

# An Examination of Sports Betting in America & Forecast of Revenues by State

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## I. EXECUTIVE SUMMARY

On December 4, 2017, the Supreme Court of the United States (“SCOTUS”) will hear New Jersey’s case to have the Professional and Amateur Sports Protection Act (“PASPA”) overturned. This review of PASPA, which effectively limits legal sports betting to only the state of Nevada, and to a lesser extent Delaware, Montana, and Oregon, has the potential to be a landmark states’ rights decision. To the gaming and hospitality industry, it has the potential to allow for another source of gaming entertainment and improve profit levels for operators. To government authorities, it has the potential to reduce illegal gaming activities and increase tax revenues.

Based on figures presented by the American Gaming Association (“AGA”), over \$150 billion is wagered illegally on sports betting annually in the United States. Assuming an average 5.5 percent hold for sportsbooks, this equates to \$8.25 billion in potential taxable gaming revenue. For each dollar of sportsbook revenue generated, there is also a substantial amount of other gaming revenue (slots, tables, etc.), food & beverage revenue, and other non-gaming revenue that could be generated by the nation’s casinos. However, to successfully shift these illegally wagered bets to legal enterprises, several issues need to be resolved legislatively, including reasonable tax rates that allow operators to offer similar betting lines as Las Vegas, convenient ways to place bets, the availability of credit, and the ability to easily redeem winnings.

Global Market Advisors (“GMA”) prepared this white paper to educate the reader as to the status of the sports betting market in the United States, the process currently being undertaken to overturn PASPA, the hurdles that the industry will face, and the revenue potential of sports betting in the U.S. The paper addresses key issues such as lotteries vs. land-based gaming operators, the positions of professional sports leagues, the reality of the widespread activities of illegal sports betting and its attractiveness to bettors, and the revenue potential of the sports betting market should PASPA be overturned.

## POLITICAL IMPLICATIONS

The political tide for sports betting is turning. Currently, the easiest path toward legalization is the potential overturning of PASPA by the Supreme Court. However, this path presents its own set of challenges. Although the NCAA and professional sport leagues are adjointed on the case before the court, certain leagues have split from the consensus as they see sports betting as an evolving market that will be legalized at some point in the future. While legalization at the federal level does not seem imminent, there is still a chance that could change in 2018. At this point in time, the potential SCOTUS decision could be the first vital step towards legalization.



The ruling is expected to be issued in June of 2018, at the end of the Supreme Court's current session. GMA believes there are three potential outcomes:

1. The Supreme Court upholds the lower court's decision on PASPA.
2. New Jersey prevails with PASPA overturned.
3. A mixed outcome occurs that prevents either side from prevailing.

If the Supreme Court's decision is not favorable to New Jersey, Congress may be forced to act. Alternatively, if the decision is favorable to New Jersey, it could quickly lead to the rapid development of sports betting markets across the United States with commercial casinos, tribal casinos, lotteries, pari-mutuel facilities, European sportsbook operators, and other potential stakeholders competing for the chance to develop and run operations in jurisdictions across the United States.

In any successful gaming development model, it is crucial that known operators are chosen who can operate within a strong regulatory environment while providing economic benefits to government authorities through taxation. Government will only maximize the market's potential performance by establishing a reasonable tax rate, which will allow operators to navigate the thin profit margins of sportsbook wagering and effectively compete against illegal providers. If this issue is ignored and operators cannot offer a wagering experience that is attractive and competitive to illegal options, it will allow the illegal bookmakers to maintain control and continue to dominate the market.

Several states have prepared themselves for potential legalization, including New Jersey, Mississippi, and Connecticut, and they would likely be able to immediately benefit from the new opportunity. States like Pennsylvania, which recently authorized sports betting should PASPA be overturned, will find it difficult to start operations because of high licensing fees and a 34 percent tax rate. Several other states are exploring the market and may pass legislation before the SCOTUS ruling.

Even though PASPA may be overturned, operators will still face the obstacle of conducting any business through online channels due to the Federal Interstate Wire Act of 1961 ("Wire Act"). The Wire Act in itself has divided the gaming industry as stakeholders debate interpretations of the act (particularly the 2011 memo highlighting the opinion of the Attorney General's office under the Obama Administration). The stakeholders pushing for the Restoration of America's Wire Act will continue to advocate this issue for the foreseeable future.

While it is still unknown how SCOTUS may rule on the case, GMA believes it is likely that the court will side with New Jersey based off SCOTUS's previous views on states' rights. This would potentially lead to an active legislative discussion on sports betting in statehouses across the country starting in 2018. Should SCOTUS rule in New Jersey's favor, legalized sports betting could



begin in late 2018, depending on how quickly states work to establish regulations, approve operators' suitability, and set up operations.

## SUMMARY OF FINDINGS

Assuming that PASPA is overturned, GMA prepared revenue estimates under two scenarios. Under the high scenario, it is assumed that sports betting is readily available at nearly all land-based gaming facilities located throughout the United States, including those where slot route operations are offered, as well as through intrastate online gaming operations. The low case scenario takes into consideration a more realistic set of assumptions.

GMA evaluated how gaming is distributed on a state by state basis and made assumptions with regards to the reality of sports betting coming to fruition on a state by state basis. These figures were prepared for 2023, allowing for an appropriate five-year ramp up for states to pass laws, for operators to set up operations, and effectively penetrate the market.

In preparing revenue estimates, GMA took into consideration the reality of the effectiveness and popularity of independent sportsbook operators, commonly referred to as bookies. Though they operate illegally, bookies have their customers' trust and loyalty. They have been able to take advantage of technology and today are efficient operators, provide credit, and will often give better betting lines than Nevada casinos.

There is no better example of the power of illegal bookies than what takes place in Nevada today. Sports betting has been legal in Nevada for nearly seventy years and there are still non-regulated bookies located throughout the state. In order for states to effectively penetrate the illegal sports betting market and maximize revenue potential, they must provide convenient methodologies for bettors to place wagers, reasonable tax rates that allow operators to offer the same betting lines as Nevada, superior technology that allows bettors to place bets and receive payouts on the same platform, and provide quality land-based sportsbooks where bettors can assemble and enjoy the entertainment activity of live sports betting and communal viewing. The current legal market of sports betting will continue to see revenue growth with the advent and expansion of in-game betting, esports, and virtual sports wagering.

Depending on tax rates, ability to offer bets via intrastate online gaming platforms, and the number and distribution of land-based locations where bets could be placed, GMA estimates the 2023 United States sports betting market potential between \$29.2 billion to \$138.0 billion in wagers, translating to an estimated \$1.8 billion to \$9.0 billion in sports betting revenue. However, given the number of assumptions that would have to come to fruition for the high scenario to occur, a number towards the lower half of the range is more likely.



## II. HISTORY & STATUS OF SPORTS BETTING IN THE U.S.

Government authorities have contemplated the fate of the legislation that made sports betting illegal in the U.S. for the last 25 years. October 28, 2017 marked the 25th anniversary of PASPA. PASPA stems from the 1961 Interstate Wire Act, which prevented bookmakers from accepting wagers by phone across state lines.

Investors, operators, regulators, and governments anxiously await a landmark ruling to be delivered by SCOTUS in 2018. In the New Jersey sports betting case, SCOTUS will hear oral arguments on December 4, 2017 to determine the future of sports betting in the U.S. SCOTUS will also review the constitutionality of PASPA and if states outside of Nevada could legalize single-game sports wagering.

The following section provides a summary of how the sports betting industry in America was shaped by legislative maneuvering and technological innovation.

### HISTORICAL OVERVIEW

Betting on sport is ingrained in the English culture, and has been since the dawn of its existence. Today, the United Kingdom boasts one of the world's largest and sophisticated sports betting markets. This cultural norm of wagering on sports was passed down during the early colonization of America and remains infused in American culture today.

In seventeenth century America, betting on recreational games and horse racing was a colonial way of life. Wagering on these types of activities dominated the betting scene until the mid-1900's with the advent of the point spread. The point spread allowed bookmakers to offer attractive betting odds on uneven match-ups and contests. Bettors quickly shifted their wagering habits to immensely popular sports such as baseball, basketball, and football. The sports betting community drew all its information from Minneapolis which served as the hub for nearly three decades. In 1961, what was known as the "Minneapolis Line" ceased to exist with the passing of the Wire Act that prohibited transmitting bets across state lines.

With the help of some famous oddsmakers and handicappers, Las Vegas quickly took over as the new sports betting epicenter to dominate the U.S. market. In 1974, Congress passed Nevada Senator Howard Cannon's legislation that dramatically lowered the federal excise tax on sports bets. Following Cannon's legislation that advanced the sports betting status of Nevada, Senators Bryan and Reid voted for PASPA in the summer of 1992. PASPA's author, Arizona Senator Dennis DeConcini, allowed Nevada's exemption from the sports betting ban, which cemented Nevada's monopoly that is still in effect today.





## CURRENT LAWS IN PLACE

### INTERSTATE WIRE ACT OF 1961

Congress passed the Interstate Wire Act in 1961 which specifically bans the transmission of sports wagers across state lines. The act was passed as part of a series of anti-racketeering laws including the Illegal Gambling Business Act, the Interstate Transportation of Wagering Paraphernalia Act, and the Travel Act. It was designed to aid states in enforcing state-specific bookmaking and gambling laws focused on helping the Justice Department battle organized crime and trafficking during the Kennedy Administration.

Specific language from the law included a criminal provision:

*Whoever being engaged in the business of betting or wagering knowingly uses a wire communication facility for the transmission in interstate or foreign commerce of bets or wagers or information assisting in the placing of bets or wagers on any sporting event or contest, or for the transmission of a wire communication which entitles the recipient to receive money or credit as a result of bets or wagers, or for information assisting in the placing of bets or wagers, shall be fined under this title or imprisoned not more than two years, or both.<sup>1</sup>*

Significant technological advances have been made since the law was enacted over fifty years ago. Many have interpreted language in the Wire Act to prohibit the use of the internet for transmission of sports bets or wagers or information assisting in the placement of such bets or wagers, subject to certain exceptions. It is important to note that the internet did not exist in 1961. In addition, the law does not specifically discuss how it may apply to other forms of gambling. As such, the law has been open to interpretation as to whether it prohibits internet gambling. Regardless of differing interpretations, the U.S. Justice Department and multiple attorney generals deemed the Wire Act as applying broadly and covering all forms of internet gaming.

### PROFESSIONAL AND AMATEUR SPORTS PROTECTION ACT 1992 (PASPA)

Following the Senate Judiciary committee hearings on Bill 474 in 1991, the U.S. Congress determined that sports betting on amateur and professional sports had a negative impact on the integrity of those sports. The bill was also thought to be a retaliatory action to the proliferation

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<sup>1</sup>Pub. L. 87–216, § 2, Sept. 13, 1961, 75 Stat. 491; amended Pub. L. 100–690, title VII, § 7024, Nov. 18, 1988, 102 Stat. 4397; Pub. L. 101–647, title XII, § 1205(g), Nov. 29, 1990, 104 Stat. 4831; Pub. L. 103–322, title XXXIII, § 330016(1)(L), Sept. 13, 1994, 108 Stat. 2147.



of sports betting and casino expansion across the U.S. in seven states. The result of those hearings was PASPA, also known as the Bradley Act, named after the bill's main sponsor, New Jersey Senator Bill Bradley.

PASPA restricts various forms of legal sports betting to Delaware, Nevada, Oregon, and Montana by making it illegal for any further states to operate, license, or authorize by law any "betting, gambling, or wagering scheme based, directly or indirectly, on one or more competitive games in which amateur or professional athletes compete."<sup>2</sup> The law also prohibits exempted states from allowing additional forms of betting beyond those that were regulated at the time PASPA was written into law.

Specific language from the law includes:

- *a government entity to sponsor, operate, advertise, promote, license, or authorize by law or compact, or*
- *a person to sponsor, operate, advertise, promote, pursuant to the law or compact of a government entity, a lottery, sweepstakes, or other betting, gambling, or wagering scheme based, directly or indirectly (through the use of geographical references or otherwise), on one or more competitive games in which amateur or professional athletes participate, or are intended to participate, or on one or more performances of such athletes in such games.*<sup>3</sup>

The exception to the law were those states that already operated commercial gaming facilities for at least ten years and states that had existing laws pertaining to sports betting. At the time, there were only four states that had sports betting laws in effect when Congress passed PASPA. These states were Delaware, Nevada, Oregon, and Montana, as previously mentioned. The only other state that qualified at the time was New Jersey, which had been operating commercial casinos since 1978 but had not implemented sports betting. The following section provides a state by state historical overview and details how the laws and regulations in the PASPA exempted states vary.

PASPA is not the only hurdle to a national sports betting platform. Several complications lie within the framework of the Wire Act, such as how to treat mobile betting applications and if online betting servers are required in each state. Much of the current interpretation on some of these issues is based on the 2011 Attorney General's opinion and its validity. Lawmakers will need to pay careful attention to the Wire Act as they consider expanding the U.S. sports betting market.

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<sup>2</sup> Pub. L. 102-559, § 2(a), Oct. 28, 1992, 106 Stat. 4228.

<sup>3</sup> Ibid





## DELAWARE

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In 1976, the Delaware Lottery offered *three-team or more* parlays on NFL games. This specialized sports betting program was discontinued one year later, having been proved unsuccessful. As a result of the great recession three decades later, Delaware began to explore new potential revenue streams. The plan was to permit full Nevada-style sports betting on NCAA, NBA, NHL, MLB, and NFL sporting events. The Federal Third Circuit Court of Appeals (“Third Circuit”) ruled that Delaware’s exemption under PASPA applied only to forms of sports betting offered prior to when PASPA took effect in 1992. The aforementioned major sports leagues fought the plan in court and won. The court ruled that only laws that were in place prior to PASPA in 1992 were valid. At the time of this report’s writing, sports betting in Delaware is still limited only to the original NFL parlay cards.

## NEVADA

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Nevada legalized sports betting in 1949. Today, most of the state’s casinos have dedicated sportsbooks. Nevada is the only state where traditional, single-game betting on collegiate and professional sports through licensed bookmakers is legally permitted. All other states specifically ban sports betting on collegiate games. Nevada is also unique because it is the only state that can offer parlay and teaser cards on all sports.

## OREGON

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In 1989, the Oregon Lottery started Sports Action, a parlay card system similar to Delaware’s parlay system. Sports Action offered parlays on NFL games in its first year of operation, followed by the NBA in 1990. The parlay card system folded due to poor sales performance, lawsuits filed by the NBA, and legal challenges made by the NFL and NCAA. The passage of a bill in 2005 outlawed Sports Action and NFL betting in Oregon stopped after 2007. Oregon currently offers advanced betting options including internet wagering (with prior deposits).

## MONTANA

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Different from the three states exempt from PASPA, the state of Montana never had any form of house-banked sports betting. Montana got its exemption through a law allowing licensed alcoholic beverage establishments to offer sports pool/betting squares contests. Betting takes place on boards that may have up to 100 squares and payouts must include the outcome of a full sporting event. Partial sporting event outcomes are also possible if those outcomes are not the only payout. The business establishment may not take any portion of the prize pool and all entry fees must be returned to the players.



## NEW JERSEY

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Currently, Nevada-style sports-betting is not permitted in New Jersey. However, a clause in PASPA allowed for New Jersey to become one of the states to conduct Nevada-style sports betting. It noted that states with commercial casinos that had been in operation for at least ten years at the time could offer sports betting. New Jersey had a one year window to pass a sports betting law which was met with staunch opposition from Senator Bradley. New Jersey's sports betting law failed to pass in 1993. Legal battles over the issue have been ongoing and have now reached the U.S. Supreme Court.



### III. PLAYERS IN THE SPORTS BETTING DEBATE

#### THE COURT'S PLAYING FIELD

The Supreme Court's case, *Christie vs. National Collegiate Athletic Association*, has reached a milestone in determining the future for sports betting in the United States. While there still may be a second path to legalization through the legislative branch of the federal government, the most immediate chance for an expansion of sports betting is through a decision by the U.S. Supreme Court. Listed below are the main proponents and opponents for sports betting as it applies to the upcoming court action. They have and will play a vital role in any legislative action that may be taken in the future.

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#### NEW JERSEY AND GOVERNOR CHRIS CHRISTIE

As one of the original parties to the case, New Jersey initiated the current challenge to PASPA when it passed the Sports Betting Amendment in November 2011. The measure amended the state's constitution to permit the New Jersey Legislature to allow for sports betting, and was approved by a two to one margin. In January of 2012, the New Jersey Legislature passed the Sports Wagering Act that was introduced by Senators Raymond Lesniak and Jeff Van Drew. Governor Chris Christie signed it later that month. New Jersey faced its first challenge to the law in August 2012 by the NCAA and the four major professional sports organizations to stop its implementation. Working through the judicial process, it was struck down in September 2013 by the Third Circuit Court of Appeals and the U.S. Supreme Court declined to hear the case.

Senator Lesniak started the process over again in 2014 with the introduction of a new Sports Wagering Act that was passed in October 2014. This act allowed for casinos and racetracks to provide sports betting without the state being involved in the licensing and regulatory process; a deviation from the 2012 version of the Sports Wagering Act. The day after Governor Christie signed the second act into law, it was again challenged by the National Collegiate Athletic Association ("NCAA"), National Basketball Association ("NBA"), National Football League ("NFL"), Major League Baseball ("MLB"), and the National Hockey League ("NHL"). In August 2016, the Third Circuit again upheld the lower court's ruling on a 2 to 1 vote that the Sports Betting Act violated PASPA. In June of this year, the Supreme Court decided to take up the case for the first time, to be heard in December 2017. This may bring clarity to New Jersey's desire, now along with others, to offer sports betting as another form of gambling.

Theodore Olson, a former Solicitor General under President George W. Bush, will be arguing before the Supreme Court on behalf of New Jersey.



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## NEW JERSEY THOROUGHBRED HORSEMEN'S ASSOCIATION

The New Jersey Thoroughbred Horsemen's Association ("NJTHA") joined into the sports betting debate as a petitioner against the NCAA. The NJTHA, active since 1945, is dedicated to promoting thoroughbred horses in the state of New Jersey. The NJTHA joined with the state of New Jersey along with Governor Christie in the fight for the legalization of sports betting in 2016. The case against the NCAA was joined with the Christie vs. NCAA Case as it was appealed and heard before the Supreme Court.

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## NATIONAL COLLEGIATE ATHLETIC ASSOCIATION

As one of the staunchest opponents of sports betting, the NCAA is the institution that governs college athletics at various levels. This includes not only the rules that each respective school must follow but also the governance of most championships. The organization prohibits the hosting of NCAA championship events in Las Vegas even though several conferences host basketball tournaments in the city and it is home to the Las Vegas Bowl. None of those events are NCAA driven, such as the Final Four tournament or other championship level games.

The NCAA has had a long-held position and has actively lobbied Congress to not only eliminate sports betting but has specifically advocated against wagering at the amateur level. They have argued for decades that wagering on amateur sports should not be allowed at a sports book. They continue to remain one of the main opponents, along with the NFL, as staunch opponents to sports wagering.

The NCAA has retained Paul Clement, another previous Solicitor General under President George W. Bush, to argue its case before the Supreme Court.

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## NATIONAL FOOTBALL LEAGUE

The NFL is staunchly opposed to sports wagering. In fact, it sees gambling as the greatest threat to the game. The opposition to gaming has long been held in the league, dating back to the 1960's. NFL Commissioner Roger Goodell is the current voice of the opposition. In 2012, Goodell said, "It's a very strongly held view in the NFL, it has been for decades that the threat that gambling could occur in the NFL or fixing of games or that any outcome could be influenced by the outside could be very damaging to the NFL and very difficult to ever recover from. That's why we take the positions that we do with our policies and education and make sure that people understand that we'll enforce it vigorously."

Even so, the Raiders will be relocating to Las Vegas in 2020 and will be hosted in a new stadium near the Las Vegas Strip. When the relocation was approved by the owners in the spring of 2017, the NFL reached out to Bo Bernhard, Executive Director of the International Gaming Institute at the University of Nevada, Las Vegas to address any pitfalls they may have with gaming.



Additionally, the NFL hosts games in London periodically during its season, where sports betting occurs.

The NFL has been a strong advocate of fantasy sports and offers it to fans through their website and other licensees. It should be noted that the State of Nevada has ruled that daily fantasy sports are a form of gambling and should be regulated. This requires an operator to have a Nevada Gaming License specifically for fantasy sports betting. Only US Fantasy Sports has gone through the rigorous process to date.

More recently, Goodell has said that "We've seen changes in the culture around the country in gambling. We're obviously very sensitive to that, but we're also going to evaluate the Raiders case on the relocation application in what's in the overall best interests of the league. But one thing we can't ever do is a compromise on the game. That's one of the things we'll do is make sure the policies we've created, if we did in any way approve the Raiders, I don't see us compromising on any of the policies." -- on "The Herd" on Fox Sports Radio.

Conventional wisdom believes that while the NFL has long held its stance on gaming opposition, if they could find a way to control it, as they have with NFL Fantasy, they would be a proponent of sports betting.

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#### NATIONAL BASKETBALL ASSOCIATION

The most prominent of the professional leagues to take a public stance in favor of sports betting is the NBA. The first acknowledgement of this stance came roughly three years ago when the NBA Commissioner Adam Silver drafted an Op-Ed in the New York Times entitled, "Legalize and Regulate Sports Betting." This shift in 2014 was the first time a major sports organization in the United States changed its stance on the issue after more than two decades of opposition.

The NBA recently acknowledged that they believe the law will change and have stated they believe it will occur as a result of a change in the federal framework. The league appears to be ready to lobby Congress on the issue, saying recently that they have advisors in Washington, D.C. and legislation is being drafted in coordination with the commissioner. They believe that Congress will be more receptive to the conversation after the SCOTUS ruling. The league leans toward a federal model and had previously stated that the New Jersey law was a way to get around PASPA and not deal with the topic incongruently.

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#### MAJOR LEAGUE BASEBALL

MLB has long been part of the coalition supporting a ban on sports betting. Nevertheless, over the last few years, the league's position has changed and they have softened their stance. Commissioner Rob Manfred earlier this year said, "There is this buzz out there in terms of people



feeling that there may be an opportunity here for additional legalized sports betting. We are re-examining our stance on gambling. It's a conversation that's ongoing with the owners."

While they have not officially changed their position, the commissioner has further said that, "If there's going to be a change in the regulatory structure with respects to sports gambling, we need to be in a position to meaningfully engage and shape, try to shape what the new regulatory scheme looks like." It is believed that MLB will eventually want a seat at the table should PASPA be overturned or federal legislation be passed.

Manfred further stated, "Sports betting happens whether it's legalized here or not, it's happening out there. So, I think the question for sports is really, 'Are we better off in a world where we have a nice, strong, uniform, federal regulation of gambling that protects the integrity of sports, provides sports with the tools to ensure that there is integrity in the competition ... or are we better off closing our eyes to that and letting it go on as illegal gambling? And that's a debatable point."

MLB has also stated that Las Vegas would be a viable market for an expansion team at some point.

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#### NATIONAL HOCKEY LEAGUE

The NHL became the first professional sports league to allow an expansion team to be located in Las Vegas. While the league has held a position against sports betting, it has traditionally been the quietest on the issue of legalization. The NHL also realizes that the league represents a small portion of the overall sports betting market compared to football and basketball.

As the Vegas Golden Knights began their inaugural season in Las Vegas earlier this year, Commissioner Gary Bettman made a request to MGM Resorts International Chairman Jim Murren to not have the team listed at MGM's sportsbooks at the New York New York Hotel-Casino and the Monte Carlo Hotel-Casino, which are adjacent to T-Mobile Arena, where the Vegas Golden Knights play. A formal request to have Las Vegas sportsbooks remove the Vegas Golden Knights' home games was never submitted to the Nevada Gaming Control Board.

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#### MAJOR LEAGUE SOCCER

While not a party to the case, the MLS has emerged as the one league that has said that legal sports betting would be good for the United States and to "bring it out of the dark ages." Soccer is bet on around the world, most extensively in Europe and is "part of the DNA of football around the world," according to Commissioner Don Garber. He said earlier this fall that the MLS is ready to fully embrace betting on games. This was further clarified when Garber stated, "One of the only values of being the youngest major league here, and sometimes being under the radar ... is I think it gives us the opportunity to push the envelope on a number of different things. I do





believe that we could lead this effort, because I don't know that everybody will see soccer as having the same challenges that perhaps would exist if the NFL was going to come out in support of it."

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## SOLICITOR GENERAL

The Solicitor General may be the wild card in this case before SCOTUS. The Solicitor General has always been viewed as the tenth justice to the Supreme Court. He represents the federal government in cases before SCOTUS. While it is not unusual for the Solicitor General to appear before the court, the court tends to be very interested in what he has to say about particular issues or cases.

The intrigue behind the current involvement by the Solicitor General became a potential issue for proponents of sports betting as they considered President Trump's former ownership of casinos and long-time feud with the NFL, both of which are on the opposite side of a Solicitor General siding with the NCAA on the case. The Solicitor General had previously argued that the case should not be taken up by SCOTUS and will be taking part in oral arguments before the case when it is heard on December 4th, taking up to ten of the thirty minutes allotted to the league's lead lawyer, Paul Clement.

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## OTHER PLAYERS IN THE DEBATE

### AMERICAN GAMING ASSOCIATION

The American Gaming Association has long been a proponent for the legalization of sports betting in the United States. As the voice of the gaming industry, the AGA continues to be extremely vocal in its support of the repeal of PASPA. The AGA recently formed the American Sports Betting Coalition ("ASBC") to bring stakeholders together to allow for the legalization of sports betting nationally. The AGA, which filed an amicus brief in 2016 as part of the Third District Appeal, estimates that the illegal, unregulated sports betting market is a \$150 billion a year industry. The AGA advocates allowing states and tribal nations the ability to make their own decisions on whether to allow sports betting and that will in itself curtail the amount of illegal activity. While they do not advocate on behalf of a specific regulatory model other than to continue to pursue legal action through the courts and legislation through Congress, the AGA and the ASBC remain the strongest individual organizations advocating for the legalization of sports betting.

### OTHER STATES

West Virginia was the first state to join in on the New Jersey side of this case. This initially occurred when New Jersey made its appeal to SCOTUS in 2016. West Virginia Attorney General Patrick Morrisey filed the brief that was joined by attorney generals in Arizona, Louisiana, Mississippi, and Wisconsin. Since SCOTUS has decided to hear the case, a total of twenty state



attorney generals have joined in with New Jersey. These include Florida, Indiana, Kansas, Missouri, Nebraska, New Hampshire, North Dakota, Ohio, Oklahoma, Rhode Island, Tennessee, Utah, and Wyoming. The governors of Kentucky and Maryland have also signed on in support of New Jersey's efforts in the case. Readers may be surprised that one of the only non-gaming states to join in this debate is Utah, but that decision likely comes down to the belief that this case is about states' rights.

In the brief that was filed in the Third Circuit by West Virginia, it states:

*The concern of Amici States—the States of West Virginia, Arizona, Louisiana, Mississippi, and Wisconsin—is not what Congress regulates but how it does so. Even where it has Article I authority to act, Congress may not force the States to act as the vehicle for implementing federal policy and thereby shift to the States political accountability for its actions. Such coercion is unconstitutional commandeering.*

#### OTHER INTERVENERS

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Other major players in the debate include Florida State University professors and sports law experts Ryan Rodenberg and John Holden, Pacific Legal Foundation, Congressman Frank Pallone (D - NJ), and the European Sports Security Association. Congressman Pallone, who is retiring at the end of his term in 2018, also introduced the most recent legislation in Congress in the Gaming Accountability and Modernization Enhancement Act ("GAME Act"). The bill, which serves as the other potential track for legalization of sports betting through the legislative process, would repeal PASPA as well as remove any other federal barriers, give oversight to the Federal Trade Commission, and outline consumer protections that would have to be included in any state legalization efforts.



## IV. THE INFLUENCE OF EUROPE

### HOW THE EUROPEAN MODEL WORKS

It is no surprise that the European sports betting market is more developed than the United States. Sports wagering is part of the overall fabric of the communities and culture of countries throughout Europe. They offer much more advanced betting systems and savvy marketing programs that create opportunities for them to partner with U.S. operators, should PASPA be overturned.

As an example of the amount of betting that can occur on sporting events in the United Kingdom, one can look directly to the betting activity on NFL games. Over the last several years, the NFL has played games at Wembley Stadium in London in an effort to expand the brand and gain new fans of the sport. London NFL games attract betting levels that are ten times greater than normal NFL games held in the United States. This has been consistently demonstrated over several games even with the NFL requesting that betting machines within the stadium be turned off.

European operators have already entered the United States sports betting market and have started to build bridges, as they see further opportunity to expand their brand and market. With the potential for PASPA to be overturned, their influence is likely to expand and they may provide different offerings within the U.S. sports betting environment.

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### THE ROAD TO ALDERNEY

Located in the English Channel off the coast of Normandy, France, Alderney Island is the northernmost inhabited island of the Channel Islands. Although the Channel Islands are a British Crown Dependency, they are not a part of the United Kingdom, nor are they a part of the European Union. Thus, they are not subject to laws governing those regions. Alderney Island is a self-governing democracy with its own States Government and Parliament. Their financial independence and exemption from UK and European laws has allowed Alderney Island the freedom to engage in creative solutions for self-sustainability. Known for its independence, the island has become an offshore financial and e-commerce center. The island's States Parliament have passed legislation to further develop ecommerce on the island to support the electronic transactions of businesses and establish themselves as a leading global e-commerce, e-gaming, and e-betting entity. As such, the island has unofficially become known as the "online gaming capital of the world."

The Alderney Gambling Control Commission was established in 2000 with a sole focus on regulating eGambling. In 2011, they signed a Memorandum of Understanding with the State of Nevada that allows for sharing of information, due diligence, and expertise. Both entities have



continued to build a solid relationship based on their expertise and regulatory knowledge in land-based and interactive operations.

Alderney continues to be the standard as it pertains to electronic and online gaming, and it serves as a benchmark for regulation. Any future sports betting operations in the United States will likely form relationships with Alderney that will only expand the sports betting world between the United States and Europe.

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## OVERVIEW OF THE EUROPEAN MARKET

While there are several operators throughout the European sports betting market, there are only a handful of major players that will initially seek to operate in the United States. These European operators have advanced operations with significant marketing arms located in cities and villages throughout Europe, in an analogous way to how Walgreens and CVS Health operate at the same intersections in both large and small markets. European bettors patronize these locations to find the best odds for the wagers they are seeking to place.

While there are numerous operators, the major ones include The Stars Group (formerly Amaya), GVC, Ladbrokes/Coral, Paddy Power Betfair, and William Hill. Of those companies, only William Hill has set up full sports betting operations in Nevada. Paddy Power Betfair, a community-centric group that has a strong marketing arm, also owns and operates TVG and their racetrack/betting app is utilized in 35 U.S. states. Other groups have initiated efforts to partner with operators in states that have legalized online gaming, including New Jersey, Delaware, and, most recently, Pennsylvania.

European operators run complex algorithms to monitor teams and individual athletes, including bed checks and injuries, as well as other factors such as weather. In terms of betting lines, Europe initially looks to Asia for any changes in betting lines from the previous day. In turn, the Caribbean betting line utilizes the European betting line to calibrate their betting lines. Those lines then get interpreted by U.S. sportsbooks taking sports bets, ultimately impacting the U.S. market.

## THE ADVANTAGES AND DISADVANTAGES OF THE EUROPEAN MARKET

The European market offers some lessons on how a potential expanded sports betting market could succeed should PASPA be overturned or Congress decide to act. One of the most important advantages in Europe is the ease of opening accounts. Currently in Nevada, one must initially go to the sportsbook to physically set up an account. This includes showing identification and deposit front money in an account. After that, bettors can place sports bets anywhere within the boundaries of Nevada through an app on their phone that geotags their location.

European operators offer much easier and flexible methods for opening an account. They offer far more outlets to place bets including bet shops, mobile applications, and online betting.



Furthermore, they also offer more ways to bet, including offering in-game betting on a wide variety of events to engage a broad range of interests and stimulate volume.

Regardless of whether one is looking at sports betting in Europe or in the United States, one critical issue is the ability to curb illegal betting. This is still a concern in Europe and will be a large concern in the United States so operators must continue to be diligent in their efforts. Europe offers a much more competitive market, both in terms of odds for bettors and in attracting quality manpower to run those operations.

## POTENTIAL EUROPEAN OPERATORS

Should PASPA be overturned and states begin the process to legalize, it is likely that most major European operators will seek to expand their operations in the U.S. market. Some will be leaders while others will wait and follow once the pioneers have tested the waters. If PASPA prevails, there may be a significant push to move legislation through Congress, either through a federal framework or an opt-in, 50-State model, which is still favored by a majority of the gaming industry.

This section highlights a sampling of European operators to show the magnitude of sports betting operations that can occur in a fully legal setting. This could play out in several U.S. states with the advent of legalized sports betting. The highlighted operators include publicly traded companies, as their transparency allowed for a better collection of data points. Because many of these operators are legally allowed to operate across national borders, they are not comparable to any single country's sports betting statistics. Therefore, this section focuses on the individual operators, the markets they serve, relevant company mergers & acquisitions, operating statistics, their involvement in existing U.S. platforms, and their future plans to capitalize on new potential markets.

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### WILLIAM HILL

William Hill is one of the leading online betting and gaming providers in the United Kingdom. They are also one of the top three online sports betting operators in Italy and Spain. They have offices in ten countries worldwide, and they are licensed in five regulated markets including the United States. With more than a million betting opportunities available every week and over 2.6 million customers, they provide in-play and pre-match sports betting, and a wide range of gaming products that offer a multitude of bets. Revenues exceeded \$1.97 billion in 2016 (exchange rate as of December 27, 2016).

In the United Kingdom, William Hill has 2,375 of the 86,700 licensed betting shops that offer wagering on football, horseracing, and other sports in addition to fixed odds betting terminals. In Australia, they are one of the top three providers of online betting with around 284,000 active



customers. This operation was created through the acquisition of Sportingbet and other smaller companies. In the United States, William Hill currently is the largest land-based sportsbook operator in Nevada with over 50 percent market share, and they are the exclusive bookmaker in the State of Delaware's parlay betting operation. Many of Nevada's sports books use William Hill as their sports betting provider.

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#### PADDY POWER BETFAIR/TVG

Paddy Power Betfair is a bookmaking business created by the merger of two sports betting companies, Paddy Power PLC and Betfair Group, PLC, in February of 2016. Prior to the merger, Paddy Power was one of the largest online bookmakers offering online sports betting, poker, casino games, bingo, virtual sports, as well as several brick-and-mortar betting shops across the United Kingdom, Ireland, and Northern Ireland. Betfair was best known for the development of the world's first mainstream betting exchange that allowed customers to bet against one another, rather than only against the book. The merger of these two companies extended their global reach and technologies. Headquartered in Dublin, Ireland, the company has four core business segments: Online, Australia, Retail, and U.S. operations and three main sports betting platforms. In their traditional sportsbooks, offered through Paddy Power, Betfair, Sportsbet, PPB provides odds on outcomes and taking bets from customers, whereas the Betfair Exchange enables customers to bet against each other.

The Online segment offers services throughout the United Kingdom and Europe under the Betfair brand and the Paddy Power brand. The Australian division operates online sports betting through their Sportsbet brand. The company also operates over 600 Paddy Power shops across the United Kingdom and Ireland, making it the largest operator in Ireland and the fifth largest operator in the United Kingdom. Finally, the U.S. division, referred to as TVG, operates an online pari-mutuel betting network that is active in 35 states, as well as an online casino and horse racing pari-mutuel in New Jersey. As of 2016, total sportsbook wagers reached nearly \$12.2 billion, up 24 percent from 2015 sportsbook wagers of over \$9.8 billion (based on an exchange rate as of December 31, 2016).

PPB clearly has an advantage in the United States, having operations in 35 states and a diversity of their online offerings. The TVG relationship will be significant in those states that choose to expand sports betting to their pari-mutuel locations.





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## THE STARS GROUP

The Stars Group just completed its merger earlier this year and is one of the most regulated online gaming companies in the world, with licenses or applicable approvals to operate in 17 jurisdictions, including Europe.

The Stars Group gaming brands include PokerStars, PokerStars Casino, BetStars, Full Tilt, PokerStars Championship, PokerStars Festival, and MEGASTACK. Combined, these brands have more than 115 million registered customers, forming one of the largest online gaming businesses in the world. With the merger and rebranding, there are a total of 2.1 million active users. Revenue in 2016 reached nearly \$1.16 billion with a majority of their customers, over 80 percent, located within Europe.



## V. THE POLITICAL PLAYING FIELD

### CURRENT CLIMATE

Whether it be through the professional sports leagues (NFL, NBA, MLB, NHL, and MLS) or the collegiate ranks of the NCAA (through March Madness and College Football), sports wagering is an integral part of American culture. This fact is illustrated during television coverage of sporting events where betting lines are actively displayed as well as through the continued development of daily fantasy sports (“DFS”).

There have been several attempts at the federal level to either strengthen PASPA or provide for its complete repeal. Most of these attempts have been driven by the professional leagues but more significantly, by the NCAA. The NCAA has tried several times to ban all betting on college athletics, including those bets taken in Nevada. These bills were designed to address both legal and illegal gambling. The illegal market problem still exists today as independent sports wagering operators, commonly referred to as bookies, are part of the fabric of many communities and neighborhoods. They operate illegally and without regulation or enforcement. They offer credit to their customers and sometimes even allow bets via their own app. On the other hand, sports betting in Nevada and other legal jurisdictions is regulated and taxed, which is the appropriate model to follow nationally.

One of the NCAA’s more recent attempts at a sports betting ban occurred in 2005 when former Nebraska football coach, and then Congressman, Tom Osborne along with Senator John McCain proposed to make sports betting on all college athletics illegal. After the bill’s introduction, Osborne, who is morally opposed to gaming, was offered carte blanche access to one Las Vegas-based sportsbook operation to illustrate that Nevada provided strong oversight and regulation over sports betting. Osborne respectfully declined the meeting and information gathering opportunity. While Senator McCain had been a longtime opponent of sports betting, he has softened his stance on the issue, acknowledging that a debate needs to occur on the subject in Congress.

Recently, sports wagering seems to have reached its highest level of support to date. The Washington Post released the results of a poll in September 2017 that showed a 55 percent approval and 33 percent disapproval of sports betting. The results of this poll are inverted in comparison to a 1993 poll conducted shortly after PASPA was enacted. In that poll, 56 percent of those surveyed disapproved of sports betting while 41 percent approved of it.

There were also several noteworthy findings in an August 2017 Washington Post poll, which was conducted in partnership with the University of Massachusetts Lowell. This poll revealed key groups that supported sports betting including avid sports fans (70 percent), those with incomes



of \$100,000 or more (61 percent), and men (63 percent). Both Republicans (52 percent) and Democrats (57 percent) showed support for the legalization of sports betting in the poll which had a margin of error of  $\pm 3.7$  percent. Age was a factor in the attitude towards sports betting as only 46 percent of people over the age of 50 supported legalization while those between 18 and 49 supported it by 62 percent.

The politics of sports betting will be highlighted in the coming months as SCOTUS rules on the New Jersey case. While legislation at the federal level does not seem imminent, there is always a chance that something could transpire at that level in 2018. This leaves the court's potential decision as the most likely key toward legalization in the short term.

## POTENTIAL COURT OUTCOMES

The Supreme Court has different options as it looks to decide in the Christie vs. NCAA case. GMA believes there is potential for three different outcomes once the court hears the case: SCOTUS upholds the lower court's decision; New Jersey prevails completely with the overturning of PASPA; or a mixed outcome occurs that allows for neither side to prevail.

### UPHOLDING THE LOWER COURT'S DECISION

Should SCOTUS uphold the lower court's decision, PASPA would remain the law of the land until otherwise changed by an act of Congress. This would keep the states of Nevada, Oregon, Montana, and Delaware as the only states where sports betting is allowed with Nevada remaining the dominant player in featuring a full sports betting offering.

If this were to occur, the gaming industry would have to lead the charge to lobby Congress to either repeal PASPA or pass another form of legislation that would allow sports betting either at the state level, creating a 50-State model, or a under a federally controlled system. While the 50-State opt-in model could be considered cumbersome, the latter option would be the first time that gaming is regulated or overseen at the federal level.

As previously mentioned, only one of the leagues has formerly come out and said that they would favor a federal model. The NBA most recently acknowledged that they would lobby Congress for legalization at that level and believes Congress may act more judiciously once a ruling on PASPA has occurred.

### SUPREME COURT OVERTURNS PASPA

While the media has focused on how the overturning of PASPA will impact sports betting, the issue of states' rights has been overlooked by many. The states' rights issue is a primary reason why 20 states have joined New Jersey in the case. One of the most intriguing participants in support of this argument is Utah, which does not currently permit any form of gaming. There are



several potentially larger implications on other issues surrounding the powers that the federal government can push down to states.

An overturned PASPA has been the focus and hope for several years not only by New Jersey but by the gaming industry as a whole. They see this as the most immediate way to legalize sports betting beyond the current footprint. This would begin what GMA continues to refer to as the 50-State model or an opt-in model.

The 50-State Model will be discussed at a later point in this paper to outline the likelihood of operators, importance of tax rates, and which states could be first to market. The leagues and the NCAA will likely take their fights to individual states. Some believe that this may trigger federal action as well but considering the challenge of passing controversial legislation by Congress, it remains a difficult proposition for anything to pass.

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#### PARTIAL VICTORY/DEFEAT FOR BOTH SIDES

There are various degrees to which the Supreme Court could give a partial victory to either side in the sports betting case. Some of the scenarios that have been discussed is a partial repeal of PASPA that would allow sports betting to proceed within states. It may in the end force Congress to do a complete repeal of PASPA or, at a minimum, debate the issue.

One potential scenario could make the current model that allows for certain states (Nevada) to have legal sports betting, illegal. Another scenario could allow states to conduct sports betting by removing the state prohibition but force states or Congress to further legislate the action. While a partial opinion seems unlikely based off previous rulings, scenarios remain that would allow for neither side to be happy with the end result.

If either a full or partial repeal of PASPA were to occur by SCOTUS, states will likely mobilize as early as the upcoming state legislative sessions in 2018. A full or partial ruling would undoubtedly unleash a 50-State model where each state decides what sports betting may look like within their own borders. This situation would be similar to the debate that the gaming industry faced several years ago as it was contemplating online gaming at the federal level before the engagement of the Attorney General's opinion which allowed states to conduct online gaming through interstate pacts.

While SCOTUS will hear the case this month, it will not make a ruling until later in 2018. Many view the timing of the opinion between March and the end of the court's current session that concludes at the end of June. Because of the magnitude and potential impact of this high-profile case, it is viewed that the court may not likely make a ruling until the end of its session in June as it does traditionally with most major cases.



## THE 50-STATE MODEL

Should the Supreme Court completely or partially overturn PASPA, a 50-State model would begin to allow sports betting on a state by state basis. There are several questions surrounding this scenario including how quickly a state will go live with sports betting, who will be the operator(s) within each state, and how sports betting will be regulated and taxed.

Under a 50-State model, each state would individually regulate sports betting within state lines. They may use other states as models but they would individualize their regulations as it comes to large issues. These would include the definition of suitable operators, formation of interstate pacts with other states in a comparable way that Nevada and New Jersey have done with online gaming, how sports wagering will be taxed and at what rate.

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### STATES READY TO GO

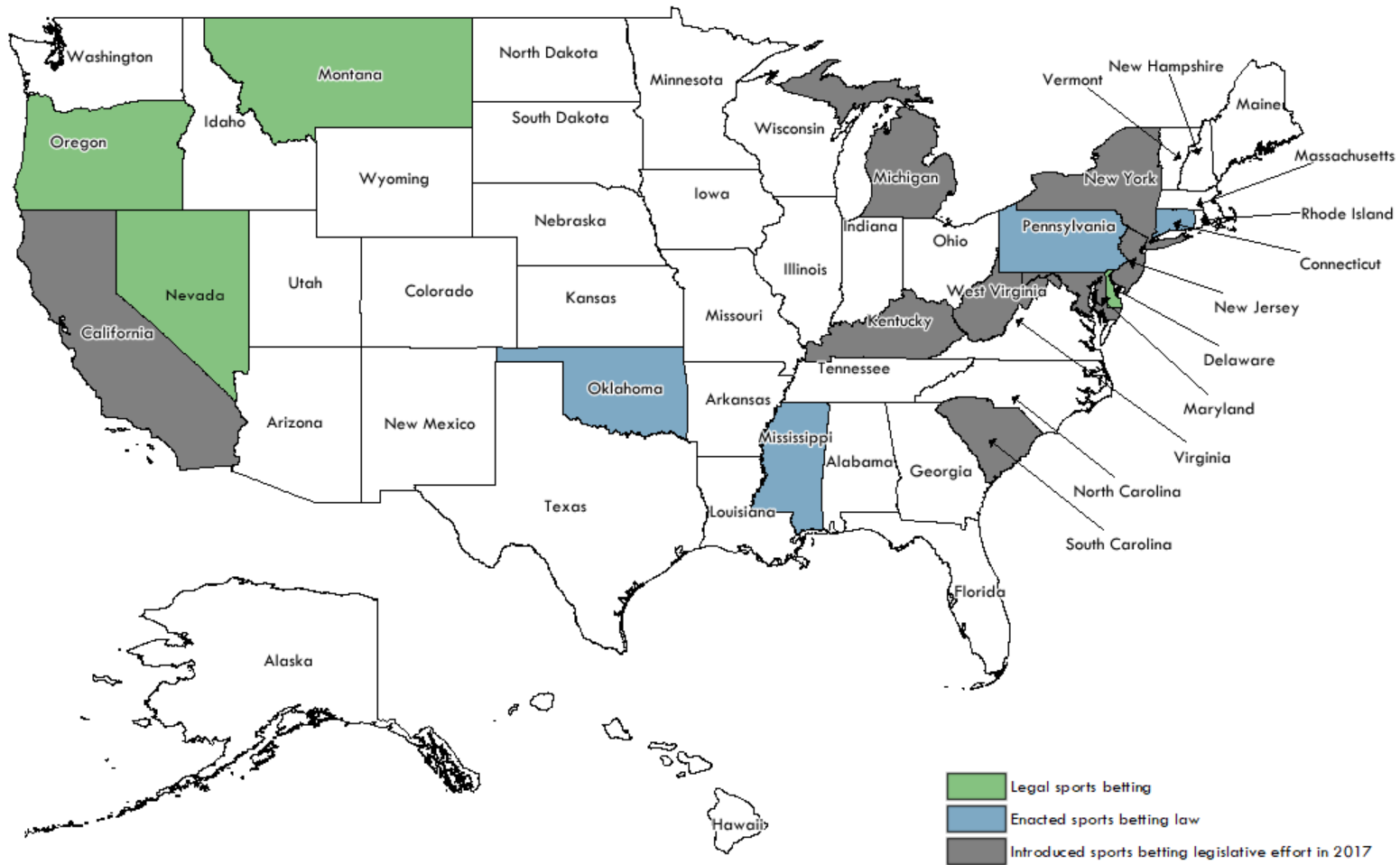
New Jersey would likely be the first state to market should the Supreme Court overturn PASPA. There are several other states that have already legalized sports betting that should also be considered as likely early adopters. These states include Mississippi, Connecticut, and Pennsylvania (the most recent state to pass enabling legislation).

Other states that have considered the legalization of sports betting prior to the repeal of PASPA include California, Hawaii, Kentucky, Maryland, Michigan, New York, Oklahoma, South Carolina, and West Virginia. These states had either previously introduced sports betting legislation or put forth a study bill. It should also be noted that states that have expanding gaming industries with strong regulatory structures including Massachusetts may also be states that are first to market.

Most recently, West Virginia conducted a study that highlighted the sports betting opportunity. This study included a consideration of traditional as well as online sports betting with the state lottery running the operation. This study was designed to see what could happen should PASPA be overturned. West Virginia still would need to legislate the act of sports betting; a bill was introduced earlier this year but nothing has passed out of the legislature.



## Sports Betting Legality and Legislative Efforts in the United States



Source: Legal Sports Report, Global Market Advisors





Other potential early state adopters may look at those states that have either passed or explored the legalization of daily fantasy sports. This process has expedited due to the emergence of DraftKings and FanDuel. Measures have been introduced to allow DFS operators to operate their business models by allowing wagers on fantasy sports including football, basketball, and other sports. Many states have taken stances on whether or not these are forms of gaming, skill or non-skill based games, and if they need to be regulated or pass a level of suitability.

Nevada continues to be a state that requires formal gaming licensing of a DFS operator. DraftKings and FanDuel have since vacated the state since the Attorney General notification in 2015. US Fantasy is the only operator to have applied for a license in the state. The Nevada Gaming Policy Committee has continued to discuss this issue while operators, particularly US Fantasy, conducts licensed businesses in the state.

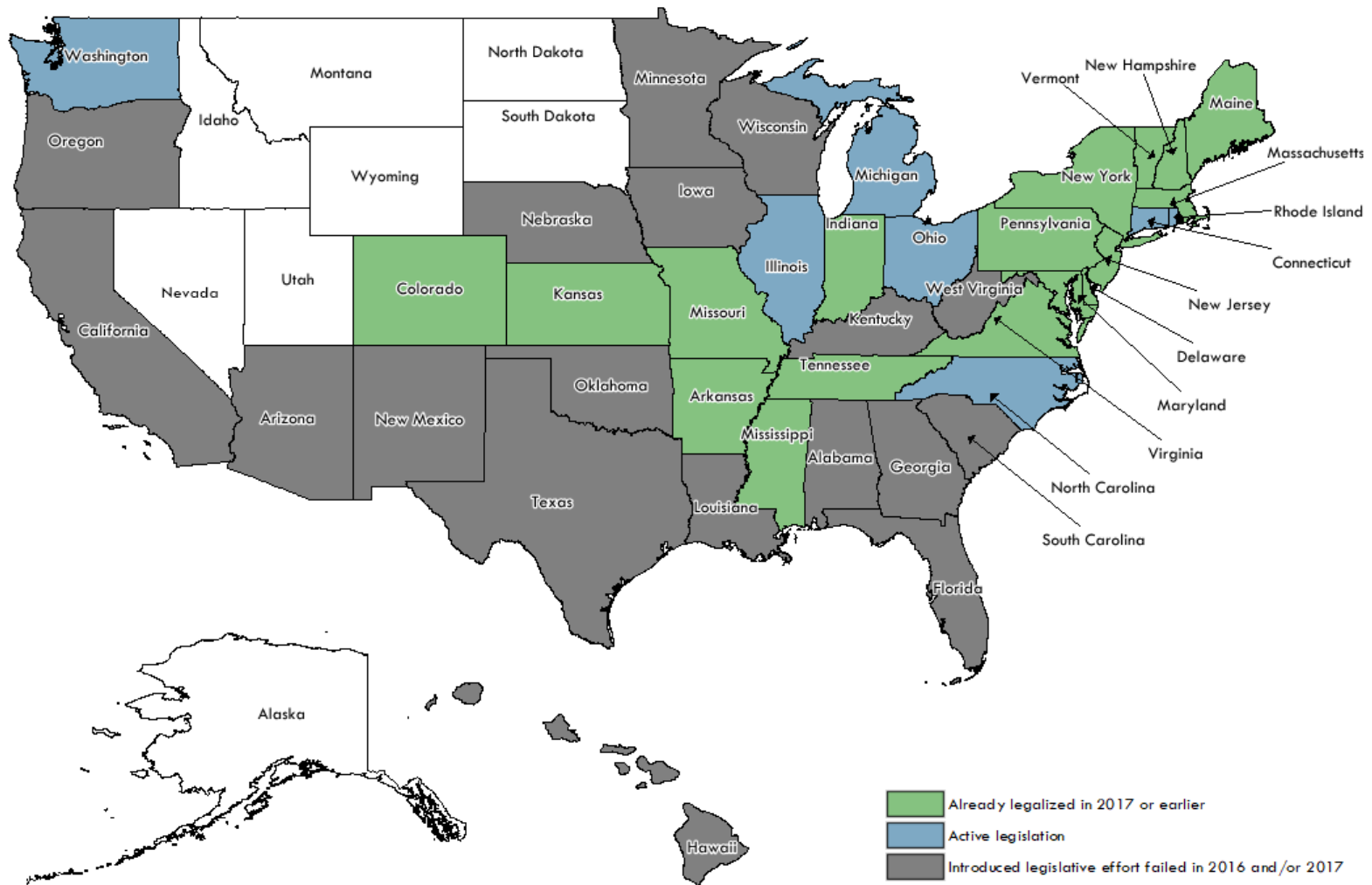
Nearly twenty states have introduced legislation over the past two years to regulate DFS in some fashion, ranging from complete bans, calls for additional studies, adding consumer protections, to exemption from current gaming laws. States that currently allow DFS include Arkansas, Colorado, Delaware, Indiana, Kansas, Maine, Maryland, Massachusetts, Mississippi, Missouri, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Tennessee, Virginia, and Vermont. Other states have active legislation or have introduced bills but did not pass them prior to the end of their respective legislative sessions.

These states may be prime candidates to look at sports betting as well. This would bring the total number of states that may take an active path to the legalization of sports betting to over twenty. One of the main questions will be who will be the operator(s) that take wagers on sports.

While many states will be interested in sports betting, there may be a handful of states that are not interested in its legalization. Utah and Alaska are probably at the top of that list as they currently do not have any major forms of gambling such as lottery, commercial gaming, tribal gaming, or racetracks. Hawaii, which falls into a similar category, will probably not be on that list as they have already enlisted a study into sports betting. Other states that will likely not jump in right away are those that have historically not approved gaming in its other forms.



## Fantasy Sports Betting Legality and Legislative Efforts in the United States



Source: Legal Sports Report, Global Market Advisors



If PASPA is overturned, New Jersey, Pennsylvania, Connecticut, and Mississippi will likely move quickly to launch sports betting. Since legislative sessions begin again for a majority of states in January, some legislatures may take active roles to lay the foundation for sports betting. Nevertheless, sports betting is not a strong revenue driver in comparison to other forms of gambling, so it is not likely a revenue solution.

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## OPERATORS

One of the biggest questions with the legalization of sports betting will be who within each state will operate sports betting. Some states already have land-based operators or tribal casinos that would most likely be the first venues to offer wagering on sports. However, other existing operators could prove to be interesting partners in those states that have a lottery. Other sportsbook providers with experience overseas may also seek to enter the U.S. market.

Major gaming companies, such as Boyd Gaming, Caesars Entertainment, Golden Gaming, Las Vegas Sands Corp., MGM Resorts, Penn National, Pinnacle, Red Rock Resorts, and Wynn Resorts, that have properties in Nevada will have an advantage over other potential operators. While some of these companies have partners that operate their sportsbooks, these strictly regulated operations have become proven models for how to conduct sports betting. As they look to their operations in other states, these companies will be able to rely on existing models that will be fairly easy to replicate. Those operators that have significant operations in multiple states will have an advantage over more independent operators who only have one or two locations.

Enterprises that operate Video Lottery Terminals (“VLT’s”) in certain states may also be considered as potential operators. These enterprises already have IT infrastructure and locations staffed with gaming personnel, which could allow for the implementation of a sports betting program to occur fairly quickly.

Tribal gaming entities will also likely be a major player in sports betting. While a majority of tribal gaming entities will have to renegotiate their existing compacts, many have already begun that process and continue to explore the opportunity. However, one of the potential risks of this process is the reopening of compacts, as this may give states an opportunity to adjust current revenue sources and increase exclusivity fees.

Racing operations may also attempt to expand their current operations to include sports wagering. They too have IT infrastructure and locations staffed with personnel capable of conducting sports wagering transactions. There are some states that currently do not have commercial casino operations but do offer racing such as Texas and Kentucky. Many of these track operators would relish the opportunity to add sports betting to their current offerings and potentially attract a different demographic.



State lottery locations may also prove to be venues for sports betting operators. In many states, the lottery has demonstrated themselves as a political force that will challenge land-based operators. This would allow for hundreds, if not thousands, of locations to take bets in a similar manner as they do for Powerball or Mega Millions. As a recent example, shortly after the passage of gaming expansion in Pennsylvania, Governor Tom Wolf allowed for the Pennsylvania Lottery to offer virtual sports games at lottery retailers, including bars and taverns. Users will be able to place bets on the outcome of virtual sporting events which are based on a software algorithm. Michigan currently runs a similar operation via its lottery.

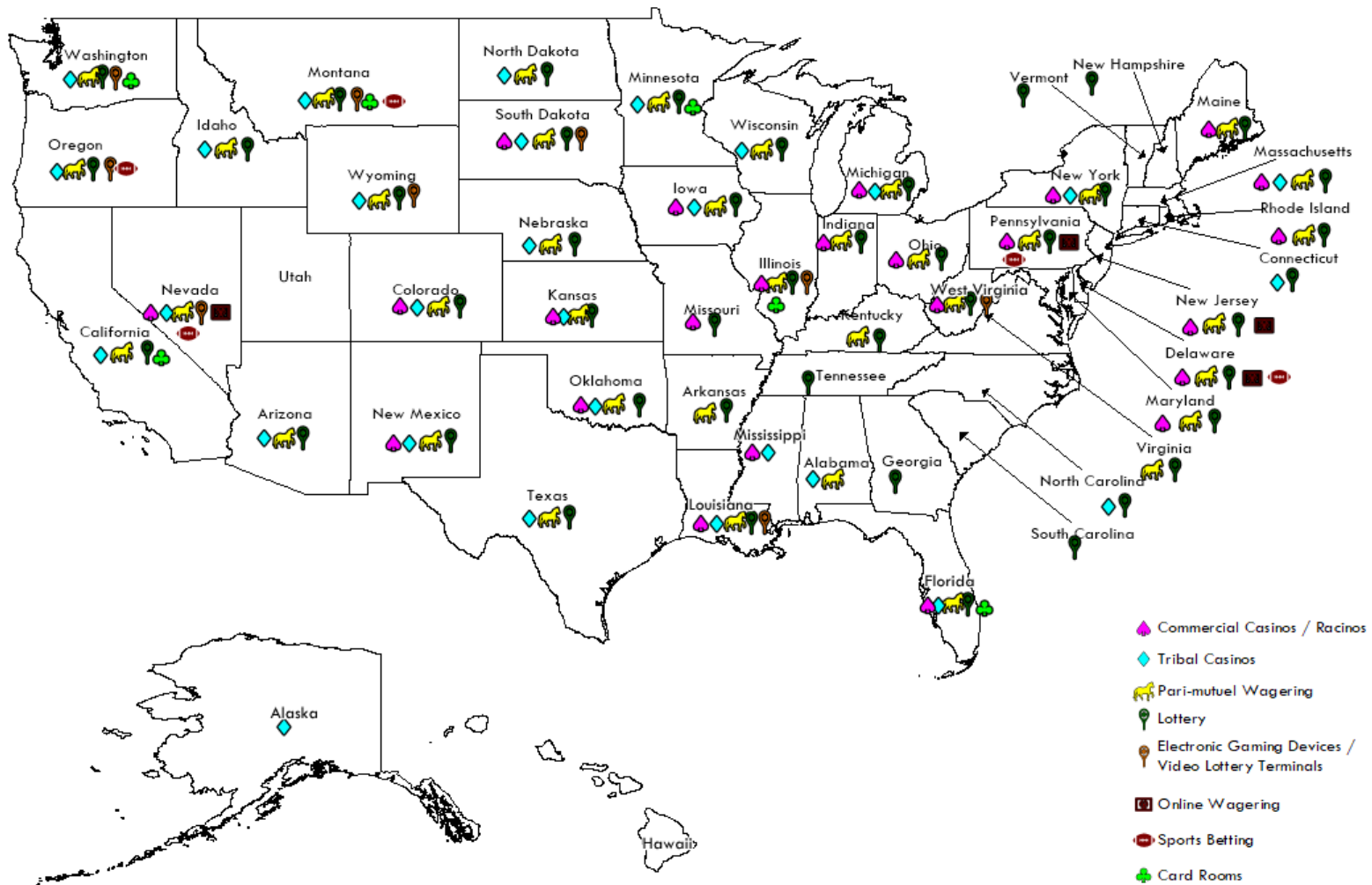
A potential undertone in the operator discussion is the influence and emergence of European operators in the U.S. Market. With legalization, William Hill would immediately have an advantage due to their existing presence and experience in the Nevada market. Other operators in Europe will likely attempt follow suit in expanding their operations to U.S. markets. Paddy Power Betfair may be the first candidate to do so due to their current infrastructure with TVG in 35 states. As discussed earlier in this paper, these operators are savvy, have robust systems in place that allow for individuals to shop the market for the best odds, and they have experience in sports bet marketing.

It is also likely that these various operators will fight for sole control of sport betting operations in certain states and cause a delay in its implementation. This scenario could pit the casino operators, racetrack operators, lottery, and tribes against one another. While margins may be small in sports betting, it is still an attractive offering that can improve other revenue streams, providing the operators are allowed to operate in a reasonable tax environment.

The following map illustrates the proliferation of the diverse types of gaming available throughout the United States.



## Proliferation of Gaming in the United States



Source: Global Market Advisors



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## REGULATION AND TAXATION

One of the keys to the future success of sports betting under a 50-State model, assuming the repeal of PASPA, will be how it is regulated and taxed within each state. Many believe that Nevada will serve as a model but that states will modify their potential tax structures based on their local needs and specifications. Suitability will play a factor in choosing an operator and all major operators will want a strict regulatory structure so their current operations in other states are not affected.

One could look at the current expansion and approval of DFS operators, DraftKings and FanDuel, to see that these entities are not listed operators in Nevada. U.S. Fantasy Sports is the only DFS organization to seek suitability in Nevada. This may prove to be one of the differentiators in states, not only who is chosen as the operator but the allowance of interstate operations to create larger pools.

A reasonable tax rate must also be considered as part of the equation for the viability of sports betting within a state. Nevada offers a reasonable rate because sports betting has such low margins. A more recent example of a sports betting tax rate can be found in Pennsylvania that conditionally legalized sports betting based off the potential repeal of PASPA. Pennsylvania's 34 percent tax rate is based upon gross sports wagering revenue from the previous week. This rate will be challenging for any operator attempting to conduct a successful sportsbook. In discussions with several operators and those close to the gaming industry in Pennsylvania, the rate almost makes it a deal killer should PASPA be overturned. Many believe this may be cause to reopen the gaming act, but believe that will not likely happen in 2018 or 2019.

## THE ONLINE GAME

One of the more recent sports betting developments occurred recently in Nevada. Nevada recently allowed patrons to place bets online or through an app on a smartphone. While Nevada still requires that the initial account be opened in person, this allows for the individual to place wagers remotely through the app, instead of a brick-and-mortar sportsbook, if they are within the geographically fenced area of the State of Nevada.

One item that is seldom discussed by proponents of the legalization of sports betting is how the Wire Act may or may not apply to sports betting. To a lesser extent, the Unlawful Internet Gambling Enforcement Act of 2006 also applies to the debate. Both pieces of legislation have members of the American Gaming Association on different sides of the issue. Those groups that are opposed to online gaming have formed the Coalition to Stop Internet Gaming, and have vowed to spend whatever it takes to prohibit online gaming.



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## JUSTICE DEPARTMENT 2011 OPINION

In 2011, the U.S. Department of Justice Office of Legal Counsel released an opinion that allowed for online gaming as it was not restricted under the Wire Act. The opinion was required by New York and Illinois to clarify whether or not they could sell lottery tickets over the internet within their own borders. Because of the opinion, the states of Nevada, New Jersey, and Delaware have entered into pacts for online gaming, specifically poker and other forms of games.

At the same time, Senators Harry Reid (D-NV) and John Kyl (R-AZ) asked for the Justice Department's position on the prohibition of internet gaming or Congress's role in crafting legislation to address online gaming. The one current agreement, which is based off the 2011 Justice Department opinion, is that online sports betting is prohibited under federal law. However, many took the 2011 memo to mean that states can band together to allow gambling across state lines.

Opponents of online gaming will contend that either Congress needs to act to clarify what is and is not allowed under the Wire Act, especially as it relates to modern day telecommunications. Opponents continue to push the Restoration of America's Wire Act, which is an act that has been advocated by several members of Congress over the years. As proposed, the bill would grant an exemption to online activities like fantasy sports.

In another development earlier this year, Attorney General Jeff Sessions said that he would review the 2011 opinion by the Justice Department once he was sworn into office. Sessions has since recused himself on the online gaming issue because of a potential conflict of interest. The conflict arose when Sessions hired attorney Charles Cooper to represent him during any congressional investigations relating to the firing of James Comey, former director of the Federal Bureau of Investigation ("FBI"). Charles Cooper was hired by the Coalition to Stop Internet Gambling to lobby on their behalf. This puts any review of the 2011 opinion down to the Deputy Attorney General who may take a different view. The coalition's focus has largely remained on online gambling and is not directed at sports betting itself.

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## FUTURE ONLINE DEBATE

Regardless of how the Supreme Court decides on PASPA, the issues surrounding the Wire Act and the Unlawful Internet Gambling Enforcement Act will continue to surround not only sports betting but the regulation of current and future online gaming activities. The most recent state to legalize online gaming was Pennsylvania. As it looks to jumpstart this new form of gambling in Pennsylvania, it will likely look to partner with other states already doing so.

The debate over sports betting and what is permissible online will continue to be debated while states like Nevada continue to operate and allow bets online within the borders of their state. Numerous experts have gone on record saying that the Wire Act does not apply to intrastate



action on sports betting as long as sports betting is legal. However, each state may have to establish its own system under the 50-State model to take bets as opposed to having centralized servers in a specific state.

## PATH TO LEGALIZATION

While it is still unknown how SCOTUS may rule on the case, GMA believes that it is likely the court will side with New Jersey based off SCOTUS's previous views on states' rights. This would potentially lead to an active legislative discussion on sports betting in statehouses across the country toward the end of 2018 and into 2019. Should SCOTUS rule in New Jersey's favor, legalized sports betting could begin in late 2018, depending on how quickly states work to establish regulations, approve suitability, and set up operations.

The political climate has never been better for the implementation of sports betting as a majority of citizens approve of the action and some of the leagues, such as the NBA, are now advocating for legalization and regulation. The American Sports Betting Coalition is continuing to push for its regulation with a broad-based group that would attempt to stop illegal betting.

The NCAA and the major professional sports leagues will continue to have various levels of concern on how sports betting is regulated should it be legalized through the GAME Act or ruled as permissible by SCOTUS in the New Jersey case. Some of the negative perceptions may be reduced with the introduction of professional sports in Las Vegas, including the Vegas Golden Knights and Oakland Raiders.

MGM Resorts International just recently purchased a Women's National Basketball Association ("WNBA") team that will be hosted at Mandalay Bay Resort and Casino. This is the second WNBA team to be owned by a gaming entity; the first was by Mohegan Gaming & Entertainment, operator of the Mohegan Sun Casino-Resort in Uncasville, CT. Additionally, there continues to be discussion for the NCAA to relax its position on Las Vegas hosting sanctioned championships in addition to events currently hosted by Las Vegas in conference championships and other tournaments.

If the court should rule in favor of New Jersey, the future of sports betting will become immediately known. If it rules in favor of the NCAA, it will take an act of Congress either to amend the Wire Act, approve the GAME Act, or address the issue of gambling at a federal level in some fashion. This becomes a harder lift even with public support as there are other issues that are consuming the federal debate including tax reform and healthcare reform. While this is not necessarily a strict party issue, the current political climate in Washington, not only in Congress but between the Executive and Legislative branches, make actions on sports betting seem unlikely in the immediate future.





## VI. EXISTING SPORTS BETTING MARKET

### EXISTING LEGAL MARKET QUANTIFIED

This chapter examines the published statistics for sports betting in legal jurisdictions in the United States and Europe.

#### UNITED STATES

As previously discussed, sports betting in the United States is legally permitted in varying degrees in Nevada, Oregon, Montana, and Delaware. Nevada is currently the only state permitted to offer single-game betting on college and professional sports through licensed bookmakers.

#### NEVADA

The state of Nevada has permitted legal wagers on horse racing and professional sports since 1949, and sportsbooks have been available within Nevada casinos since 1974. There are now nearly 200 sportsbooks throughout the state, offering a menu of wagers including straight wagers, parlay cards, proposition bets and in-play bets on a wide variety of sports. Gaming revenue above \$134,000 per month is taxed at 6.75 percent in Nevada, plus a federal handle tax of 0.25 percent.<sup>4</sup>

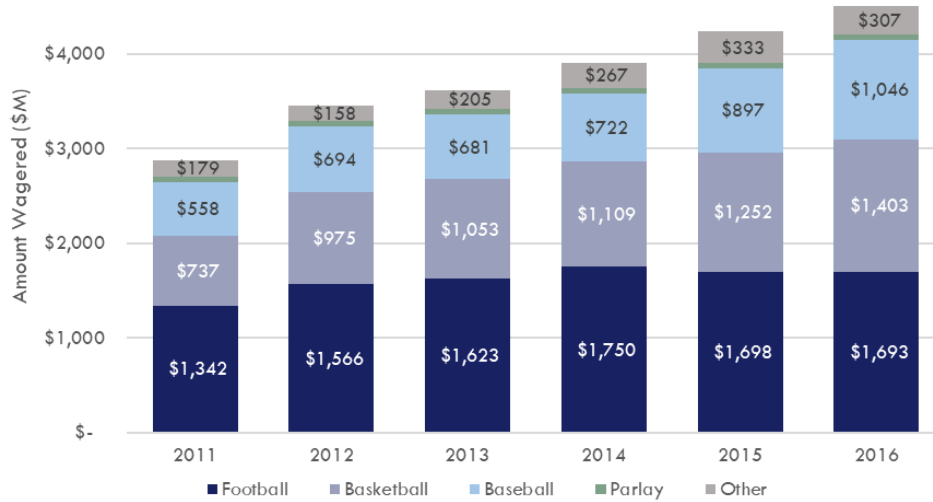
In the past six years, the total amount wagered on sports in Nevada has grown annually at a rate of 8.5 percent, compared to 1.3 percent for overall gaming activity in Nevada. Football is by far the most popular sport in terms of wagers made, with over \$1.5 billion wagered in each of the past six years. Baseball and basketball have seen the greatest increases in total amount wagered, at an annual growth rate of 12 percent and nine percent, respectively. Since 2015, Nevada has also allowed mobile sports betting for users who set up accounts in-person at a casino. This led to a year-on-year increase of nearly \$275 million in total sports betting handle.

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<sup>4</sup> Brainerd, J. (2015). *2015 Casino Tax and Expenditures*, National Conference of State Legislatures (NCSL).  
<http://www.ncsl.org/research/financial-services-and-commerce/casino-tax-and-expenditures-2013.aspx>

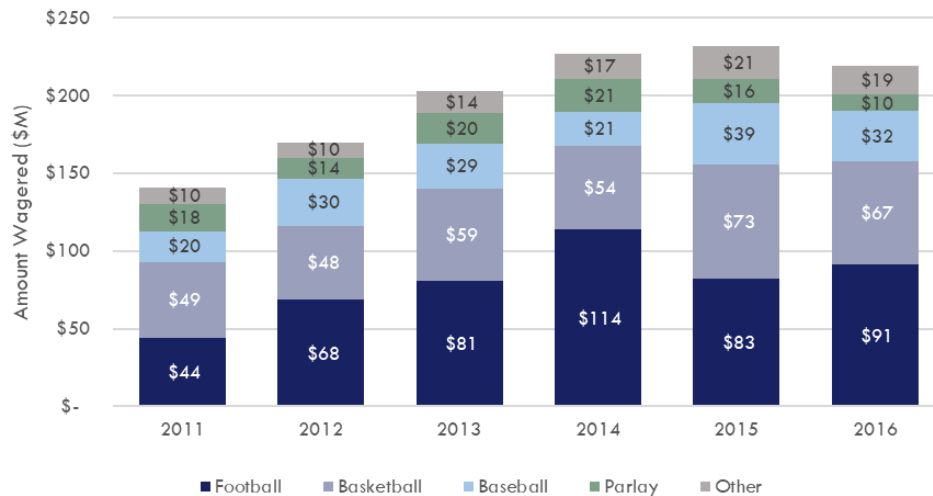


### Nevada Sports Book Handle (\$M)



Source: Las Vegas: Center for Gaming Research

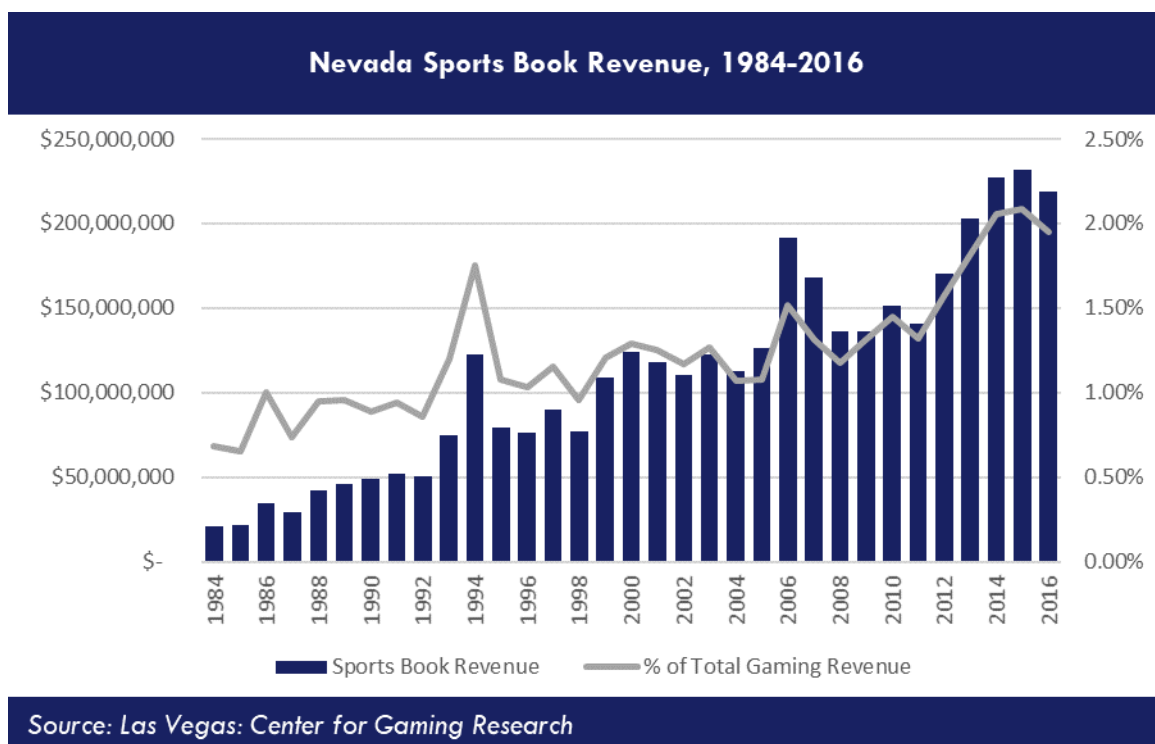
### Nevada Sports Book Revenue (\$M)



Source: Las Vegas: Center for Gaming Research

Due to the nature of tourism in Nevada and the sheer volume of visitors to the state, it does not make sense to analyze sportsbook spend on a per capita basis. Rather, GMA analyzed sports betting revenues as a percentage of total gaming revenue. In recent years, sports betting accounted for approximately two percent of total gaming revenue in Nevada.

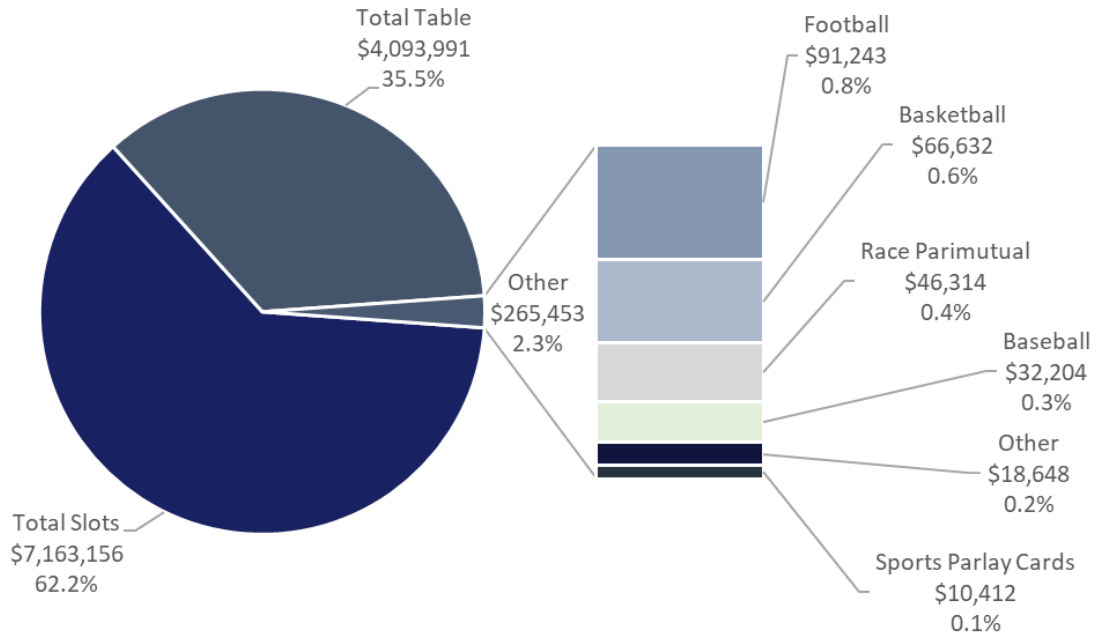




Overall, gaming revenue attributable to sports betting in Nevada was vastly greater than any other legal U.S. jurisdiction. In 2016, sports betting accounted for nearly \$220 million in gaming revenue. Football accounted for the highest portion of revenue at \$91.2 million, followed by basketball at \$66.6 million. Additionally, sports parlay card bets accounted for less than 10 percent of all sports betting revenue in recent years. The hold percentage on parlay bets has historically ranged from 17 percent to nearly 38 percent, compared to less than five percent for single-game wagers.

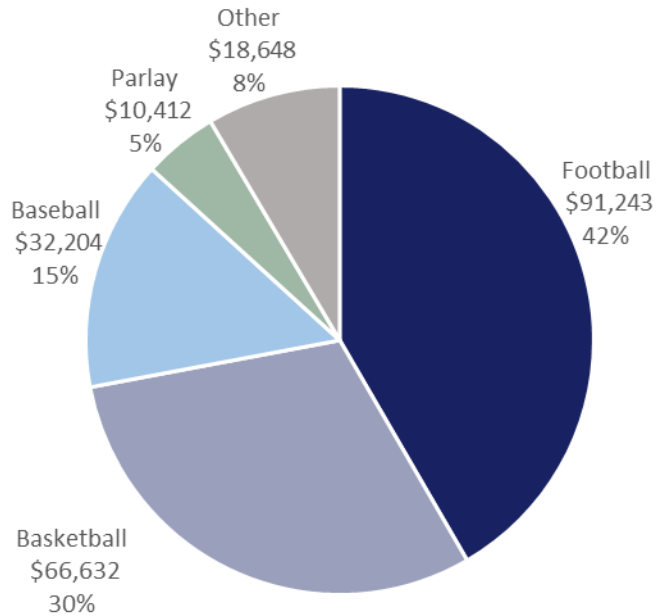


## 2016 Nevada Statewide Gaming Revenue (\$000)



Source: Source: Las Vegas: Center for Gaming Research

## 2016 Nevada Sports Book Revenue by Sport (\$000)



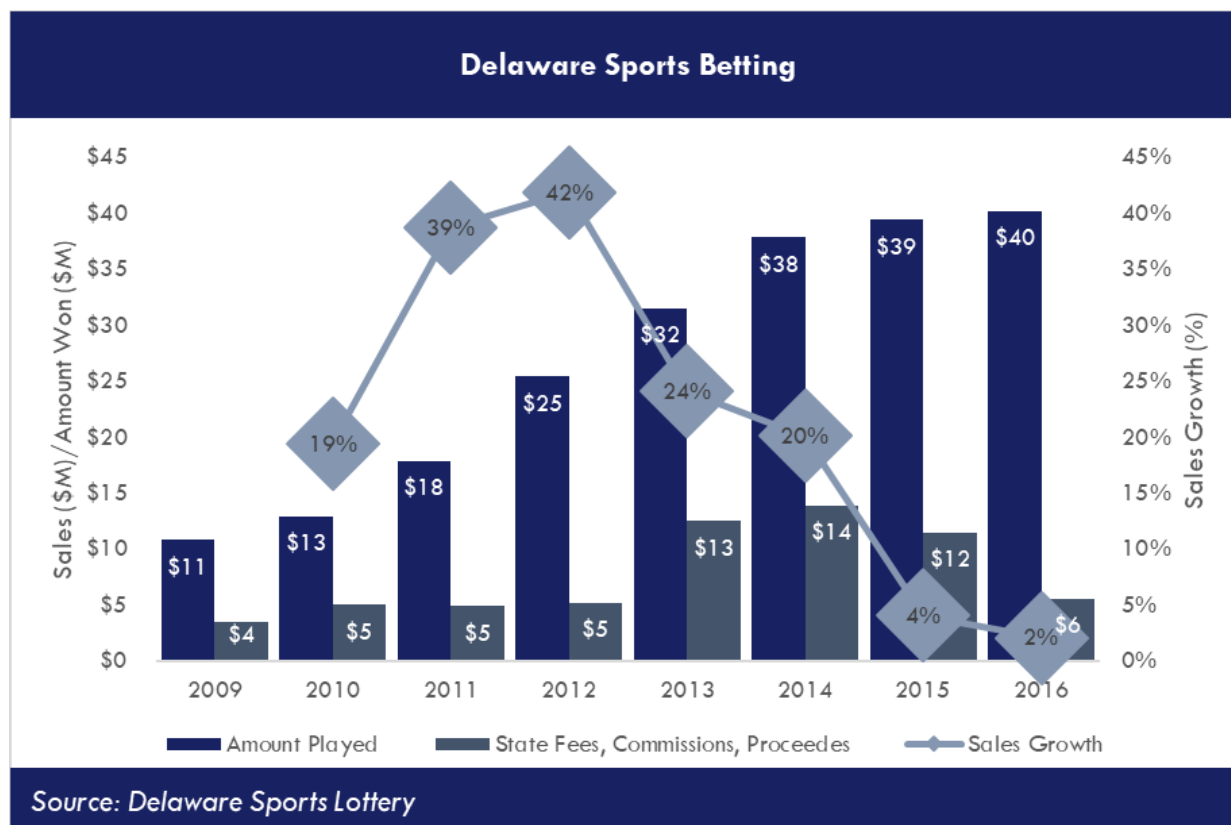
Source: Las Vegas: Center for Gaming Research



## DELAWARE

Since 1976, the state of Delaware has offered a limited form of sports betting through its state lottery. Bettors are legally permitted to place wagers on parlays of three or more NFL games. Single-game wagers and mobile gaming are not available and in-play betting is limited to half-time. Though the program was unsuccessful at the time of its inception, the state's sports betting laws went unchanged, and the state reintroduced the program in 2009. Initially, all bets were placed in-person at any one of Delaware's three racetracks. The program expanded in 2013 to allow betting at retail locations such as gas stations, bars, and restaurants.

There are now over 80 sports lottery retailers across Delaware, in addition to the state's three racinos. Moreover, the amount wagered has increased every year since the program's reintroduction in 2009. Due to the combined effect of a nearly 30 percent tax on revenue and a 4.5 percent handle tax, in addition to the 0.25 percent federal handle tax, gaming revenue in Delaware is taxed at an effective rate of over 50 percent.<sup>5</sup>



<sup>5</sup> Ibid NCSL

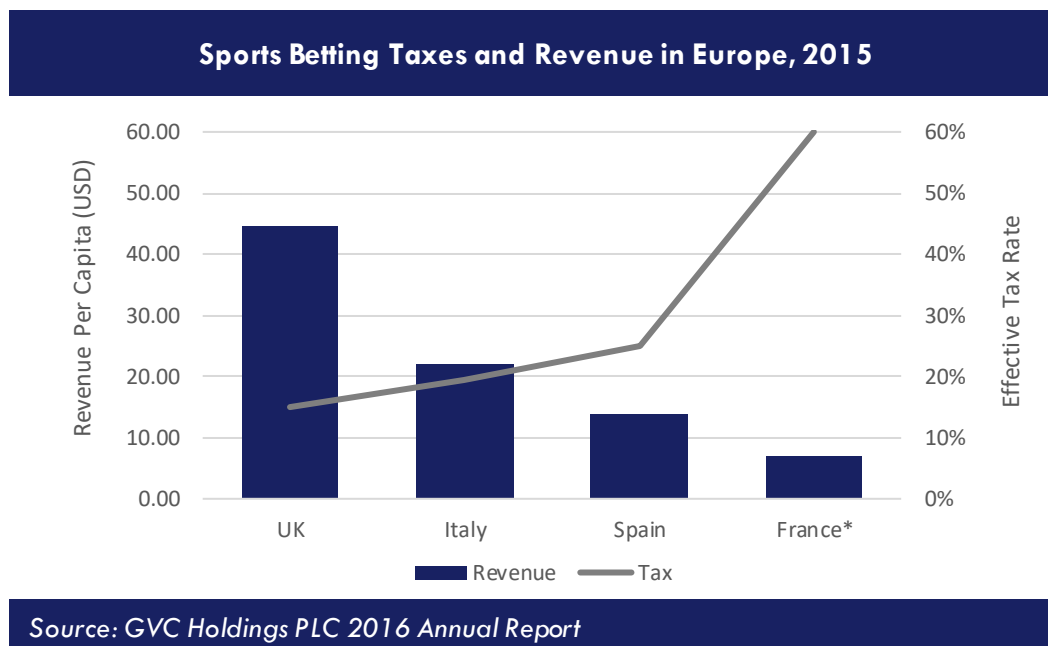


## EUROPEAN TAX LANDSCAPE

To illustrate the inverse effect of taxation on sports betting revenue, GMA compiled tax rates on in-person and mobile betting in four European markets, the United Kingdom, Italy, Spain, and France, and examined each by sportsbook revenues per capita in 2015. In each of the four jurisdictions, GDP per capita was roughly between \$35,000 and \$42,000, and the adult population ranged from 35 million to 50 million.<sup>6</sup>

In 2015, the United Kingdom generated \$45 in sportsbook revenue per adult. Sports betting is widely available in the United Kingdom, and the relatively low tax rate of 15 percent on sportsbook revenue makes it an attractive market for European operators. Italy and Spain generated \$22 and \$14 in sportsbook revenue per adult, respectively. It is worth noting that Italy was the only one of the four jurisdictions examined that saw lower levels of revenue for mobile betting than in-person betting. Italy is also the only country that taxes mobile gaming at a higher rate of 22 percent, compared to 18 percent for bets placed in-person.<sup>7</sup>

The highest tax rates by far were found in France, where sports betting handle is taxed at 9.3 percent, meaning that operators must aim for a hold of roughly 10 percent just to gamer revenue. As a result, mobile sports betting revenue in France tallies to less than \$7 per adult.



<sup>6</sup> Ryan, A. and Sacks, A. (2017). *Economic Impact of Legalized Sports Betting*. Oxford Economics, p. 13.

<sup>7</sup> Feldman, L. *Annual Report 2016*. GVC Holdings PLC, London. p. 12-13



## ILLEGAL UNITED STATES MARKET

The United States has a large and robust illegal sports betting market. In illegal, unregulated markets in the United States, sports betting opportunities are readily available. All an interested patron in the United States has to do today is ask neighbors and friends to refer them to a bookie, who often can be found by simply walking into a bar and asking who to talk to. Today, illegal bookmakers in the United States offer attractive odds that are competitive with Nevada, feature numerous types of wagering opportunities, credit, online and mobile betting platforms, and convenient payment options through online and mobile payment providers (which are typically separated from the platform that monitors wagering).

Illegal book makers do not keep public logs of their transactions and isolate wagers from payment methods, therefore it is difficult to precisely estimate the exact amount of illegal sports betting in the United States. Nevertheless, the amount wagered on sports in the U.S. alone is generally estimated to be in the hundreds of billions of dollars. Ernst & Young estimates that the average sports bettor in the U.S. wagers \$1,554 annually. Based on their figures, this equated to \$107 billion wagered nationwide, assuming that 28 percent of all U.S. adults are betting on sports.

In a May 2017 study commissioned by the AGA, Oxford Economics suggests that two distinct factors create the highest possible risk of corruption in sports: one of which is the reality of a highly liquid and unregulated gambling market. Today, with the increasing popularity of sports betting and a myriad of ways to bet, in-person or mobile, the current sports betting market is highly liquid and vastly under-regulated.

Oxford Economics estimates that a nationally legalized sports betting market could generate in between \$65 billion and \$330 billion in total amount wagered, depending on the availability of places to bet, the gaming tax rate, and the sports available for betting. The Competitive Enterprise Institute, a Washington D.C.-based non-profit think tank, suggests that there may be up to \$400 billion wagered annually on sports, and that at least 95 percent is wagered illegally.

The AGA estimates that the illegal sports betting market produces \$150 billion in wagers today. Based on GMA's knowledge of the sports betting industry, combined with information gleaned from industry contacts and operators of sportsbooks, GMA believes the AGA's figure to be reasonable. If 20 percent of US adults in 2017 participated in sports betting, which is a conservative figure, an average bettor would have to bet approximately \$2,692 in a year to generate this level of total wagering. While the average annual bettor likely wagers closer to \$1,500-\$1,700 annually, the bets placed by the larger bettors bring the average up closer to this figure.

Overall, with such a vast amount of illegal betting on sports in the U.S., there are billions of dollars in untapped gaming revenue and tax revenue potential. The Competitive Enterprise Institute



estimates that gaming revenue from sports betting could reach \$12 billion nationwide, which is five-times the total in the United Kingdom.

In addition to the direct impact of legalized sports betting on overall gaming revenue, there is tremendous potential for sports betting to spark broader economic growth. A regulated market would require operators to enlist a wide range of third-party goods and services, including sports media and content providers, personnel as well as capital investments.

In 2016, Nielsen Media Research found that NFL bettors watch nearly twice as many NFL games on average than non-bettors, and they are four times as likely to consider themselves “avid fans” of the NFL. Nielsen estimates that sports bettors currently consist of 25 percent of NFL viewership and nearly half of all minutes viewed in one season, and they predict that the number of bettors would increase from 40 million to 57 million if sports betting were legalized, increasing their share of viewership to 36 percent.<sup>8</sup> A legalized sports betting market would be valuable to television content providers and advertisers, who could capitalize on a committed group of viewers that are watching more programming for longer periods of time.

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<sup>8</sup> Doty, S. (2016). *NFL TV Partners, Advertisers Primes to Prosper from Legalized Sports Betting*. Nielsen Media Research





## VII. REGULATED MARKET POTENTIAL: STATE BY STATE PROJECTIONS

There are a number of factors that could dramatically impact the potential for sports betting revenue generation in the United States, including tax rates, the ability to offer intrastate online betting, ease of funding of accounts, and the availability of betting locations. As such, GMA quantified the potential value of the legalized sports betting market under two major scenarios, including a Low Scenario and High Scenario, that would provide a range of the potential market opportunities.

### METHODOLOGY

To quantify the likely performance of the market under each scenario, GMA utilized the following methodology. First, GMA projected the adult population and average annual household income for each U.S. state in a defined subject year: 2023.<sup>9</sup> GMA utilized 2023 as the defined subject year as it will take time for states to formulate and pass legislation and operators to develop and implement sports betting outlets.

With an understanding of the relative size of each market's available population and income, GMA evaluated the performance of the existing Nevada sports betting market today. GMA analyzed historical revenue and handle generated within each of Nevada's counties. As certain counties, such as Clark County, where Las Vegas is located, garner a substantial portion of sports betting revenue from out of state residents, GMA focused on other markets within the state for the purposes of this analysis. For each of these counties, GMA analyzed the amount of revenue and handle generated in comparison to the demographics of the market, allowing the Consulting Team to understand the sports betting win per capita distribution within the state of Nevada. GMA utilized these win per capita statistics as benchmarks to quantify the potential value of the market in other states. However, these win per capita figures were appropriately adjusted to account for variations in income and gambling propensity in other states, as Nevada is an extremely mature gaming market.

By applying appropriate win per capita figures to each state, GMA quantified the likely potential of each sports betting market in the High Scenario. Then, based on the availability of casino gaming in each state today, as well as other factors discussed later in this chapter, GMA

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<sup>9</sup> The demographic projections utilized in this analysis were based on population and income projections provided by Claritas/EnviroNics.



discounted the likely performance of each market to quantify each market's potential in the Low Scenario.

GMA vetted its analysis based on multiple conversations with industry contracts in the legal sports betting industry. With an understanding of existing sports betting propensity levels and annual loss and annual bet per gambling capita metrics, GMA confirmed that its projections and methodology were very reasonable.

## LOW SCENARIO

### ASSUMPTIONS

In the Low Scenario, GMA assumed that bettors would only be able to place a legal bet through land-based gaming facilities, except in those states where online wagering is already authorized. Specifically, GMA assumed that bettors could place bets at card rooms, racetracks, VLT facilities, OTB's and casinos where available. In several states, these facilities are not available. As such, GMA assumed that they would not be able to offer sports betting opportunities in the Low Scenario. In other states, online, intrastate casino gaming has already been legalized. In these states, GMA assumed that bettors would be able to place sports bets online. Additionally, GMA adjusted potential gaming revenue in states where regulations have been put in place that could hamper the market's potential (e.g. the high tax rate in Pennsylvania on sports betting may preclude any gaming company from choosing to offer sports betting as they would not be able to offer competitive lines).

With these assumptions in place, patrons would generally not have extremely convenient access to legalized sports betting opportunities. In the Low Scenario, GMA also assumed that credit offered to players would be limited and that, due to the imposition of higher tax rates the legal market would not be able to offer lines and bets that would be competitive to those offered by the illegal market and in Nevada today. As a result, many patrons would likely continue to bet through illegal avenues where convenient betting and credit would still be available.

In estimating hold percentage for 2023, GMA assumed that the industry overall will experience an increase in hold due to the increasing popularity of parlay bets, esports betting, exotics and the likeliness of less experienced sports bettors participating in sports betting at land based casinos. As such, GMA assumed a hold percentage of 6.0% in 2023 under the low scenario.

### RESULTS

In the Low Scenario, the market is projected to generate approximately \$1.8 billion in revenue with the largest portions of revenue generated by patrons in California, Nevada, New Jersey, New York, and Illinois. With an assumed blended hold percentage (straight bets, parlays, in-game, exotics, teasers, and contests) of 6.0 percent, the projected revenue would stem from a total



projected handle of \$29.2 billion. In the Low Scenario, with a projected legal market value of \$29.2 billion in handle, the legal market is only expected to account for approximately 17.2 percent of the available total market. In this scenario, the illegal market is expected to maintain a clear and vast majority of market share.

## HIGH SCENARIO

### ASSUMPTIONS

In the High Scenario, GMA assumed that sports betting opportunities would be fully and easily available. Most notably, it was assumed that each state would offer an online, intrastate sports betting platform and would employ regulations that allow for similar lines and betting opportunities as featured in Nevada. Additionally, it was assumed that sports betting kiosks would be available throughout each market in VLT facilities, card rooms, and lottery outlets (e.g. gas stations), providing a highly convenient way to place wagers. In this scenario, it was also assumed that sports betting will be allowed for both professional and amateur leagues and events. With all of these assumptions, the legal market will be able to significantly reduce illegal sports betting and transfer available market revenue into the taxable legal realm. Similar to the low scenario, GMA assumed an increased hold percentage as compared to current day, and increased it further to 6.5% to account for the likely increase in in-gaming betting that will occur due to the assumed advent of online betting that would occur on smart devices.

### RESULTS

In the High Scenario, the market is projected to generate nearly \$9.0 billion in revenue. California is expected to generate the largest portion of revenue in this scenario, with Texas, Florida, New York, Nevada, Illinois, and Pennsylvania expected to generate more than \$300 million in revenue each in the subject year. With an assumed blended hold percentage (straight bets, parlays, in-game, exotics, teasers, and contests) of 6.5 percent, the projected revenue is expected to stem from a total projected handle of \$138.0 billion. Based on estimates that the illegal sports betting market today produces approximately \$150 billion in handle, GMA assumed that it would likely generate a total of \$169.7 billion in 2023. As such, in the High Scenario, the legal market could be expected to account for as much as 81.3 percent of the total amount illegally wagered in the United States. However, this high scenario is unlikely to occur, given the amount of assumptions that would have to come to fruition to allow this potential to be met.



Projected US Sports Betting Market Revenue and Handle, 2023								
State	Adult Population		Spend Per Capita		Revenue (in millions)		Handle (in millions)	
		AAHI	Low	High	Low	High	Low	High
California	30,808,465	\$ 106,373	\$10	\$38	\$ 295.0	\$ 1,180.1	\$ 4,917.1	\$ 18,155.6
Nevada	2,360,714	\$ 77,615	\$120	\$150	\$ 283.3	\$ 354.1	\$ 4,721.4	\$ 5,447.8
New Jersey	6,884,880	\$ 117,984	\$35	\$41	\$ 237.8	\$ 279.7	\$ 3,963.1	\$ 4,303.8
New York	15,304,504	\$ 98,785	\$11	\$37	\$ 169.4	\$ 564.8	\$ 2,824.1	\$ 8,689.4
Illinois	9,518,732	\$ 91,594	\$18	\$35	\$ 168.9	\$ 337.7	\$ 2,814.6	\$ 5,196.1
Washington	5,826,188	\$ 99,989	\$13	\$37	\$ 75.4	\$ 215.5	\$ 1,257.4	\$ 3,316.1
Florida	17,229,054	\$ 78,116	\$3	\$33	\$ 56.5	\$ 565.4	\$ 942.3	\$ 8,698.4
Louisiana	3,531,770	\$ 73,979	\$13	\$32	\$ 45.2	\$ 113.1	\$ 754.0	\$ 1,739.9
Oregon	3,289,513	\$ 83,686	\$13	\$34	\$ 41.2	\$ 111.3	\$ 686.3	\$ 1,712.1
Michigan	7,496,466	\$ 79,716	\$5	\$33	\$ 37.2	\$ 248.1	\$ 620.2	\$ 3,816.6
Ohio	8,731,816	\$ 78,398	\$4	\$33	\$ 35.9	\$ 286.9	\$ 597.6	\$ 4,413.2
Arizona	5,427,856	\$ 78,783	\$7	\$33	\$ 35.8	\$ 178.9	\$ 596.4	\$ 2,752.8
Oklahoma	2,967,407	\$ 78,362	\$11	\$33	\$ 34.1	\$ 97.3	\$ 567.5	\$ 1,496.8
Indiana	4,959,672	\$ 75,916	\$6	\$32	\$ 32.1	\$ 160.5	\$ 535.1	\$ 2,469.9
Missouri	4,591,387	\$ 75,948	\$6	\$32	\$ 25.3	\$ 148.7	\$ 421.4	\$ 2,287.9
Minnesota	4,207,585	\$ 96,636	\$5	\$36	\$ 23.0	\$ 153.2	\$ 382.9	\$ 2,356.5
Wisconsin	4,375,937	\$ 80,408	\$4	\$33	\$ 18.2	\$ 145.5	\$ 303.2	\$ 2,239.1
Connecticut	2,741,300	\$ 114,570	\$6	\$40	\$ 16.4	\$ 109.6	\$ 274.1	\$ 1,686.8
Iowa	2,352,733	\$ 82,515	\$7	\$34	\$ 15.8	\$ 79.2	\$ 263.8	\$ 1,217.8
Maryland	4,694,030	\$ 107,760	\$3	\$39	\$ 13.7	\$ 182.1	\$ 227.6	\$ 2,801.8
Mississippi	2,181,307	\$ 63,473	\$6	\$30	\$ 13.1	\$ 65.4	\$ 217.9	\$ 1,005.6
New Mexico	1,533,734	\$ 71,938	\$8	\$32	\$ 12.1	\$ 48.5	\$ 202.1	\$ 746.2
Massachusetts	5,436,090	\$ 114,110	\$2	\$40	\$ 10.8	\$ 216.4	\$ 180.3	\$ 3,329.3
Delaware	759,467	\$ 90,780	\$14	\$35	\$ 10.7	\$ 26.8	\$ 178.9	\$ 412.9
Kentucky	3,350,913	\$ 68,995	\$3	\$31	\$ 10.4	\$ 104.0	\$ 173.4	\$ 1,600.6
Colorado	4,464,117	\$ 98,875	\$2	\$37	\$ 8.2	\$ 164.4	\$ 137.0	\$ 2,528.6
Kansas	2,131,175	\$ 80,570	\$3	\$33	\$ 7.1	\$ 71.0	\$ 118.4	\$ 1,092.7
Montana	819,596	\$ 74,197	\$8	\$32	\$ 6.6	\$ 26.3	\$ 109.4	\$ 404.0
West Virginia	1,397,305	\$ 62,599	\$3	\$30	\$ 4.2	\$ 41.7	\$ 69.5	\$ 641.4
Alabama	3,690,526	\$ 68,386	\$1	\$31	\$ 2.9	\$ 114.2	\$ 47.6	\$ 1,756.9
Idaho	1,266,040	\$ 74,812	\$2	\$32	\$ 2.0	\$ 40.7	\$ 33.9	\$ 626.0
Maine	1,039,019	\$ 75,588	\$2	\$32	\$ 1.7	\$ 33.6	\$ 28.0	\$ 516.7
South Dakota	650,112	\$ 75,113	\$2	\$32	\$ 1.5	\$ 21.0	\$ 24.5	\$ 322.8
Rhode Island	813,978	\$ 91,319	\$2	\$35	\$ 1.4	\$ 28.8	\$ 24.0	\$ 443.1
North Dakota	580,995	\$ 93,894	\$2	\$36	\$ 1.0	\$ 20.8	\$ 17.3	\$ 320.1
Texas	21,651,032	\$ 90,502	\$0	\$35	\$ -	\$ 762.0	\$ -	\$ 11,723.8
Pennsylvania	9,773,221	\$ 85,515	\$0	\$34	\$ -	\$ 334.8	\$ -	\$ 5,150.9
Georgia	7,981,713	\$ 81,922	\$0	\$34	\$ -	\$ 267.8	\$ -	\$ 4,120.1
North Carolina	7,987,820	\$ 75,847	\$0	\$32	\$ -	\$ 258.7	\$ -	\$ 3,979.3
Virginia	6,594,234	\$ 101,917	\$0	\$38	\$ -	\$ 247.9	\$ -	\$ 3,814.0
Tennessee	5,185,221	\$ 72,171	\$0	\$32	\$ -	\$ 164.2	\$ -	\$ 2,526.5
South Carolina	3,952,470	\$ 72,693	\$0	\$32	\$ -	\$ 125.5	\$ -	\$ 1,930.1
Arkansas	2,230,509	\$ 67,118	\$0	\$31	\$ -	\$ 68.4	\$ -	\$ 1,052.1
Nebraska	1,418,590	\$ 80,481	\$0	\$33	\$ -	\$ 47.2	\$ -	\$ 726.4
Hawaii	1,133,520	\$ 102,948	\$0	\$38	\$ -	\$ 42.7	\$ -	\$ 656.9
New Hampshire	1,050,513	\$ 104,947	\$0	\$38	\$ -	\$ 39.9	\$ -	\$ 613.9
District of Columbia	552,509	\$ 122,906	\$0	\$42	\$ -	\$ 23.0	\$ -	\$ 354.2
Alaska	547,309	\$ 108,324	\$0	\$39	\$ -	\$ 21.2	\$ -	\$ 325.7
Vermont	483,415	\$ 82,650	\$0	\$34	\$ -	\$ 16.3	\$ -	\$ 250.8
Wyoming	445,004	\$ 87,463	\$0	\$35	\$ -	\$ 15.4	\$ -	\$ 237.0
Utah	2,191,189	\$ 90,918	\$0	\$0	\$ -	\$ -	\$ -	\$ -
<b>TOTAL/ Avg.</b>	<b>250,592,651</b>	<b>\$ 89,309</b>	<b>\$7</b>	<b>\$35</b>	<b>\$ 1,753.9</b>	<b>\$ 8,970.5</b>	<b>\$ 29,232.4</b>	<b>\$ 138,007.0</b>

Source: GMA



## VIII. GLOSSARY

**Gaming revenue:** The difference between the amount wagered by players and the amount paid out to players; also referred to as net win or gross gaming revenue.

**Gaming taxes:** calculated as a percentage of gaming revenue

**Handle taxes:** calculated as a percentage of handle

**Handle:** the amount wagered or bet

**Hold percentage:** ratio of gaming revenue to handle; also referred to as win percentage

**In-play betting:** betting on a sporting event that is already underway

**Interstate Wire Act or Wire Act:** This action refers to the original 1961 federal law that prohibits the use of telecommunication lines for conducting wagering activities. Its original intent was to prevent racketeering and the proliferation of organized crime.

**Online/mobile gaming:** gaming conducted electronically; unless otherwise noted, does not restrict users to a particular type of device

**PASPA (Professional and Amateur Sports Protection Act):** This act, passed in 1993, also known as the Bradley Act, the principal federal regulation on sports betting in the United States, effectively banning sports betting nationwide except for certain states.

**Prop bets:** shorthand for proposition bets; a type of bet which does not involve wagering on the final outcome of an event or competition

**Racino:** gaming establishments that combine a racetrack with a casino; in most cases, racinos offer a limited number of gambling options, such as slot machines

**RAWA:** The Restoration of the American Wire Act is a more recent federal legislative effort to shore up the original Wire Act to prevent all online gaming activities.

**SCOTUS:** Supreme Court of the United States



## IX. DISCLAIMER

Global Market Advisors has made its best effort to secure accurate information, however, much of the information contained in this report was received from third parties, which Global Market Advisors did not validate or verify. Accordingly, Global Market Advisors makes no warranty, real or implied, regarding the data contained in this report. This report also contains projections of future events based upon certain assumptions. As it is not possible to predict future outcomes with absolute accuracy, these projections should be treated only as estimates of potential future results. Actual results may differ due to unforeseen events. Consequently, Global Market Advisors assumes no liability for the accuracy of these projections.



## X. ABOUT GLOBAL MARKET ADVISORS

GMA provides clients with gaming market assessments, feasibility studies, primary research, economic impact studies, due diligence, payroll control, operations analysis, business and marketing plan development, and player reward program design for the gaming, hospitality, and tourism industries. The principals and associates of GMA have hands-on experience in nearly all aspects of the gaming industry including domestic and international operations, project development, marketing expertise, and detailed market analysis.

GMA is a (Nevada) Limited Liability Corporation with offices in Las Vegas, Nevada; Denver, Colorado; Taipei, Taiwan; and Bangkok, Thailand. Below is the contact information for the partners of GMA primarily responsible for the completion of this document:

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#### STEVEN M. GALLAWAY

Steve Gallaway is Managing Partner at Global Market Advisors. His areas of expertise include gaming market assessments, hotel and casino feasibility studies, operational reviews, and marketing analysis.

Mr. Gallaway has spent his entire career in the gaming and hospitality industry, starting as a valet attendant and eventually rising to chief operating officer and managing partner of a casino in Colorado. Prior to forming GMA, he served as senior vice president of a hospitality consulting firm where he honed his craft in the fields of gaming market assessments and feasibility analysis. During the span of his career, Steve developed hands-on experience in operations management, organizational development, project development, business development, process improvement, contract negotiations, employee development, and customer service training.

In 2005, along with Andrew Klebanow, Mr. Gallaway formed Gaming Market Advisors. In 2014 the firm was rebranded as Global Market Advisors, reflecting the company's evolution as an international gaming, tourism, and hospitality consulting firm.



Mr. Gallaway has completed over 300 feasibility studies, with a strong focus on international gaming operations and integrated resort development. Mr. Gallaway has worked on more than 60 projects in Asia, Western and Eastern Europe, the Caribbean, Central America, Canada, and Australia. His knowledge and understanding of emerging markets, particularly those in Asia, has led him to advise institutional investors on new market opportunities in that region, as well as an advisor on established markets. Today, Steve's clients include most public gaming companies, investment banks, private developers, and government institutions.

Mr. Gallaway is a visiting lecturer at the University of Nevada Reno's School of Continuing Education where he teaches a class on casino feasibility analysis and marketing measurement. He is a periodic contributor to Global Gaming Business Magazine and Indian Gaming Magazine, and has spoken at G2E Las Vegas and the Asian Gaming Congress.

Mr. Gallaway graduated from Boston College with a B.A. in Economics.

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#### JOHN ENGLISH

John English is the Managing Director of Sports Betting and Technology at Global Market Advisors. Mr. English specializes in global business development for the regulated gaming industry, with emphasis on technology, content, and distribution, as well as public relations and contract negotiation in regulated gaming. Mr. English's work history contains an extensive background in gaming, including lottery, AWP (amusement, win prizes), slot machines, table games, sweepstakes, systems, and race and sports betting both digital and live.

Mr. English has been involved in many successful developments in the industry. One of Mr. English's endeavors was previously as an equity partner with American Wagering Incorporated, the first company to receive Nevada Gaming Control Board approval for mobile sports betting within the state of Nevada. Mr. English also created the first betting app in the United States to be distributed from the App Store through Apple. Additionally, he created the first kiosk sports betting device (SBX) to gain regulatory approval and to be mass released. Furthermore, Mr. English created Million Dollar Ticket which was licensed by the State of Nevada for a bonus game played in restricted gaming locations.

Mr. English has developed relationships worldwide as he has spent a great deal of his career in jurisdictions such as Asia, Canada, United Kingdom, South America, and Mexico. Mr. English was instrumental in the acquisition of American Wagering by William Hill, the world's largest bookmaker, which received Nevada Gaming Commission approval.

Mr. English joined Betfair and TVG, a London listed company in late 2013 to oversee the development of Asia and the Americas. More recently, he serves as the Founder and the President of WEBE Worldwide, a global operator, developer, and distributor of sports betting, social, casino, and lottery products for the regulated gaming industry. With offices in U.S. and





China, WEBE specialized in operating land-based, mobile, and online sportsbooks as well as developing new and innovative gaming content and convenience betting platforms. As President, John's duties were to lead the company's growth, innovations, and maintenance while WEBE sought to revolutionize industry standards.

Mr. English's work product has been featured on television and radio on numerous occasions as well as in hundreds of articles worldwide.

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#### ANDREW M. KLEBANOW

Andrew Klebanow is a Senior Partner at Global Market Advisors. He specializes in Marketing Plan and Business Plan Development, Market Research, Casino Property Analysis, Service Quality Measurement Programs and Player Rewards Program Design exclusive to the gaming and hospitality industries.

Mr. Klebanow has worked in the hospitality industry since 1975 and in the fields of marketing and business planning since 1991. He earned a Bachelor of Arts degree at New York University and Master's Degree in Marketing from Cornell University's School of Hotel Administration.

From 1991-1993, he was Director of Marketing at Sahara Gaming Corporation's Hacienda Hotel and Casino and Director of Marketing and Planning for the parent company's Development Group.

Mr. Klebanow also worked as Director of Marketing for Alliance Gaming Corporation where he conducted the initial market research, consumer testing and marketing plan development for Gamblers Bonus, the industry's first cardless slot club for the company's Nevada slot route division. Gamblers Bonus was the first player tracking system that allowed customers to redeem bonus points for game credits at the machine.

As a consultant to Horseshoe Gaming, Klebanow conducted an analysis of the gaming market in Tunica, MS and subsequently prepared its pre-opening business and marketing plans. In addition, Mr. Klebanow wrote the opening marketing plan for the Horseshoe Casino in Bossier City, LA.

From 1996 to 1999, Klebanow was Vice President of Marketing for Santa Fe Gaming Corporation, where he oversaw the marketing efforts for the Santa Fe Hotel and Casino in Las Vegas and the Pioneer Hotel and Gambling Hall in Laughlin NV. During his tenure at Santa Fe

Gaming, his team repositioned both casinos' player rewards programs to better meet the needs of the business. His most recent position was that of Vice President of Marketing at Sam's Town Hotel and Gambling Hall, where he oversaw the repositioning of the 22-year-old gaming property and the re-branding of its player rewards program.



Mr. Klebanow formed his own consulting firm in 2001 and, together with Mr. Gallaway, formed Gaming Market Advisors in 2005. In 2013, Gaming Market Advisors acquired the consulting firm Galaviz and Co, and rebranded as Global Market Advisors, where Mr. Klebanow is a partner today.

Mr. Klebanow is a periodic lecturer at Cornell University's School of Hotel Administration and the University of Nevada Reno's School of Continuing Education. Mr. Klebanow has authored over 100 articles in Indian Gaming Magazine, Global Gaming Business, In Asian Gaming and in the online gaming publication Urbino.net. He has also contributed academic papers to the Cornell University Hotel and Restaurant Quarterly and the UNLV Hospitality Journal. Mr. Klebanow has written extensively on the subject of player reinvestment and has developed methodologies for calculating a casino's player reinvestment rate. Recently, he focused his attention on casino development in urban environments and published a paper on that subject.

Over the past twenty years Mr. Klebanow has spoken at a number of gaming conferences. More recently he delivered a presentation on Player Reinvestment and Tiered Player Reward Program Design at the Asian Gaming Congress 2010 and on Casino Development in Eastern Russia in 2012. At G2E Asia 2010 he delivered a one hour presentation entitled "Say My Name: The Application of Loyalty Programs in Asia." He also served as a panelist at G2E Asia 2011 on the Korean gaming market and in 2012 on the Manila gaming market. In 2013, he moderated a panel on marketing communications in Asia.

Mr. Klebanow has also moderated panels and shared the lecture podium at G2E Las Vegas. In 2012, he moderated a panel discussion entitled "Risk and Rewards: Understanding Player Reinvestment." In 2013, he conducted a seminar entitled "An Introduction to Casino Operations" and spoke as a panelist in a session on Trends in Asian Tourism.

In April of 2015 he presented a paper entitled "Casinos and the City" at the Third Annual Asia Pacific Conference on Gambling and Commercial Gaming Research in Beijing and moderated a panel on Trends in Electronic Casino Marketing Communications at the Casino Marketing and Technology Conference in Las Vegas. Most recently, he moderated panel discussions on Gaming in Vietnam, Gaming in Regional Philippine Gaming Markets and Proxy and Digital-Live Gaming at the 2017 ASEAN Gaming Summit.

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#### BOB BOUGHNER

Bob Boughner brings to GMA substantial experience in the gaming and hospitality industry. Prior to joining GMA as a Senior Partner, Bob served as Executive Vice President and Chief Business Development Officer of Boyd Gaming Corporation (NYSE: BYD). While at Boyd, he served in a variety of senior executive positions, including general manager of various properties, Senior Vice



President of Administration, and Chief Operating Officer. In July 1996, he was elected to the Company's Board of Directors and remains on the board today.

In 1998, Mr. Boughner was appointed Chief Executive Officer of Borgata where he directed the design, development, and operations of the \$1.6 billion integrated resort in Atlantic City. The Borgata Hotel Casino and Spa and The Water Club at Borgata became one of the most successful gaming destinations in North America.

Boughner led much of Boyd's expansion into new markets and played key roles in the acquisition of several gaming properties across the United States. He has overseen the design and development of numerous gaming, dining, nightlife, and entertainment venues. Boughner also has extensive experience in various administrative disciplines including Information Technologies, Human Resources, Risk Management, and Regulatory Compliance.

Bob is active in civic and industry affairs. He served two terms on the Board of Directors of the Las Vegas Convention and Visitors Authority (LVCVA). He was appointed by the Governor of New Jersey and served on the Board of the Casino Reinvestment and Development Authority. In the private sector, Boughner served for twenty years as a Director of Bank of Nevada, formerly BankWest. He currently serves on the board of Southwest Gas Corporation (NYSE: SWX).

In 2007, as a part of Boughner's philanthropic activity, he, and the Hotel College at the University of Nevada Las Vegas (UNLV) established the Bob Boughner Career Services Center at UNLV to assist students in the pursuit of employment in the hospitality, tourism, and gaming industry.

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#### BRENDAN BUSSMANN

Brendan Bussmann is a seasoned executive that has an extensive background in government affairs, communications, and business development in the sectors of hospitality, healthcare, energy, higher education, and sports.

In 2015, Bussmann founded his own public affairs and strategic development consultant firm focusing on domestic and international opportunities for clients in hospitality, healthcare, energy, and engineering. He continues to successfully implement strategies as well as develop and expand new markets for various clients.

Prior to starting his own firm, he served as Vice President of Strategic Development and Marketing for Sunrise Hospital & Medical Center and Sunrise Children's Hospital. During his tenure, he successfully doubled EBITDA in a two-year period while also improving their image and relationship with the community, media, and other stakeholders. Prior to joining Sunrise, Bussmann served as Director of Community Relations with University Medical Center where he built an external affairs program from scratch.



Bussmann has extensive gaming and hospitality experience from his tenure at Las Vegas Sands Corp (NYSE: LVS) where he served as Director of Government Relations and Community Development. While in this capacity, he was part of the team that secured two gaming licenses in Pennsylvania and Singapore, oversaw ballot initiatives, and numerous legislative victories at the local, state, federal, and international levels. He also implemented the global programs for Responsible Gaming and Community Development.

Bussmann is a graduate of the University of Nebraska-Lincoln. He is deeply involved in the local Las Vegas community through his involvement with UNLV, the Las Vegas Metro Chamber of Commerce, Clark County School District, Las Vegas HEALS, the March of Dimes, Andson Foundation, and Nevada Childseekers.

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#### KIT L. SZYBALA

In 2012, Kit L. Szybala began working for GMA. Currently, he serves as the company's Director of Research and Analysis. As GMA's Director of Research and Analysis, Mr. Szybala has created over 150 robust financial models in various gaming markets across the globe. In addition to these financial models, Mr. Szybala has written a multitude of extensive, analytical reports, including feasibility studies, impact and cannibalization studies, gaming market assessments, and strategic planning assessments.

Mr. Szybala has in depth experience in a variety of markets throughout the globe. Recently, he completed a white paper entitled "Gaming in India: An Evaluation of the Market's Potential" and assisted in the completion of the white paper entitled "Japan Integrated Resorts." Additionally, Mr. Szybala is a visiting lecturer at the School of Continuing Education at UNR where he teaches a class on casino feasibility analysis. Mr. Szybala is also a periodic contributor to Global Gaming Business Magazine.

Mr. Szybala graduated from Southern Methodist University as a Hunt Leadership Scholar with degrees in Finance and International Studies and a minor in History, giving him a thorough understanding of international business and financial modeling. While studying at the university, Mr. Szybala also gained extensive experience abroad, both working for Oracle Corporation in London, United Kingdom and studying at the University of Oxford. While with Oracle Corporation, Mr. Szybala worked alongside the Senior Director of Marketing and Vice President of Technology Marketing for EMEA as a Marketing Analyst. Mr. Szybala monitored and improved the efficiency of their marketing programs by utilizing Customer Relationship Management software.

Immediately following his time at Southern Methodist University, Mr. Szybala began working for Vail Resorts as a member of the Vail Resorts College Program. This program gave him valuable insight into hospitality management and operations by giving him various opportunities to meet



with chief members of resort management. It also afforded him the ability to work in several different capacities for the corporation, giving him the opportunity to understand the intricacies of the varying moving parts of resort operations.

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#### BILL BRYSON

Bill Bryson has practiced law in New York and Taipei for over 25 years, and is recognized as a leading lawyer in the fields of gaming, hospitality, real estate development, mergers and acquisitions and financial transactions.

Bill has extensive experience in the representation of local and foreign hospitality industry clients in their operations and investments, both in Taiwan and throughout Asia. Bill has represented casino gaming companies, gaming machine manufacturers and consultants to the industry in Taiwan and 38 other jurisdictions on a variety of issues, including:

- Corporate Structuring
- Taxes
- Employment Issues
- Marketing Restrictions
- Internet/Interactive Gaming
- Debt Collection
- Gaming Development

In connection with prior and ongoing efforts by Taiwan to legalize casino gaming, Bill has represented several gaming industry clients in connection with possible gaming development projects in Taiwan. These representations have involved due diligence on potential joint venture partners, negotiation of joint venture and deal documentation, due diligence on potential casino gaming locations, reviewing and commenting on draft laws and regulations, and preparing background materials for, and participating in, client lobbying efforts and meetings with government officials.

Bill has been acknowledged by Chambers Asia Pacific as a leading gaming lawyer in the region, and by Chambers Global as a leading lawyer in the global gaming industry. He has been a speaker at both the Asian Gaming Congress and G2E Asia, and currently serves on the Advisory Board of the Center for Research on Gaming and Lotteries, a division of the School of Business Administration at the National Taiwan University of Science and Technology.

Bill has also represented non-gaming interests in the hospitality industry, including both local hotel owners and foreign management companies. Bill's roles in such representations have included assisting local owners in the negotiation of letters of intent, hotel operation agreements, management agreements, franchise agreements, technical services agreements, and pre-opening services agreements. He has assisted foreign management companies in similar



transactions, as well as in termination scenarios (including related hand-over issues) and owner insolvency proceedings.

Bill's merger and acquisitions, financing and real estate experience includes many "first of a kind" deals in Greater China, including the first-ever sale/leaseback of a commercial building in Taiwan, the first multi-jurisdiction acquisition of non-performing loans in Taiwan, the first acquisition of non-performing loans in China by a foreign investor, the first cross-border limited recourse financing led by Taiwanese banks, the first acquisition of a listed local shipping company by a foreign investor, the first acquisition of a substantial stake in a local financial holding company by a Japanese bank, the largest (by value) acquisition of commercial real estate by a foreign investor in Taiwan, and the acquisition of a local Internet Service Provider by an American internet company. Bill has been acknowledged as a leading lawyer in M&A, real estate, and finance by Chambers Asia Pacific, Asia Pacific Legal 500, and AsiaLaw magazine's Leading Lawyers Survey.

Along with his gaming, hospitality and transactional experience, Bill also brings with him extensive experience in public advocacy. As a member of the Government Relations Committee of the American Chamber of Commerce in Taipei, as well as his roles as Chairman of the Private Equity Committee and member of the Travel and Tourism Committee, Bill has, for the past 20 years, been a regular and central member of the Chamber's advocacy efforts on behalf of foreign companies in Taiwan. Bill's advocacy experience includes working with both local and U.S. government officials on issues of importance to American companies in Taiwan, reviewing and revising draft legislation and regulations, developing advocacy strategies for both clients and industry groups, and being an editor of the Chamber's annual Taiwan White Paper, a collection of position papers produced by the Chamber's industry Committees. Bill's efforts on behalf of foreign companies in Taiwan have been recognized by the American Chamber of Commerce with two Outstanding Achievement Awards.

Bill is a graduate of Duke University (B.A., Cum Laude, 1980) and Tulane University School of Law (J.D., Magna Cum Laude, 1984). He is licensed in the States of New York (1988) and Illinois (1984). While at Tulane, Bill took courses in both civil law and common law systems, a curriculum which, when combined with Bill's 26 years of working in Asia, has made Bill an expert in identifying and reconciling, in a project or transactional context, the different approaches taken by civil law systems and common law systems to the drafting of new laws and regulations and the interpretation of existing laws and regulations.

