5. Never run out of tickets.
6. No inventory to count or store and eliminates paying for unsold tickets at the end of a reporting period.
7. Ability to monitor each machine from an internet connection making scheduling checkouts more efficient.
8. Overall, these benefits mean fewer trips by the charity to service the machine on-

site and less labor, adding up to big cost savings.

Accountability/Regulation

Electronic Pull-Tabs have an advantage over paper pull-tabs when it comes to accountability and regulation. With the computer systems used for electronic pull-tabs, sales are polled and collected in real-time basis and updated to state and provincial regulators. The computer systems used retrieve all events that take place on site with the electronic pull-tab devices. For example, regulators know every time a door is opened on a machine or when a malfunction occurs.

Sales reports can be generated by regulators and charities at a moment's notice. Inventories can be replenished by knowing sales and inventory levels. If a regulator wants to investigate the activity at a certain location, they can bring up that location on their workstation at the office without having to send investigators into the field to collect the information. If there is activity that needs further investigation, then investigators can be sent into a specific site armed with sales and event data to discuss with the location, retailer or charity.

✓REGULATORY PEACE OF MIND

✓SECURITY

✓ACCOUNTABILITY

✓ADVANCED DELIVERY SYSTEM

✓REAL-TIME POLLING FOR
OBSERVATION

Electronic Pull-Tab Markets:

MINNESOTA

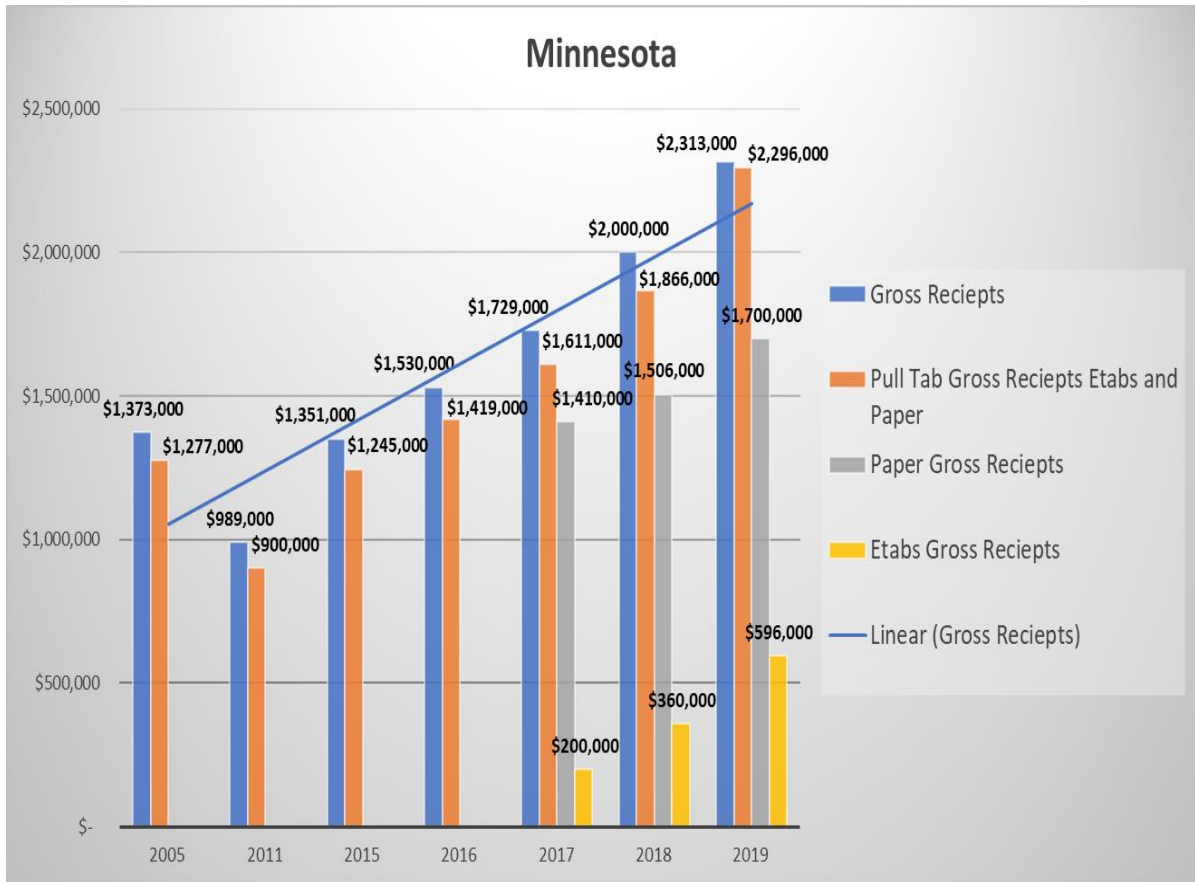
In Minnesota during the 2012 legislative session electronic pull-tabs were authorized. The devices approved are available for use by state licensed charitable organizations. This version of an electronic pull tab uses a hand-held device, like a tablet computer, with a touch screen interface. All such devices are subject to control and monitoring from a central computer. Electronic Pull-Tabs are under the control and regulation of the Minnesota Gambling Control Board.

Each device must have access to one or more finite sets of chances not to exceed a maximum number per set or "deal" as they are referred to by the industry. Sizes of the predetermined deals are set at a maximum of 7,500. Among the chances are a predetermined quantity of winning and non-winning chances. Furthermore, the legislature stated that pull-tab devices have "no spinning reels or other representations that mimic a video slot machine." The Minnesota statute states that an electronic pull-tab game means a pull-tab game containing "facsimiles of pull-tab tickets that are played on an electronic pull-tab device."

When electronic Pull-Tabs were first introduced in Minnesota, the industry was very concerned that the electronic product would cannibalize paper Pull-Tab sales. What actually happened was increased paper Pull-Tab play, thus creating an incremental sales and new revenues for charities, while at the same time improving the overall experience for the player.

In Minnesota hand-held or tablet devices are linked wirelessly to a master computer within the bar or restaurant or to a central computer which controls sites. In Minnesota control computers are linked to the Minnesota Gambling Control Board, which oversees all the devices.

The chart below shows the gross revenue in Minnesota. Sales have increased in both paper and electronic pull-tabs since sales went down in 2011. The Gambling Control Board began separating paper and electronic pull-tab sales in 2017.



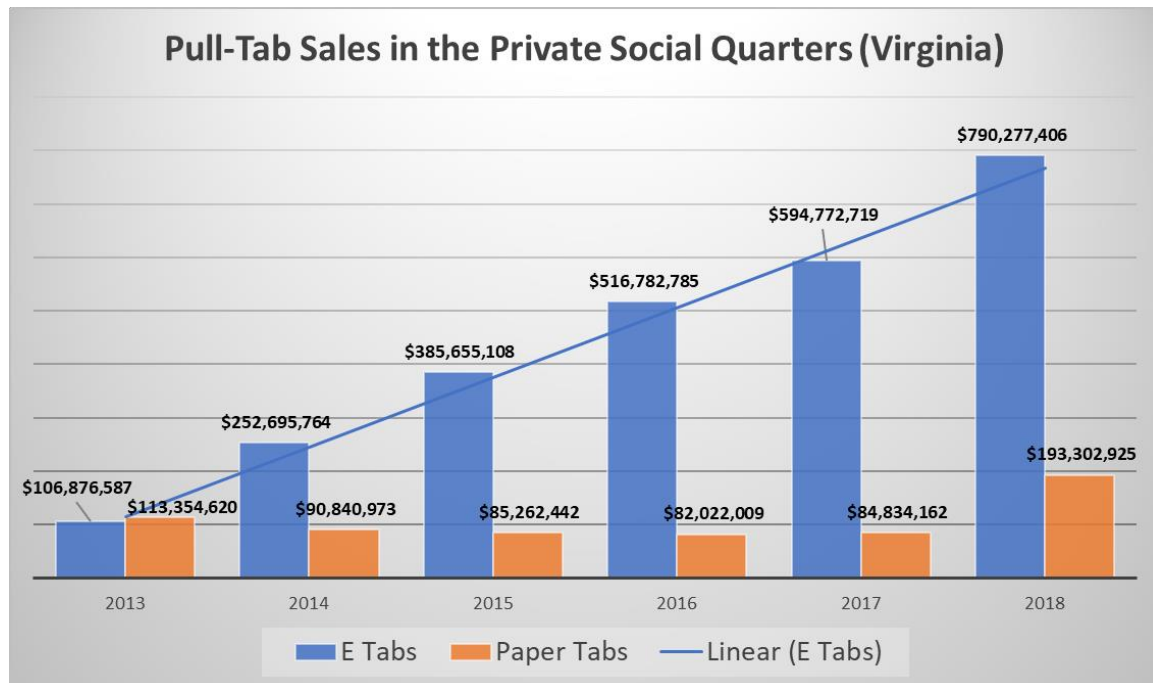
Minnesota Electronic Pull-Tab Fast Facts:

- Only handhelds or tablets allowed
- 7,500 maximum ticket count per deal
- 6 handhelds or tablets can be in play per location
- Twelve allowed at sites with 200 or more seats, fifty at bingo halls that seat at least 100.
- Maximum payout percentage: 85%

VIRGINIA

Electronic Pull-Tabs were allowed pursuant to legislative action (HB 1998 effective 7/1/2007 but not implemented until administrative rules were enacted 11/7/2012). The majority of electronic pull-tabs are played in the social quarters of veteran and fraternal organizations.

When electronic pull-tabs were implemented in 2012 paper pull-tab sales in private social quarters like fraternal halls and clubs had been flat for several years. After the first year, electronic pull-tab gross sales were nearly the same as paper pull-tab sales in 2013. The chart below shows the continued growth of electronic pull-tab sales, while paper pull-tab sales remained flat during the first couple of years. However, the chart below shows that paper pull-tab sales began to increase over the flat sales years experienced prior to electronic pull-tab being introduced.



Virginia Electronic Pull-Tab Fast Facts:

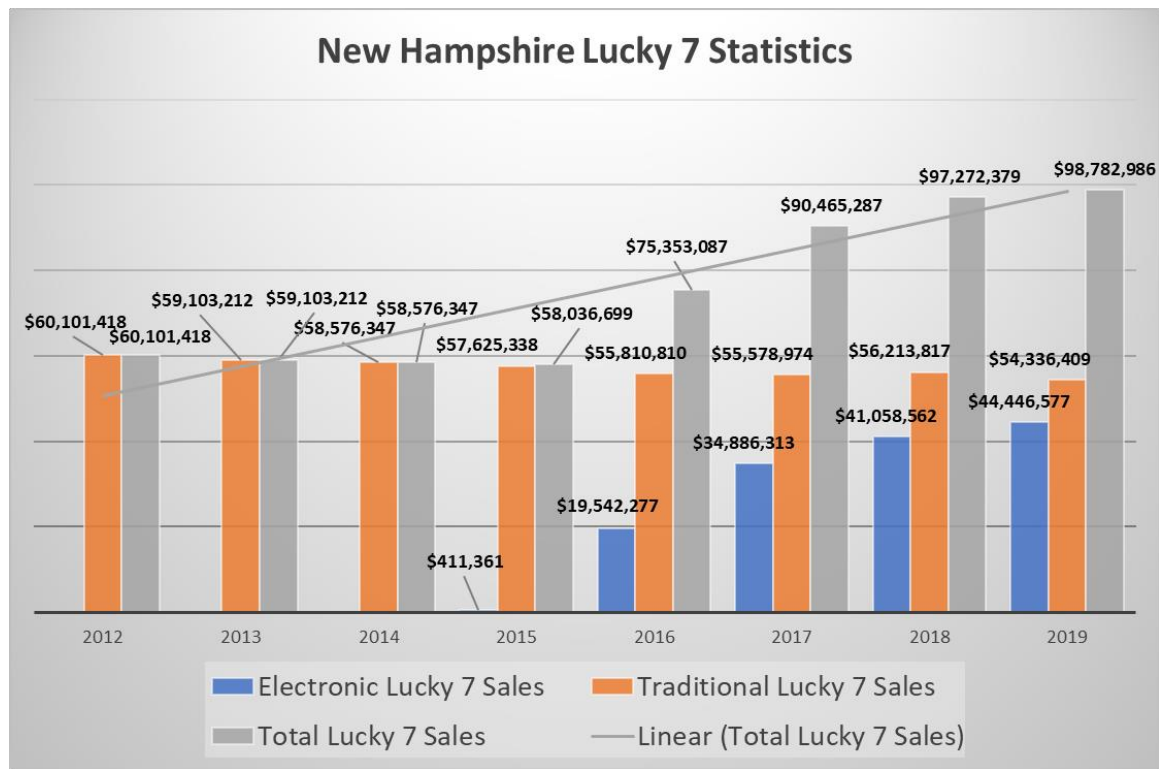
- Cabinets and tablets allowed
- 25,000 maximum ticket count per deal
- Up to 9 cabinets allowed per location
- Maximum payout percentage: 92%

NEW HAMPSHIRE

New Hampshire began an electronic pull-tab program, known as “Electronic Lucky 7 Tickets,” in 2015.

“Electronic Lucky 7 Tickets” is simply an electronic version of a single paper lucky 7 ticket. An electronic lucky 7 ticket is a predetermined game outcome in electronic form, distributed on-demand from a finite number of game outcomes by a distributed lucky 7 server.

“Electronic Lucky 7 Dispenser” means an electronic device used to facilitate the play of an Electronic Lucky 7 ticket or a Lucky 7 ticket. An Electronic Lucky 7 Dispenser may take the form of an upright cabinet or any other composition as approved by the commission.



New Hampshire Electronic Pull-Tab Fast Facts:

- Cabinets are allowed.
- 3,500 maximum ticket count per deal (four 3,500 count deals can be commingled).
- The percentage of payback to the player shall be at least 45 percent of gross revenues for the deal.
- Are sold for no more than 50 cents per ticket.

KENTUCKY

On June 24, 2015 SB 33, authorizing the use of electronic pull-tab devices in the conduct of charitable gaming, took effect. This media headline summarizes the situation charities were facing.

“Supporters of charities in Kentucky say electronic pull tabs are needed to try to reverse declines in charitable gaming

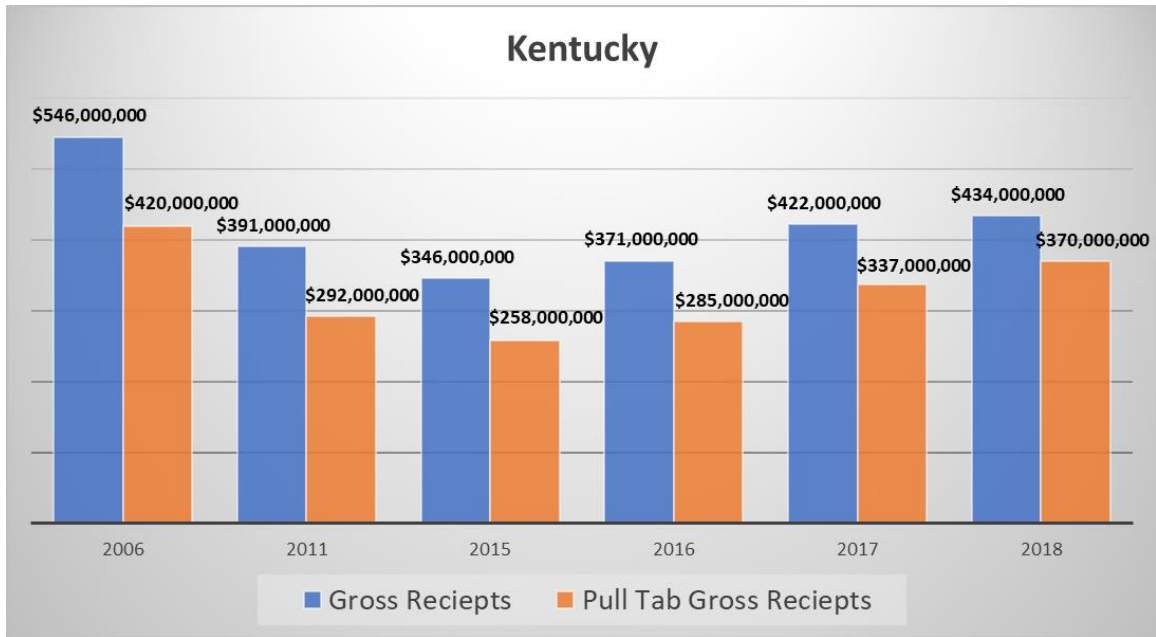
Important regulatory rule requirements:

Electronic Pull-Tab System Construction Standards: An electronic pull-tab system’s central computer system shall be dedicated to electronic accounting, reporting, presentation, randomization, and transmission of electronic pull-tabs to electronic pull-tab devices. It shall also be capable of generating the data necessary to provide reports required by regulation or otherwise specified by the department.

Electronic Pull-Tab Point of Sale Requirements: An electronic pull-tab system shall include a point of sale station that is used to facilitate the sale of an electronic pull-tab device, to load money to a player account for purchase of electronic pull-tabs during the current charitable gaming session, and to cash-out or redeem credits from the play of electronic pull-tabs.



Below is a summary of Gross Charitable Gaming Receipts from 2005 to current and a summary of pull-tab gross receipts (includes both paper and electronic). Gross Receipts had declined \$200 million or 38% prior to the introduction of electronic pull tabs in 2015. Since 2015, Gross Receipts have increased for the first time in over 10 years: \$76 million and 22% increase since 2015.



Kentucky Electronic Pull-Tab Fast Facts:

- Fixed base table-top device or tablets are allowed.
- 25,000 maximum ticket count per deal.
- A maximum of 35 electronic pull-tab devices in the primary locations of a licensed charitable organization; Or a maximum of 50 electronic pull-tab devices in bingo halls.
- Gross receipts increased in 2015 for first time in 10 years.

IDAHO



Electronic and paper pull-tabs are a lottery product in the state of Idaho. The purpose of offering both pull-tab products in Idaho is to maximize revenues to the state. In 2010, electronic pull-tabs known as TouchTabs were approved in Idaho. The initial rollout of the TouchTab product was concentrated in and around Boise. Over time, the entire state has been covered and now, both paper and e-tabs are available throughout Idaho.

The Lottery operates on-line draw games such as Powerball and Mega Millions in addition to traditional scratch tickets, pull-tabs and electronic pull-tabs. The Lottery started in 1989 and is based in Boise, Idaho.

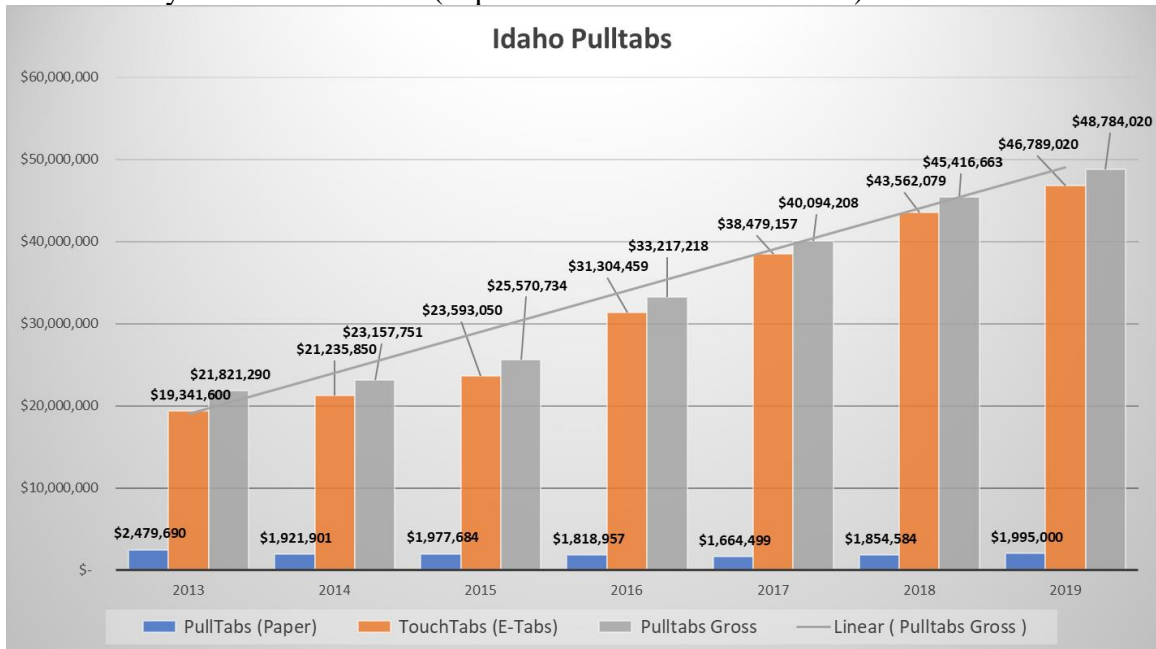
“The Lottery’s goal in offering electronic Pull-Tabs is to responsibly enhance sales by recruiting non-traditional retailers, evolve the product portfolio, and offer contemporary ways to play traditional Pull-Tabs games with multiple dispensers in retail locations.”

From: IDAHO LOTTERY - STRATEGIC PLAN – FISCAL YEARS 2018-2021

TouchTabs games offer play styles identical to pull-tabs games and are offered only in age-controlled environments with rigorous oversight and product management.



Idaho Lottery Pull-tabs Games – (Paper Pull-Tabs and TouchTabs)



Idaho Lottery Electronic Pull-Tab Fast Facts:

- Electronic Pull-Tabs are offered in only age-controlled environments.
- Cabinets are allowed.
- Maximum payout: 80%
- There are 355 TouchTab devices in 151 sites.
- The Idaho state constitution strictly prohibits slot machines, table games and keno.

CONCLUSION:

As technology rapidly advances, the market for offering entertaining games changes. Players desire new technology to keep them interested in playing traditional charitable and lottery games. Electronic Pull-Tabs offer this new, exciting technology with extended play screens, sounds and animations. As traditional players age, new players who desire games in digital format with sound stimulus, are now engaged with charitable and lottery games playable on screen.

One of the key findings of this research is that when electronic Pull-Tabs are added to the product mix with other more traditional charitable or lottery gaming products, electronic Pull-Tabs add incremental sales and have not cannibalized existing products, including paper Pull-Tabs.

In most all cases, where electronic pull-tabs have been sanctioned by state governments to complement the existing paper pull-tab product, game sales have incrementally increased for both products. The additional option of offering electronic pull-tabs along with traditional charity and lottery games have not cannibalized sales of those exiting products. Instead, charities and lotteries alike experience new revenue along with improvements in the sales of their traditional products. This is a win-win for the industry overall and most importantly **propels revenues for charitable and state government purposes.**

Traditionally lotteries sell products in grocery and convenient stores. They often look for products to offer in non-traditional venues like bars, restaurants, and clubs. Electronic Pull-Tabs have demonstrated to be the type of product that plays well in these venues.

Charities who offer their games in fraternal clubs, veteran organizations and bingo halls view electronic pull-tabs as an additional product to offer patrons, so they stay longer in the establishment and frequent their facilities more often.

Overall, the industry must keep up with this rapidly advancing high-tech era by offering innovative products in order to stay viable. It is evident that electronic pull-tabs accomplish this by offering the same product as in paper format, by providing the added entertainment value that the playing public demands.

Thank You.

For more information, contact: [Scott Henneman](mailto:shenneman@grovergaming.com)
shenneman@grovergaming.com

